Absa Bank Botswana Limited

2019 Annual Report

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absa

Purpose

Our purpose is bringing possibilities to life. Possibilities are abundant. Possibilities are generous. Possibilities connect those with the passion to create a shared future.

Our story is one of people coming together to reflect on what matters most and giving voice to their hopes and aspirations. Collectively our journey is one of becoming customer obsessed, acknowledging the strength of our people and delivering results sustainably, with an African heartbeat. With purpose comes responsibility. Possibilities exist in every moment. Moments become meaningful experiences for ourselves and others when we align our values to our actions. This is how we bring possibilities to life.

Aspirations

For our people, we will create a culture that appreciates, unifies and differentiates us from our competitors.

For our customers, we will create seamless experiences to engage and delight them.

For society, all our employees will lead with a conscience... doing the best for people and the planet.

Our reporting

Find additional information in the printed section of the Annual Report.

Online

Find additional information in the online section of the Annual Report.

About Absa

We opened our doors in Botswana in 1950 with our first branch in Lobatse. We expanded our network until 1975 when Barclays became an incorporated company in Botswana.

1 155 employees

Our people are our strength

113 ATMS

33 Branches across the country

Board Chairman's report

Oduetse Andrew Motshidisi
Board Chairman

Opening remarks

Absa Bank Botswana Limited ("the Bank" or "Absa") achieved a strong financial performance in 2019, against the backdrop of a complex transition process from Barclays to the Absa brand, and within the context of a challenging local and global economic environment.

Economic overview

A number of domestic and global factors affected Botswana's economic environment. A slowdown in the demand for rough and polished diamonds, exacerbated by the prevailing drought conditions during 2019, impacted negatively on Botswana's real Gross Domestic Product ("GDP") growth. Concerns about weak regional economic growth and the slowdown in two, key domestic sectors, precipitated a reduction in the bank rate by the Bank of Botswana to a record low of 4.75% in August 2019.

Performance

Despite the challenging economic conditions, the Bank's focus on the identification of new business opportunities, innovation and optimising the blend of sources of revenue enabled the Bank to deliver on shareholder value, and more importantly, on customer value.

The Board is proud of the Bank's performance and the continued upward trajectory of our financial performance is testament to our strategy of building a future-fit, customer-centric bank that continues to deliver sustainable value to all stakeholders. The Bank realised a profit before tax of P 678 million for the period ending 31 December 2019, representing year-on-year growth of 15%. Revenue growth was 7% (which was above the banking sector average of 6%), and return on equity 23.6% (notably outperforming the industry average of 16.6%). The Bank's cost-to income ratio of 56.4% was marginally up on 2018 (55%).

Governance

We remain committed to adhering to the core governance principles of the King IV Code on Corporate Governance ("King IV") and exercising the board's fiduciary oversight role.

During 2019, two board members, Lawrence Maika and Tobias Mynhardt retired. We wish to extend our appreciation for their service and dedicated contribution to the development of the Bank.

Following their departure, we recruited three experienced, highly talented individuals with a wide range of skills and expertise that will no doubt add value to the Bank. The appointment of these three board members is subject to the approval of the shareholders at the next Annual General meeting.

During the period under review, in order to strengthen oversight, the Board established a Credit Committee, as an additional committee of the Board. The Credit Committee will be formally constituted and will commence work in 2020, once the regulator has approved the additional board members.

Transition to Absa

The transition to Absa was a highly complex undertaking, impacting on all aspects of the banking enterprise. The seamless and successful transition, which involved our people in unprecedented technology migration, brand innovation, organisational change and changes to our physical infrastructure, speaks to the talent, dedication and commitment within our organisation. This milestone must be celebrated, as we move into a new era as part of an independent, pan-African bank, with global scalability.

Human capital

The Bank's strong performance in 2019 would not have been achieved without the dedication and hard work of our people. Their dedication and passion will continue to bring 'possibilities to life' for our customers and stakeholders.

During 2019, we revised our people strategy, focusing specifically on talent acquisition and retention, as well as nurturing leadership. This enabled us to design and develop people management standards to embed Absa's culture and values in the years ahead. The Bank remains committed to becoming a more diverse and inclusive organisation, one that identifies, nurtures and grows its talent through skills development and becomes the employer of choice in Botswana.

Citizenship

Given the important role that the Bank plays in the economy of Botswana, we take our responsibilities to the communities within which we operate very seriously. The focus during the period under review was sustainability, underpinned by continued shaping of society through the partnerships we have been nurturing over recent years.

In August 2019, we launched a two-year sponsorship of the Botswana Football Association, amounting to P 7.6 million. This partnership saw us provide 200 schools across Botswana with indestructible soccer balls, as well as coaching and life skills development.

Education and skills development, as well as financial literacy, will remain areas of strategic focus for us. During 2019, we continued our flagship scholarship fund, the Festus G Mogae Fund, donating an estimated P 3 million to the University of Botswana, the Botswana Accountancy College, the Botswana University of Agriculture and Natural Sciences and the Botswana International University of Science and Technology. In 2020, this Fund will focus on technology and innovation.

We are also proud of our colleagues who offer their time and services as volunteers for a wide variety of organisations across the country.

Looking ahead

With the launch of the Absa brand in the Botswana market, we will continue to ensure that we increase our visibility and deepen customer loyalty by channelling our energies into being a digitally led, customer-centric bank that recognises that its strength lies in its people.

While the annual report should be a record of the Bank's performance in the past year and a window onto the opportunities and challenges that lie ahead, it would be remiss not to mention the unprecedented risks and challenges that the COVID-19 pandemic poses for our business.

The COVID-19 pandemic will no doubt overshadow the global economic outlook in 2020, possibly extending into 2021.

During these difficult times, we stand committed to support our customers and communities as we traverse this difficult social and economic terrain. The Bank has developed a comprehensive strategy to deal with the challenges and risks posed by this pandemic and this is dealt with in more detail under the Managing Director's statement.

Appreciation

I would like to thank my fellow board members for their incredible support in realising the vision of the Bank. In particular, I would like to extend my thanks to the Managing Director, Ms Keabetswe Pheko-Moshagane, and the management team for their outstanding efforts over the last year. We would not have achieved the results that I have referred to without this team, under her leadership. We will continue to work together to reach our ultimate goal of being the undisputed leading financial services provider in our market.

When I joined the Barclays Bank Botswana Board in 2016, I committed myself to ensuring the smooth transition from Barclays to the Absa brand. The transition was always going to be a pivotal point in the history of the Bank. In addition, we focused on strengthening the management team and to focus the Bank on the changing needs of our customers and our broader stakeholders. Much of this has been accomplished; the Bank is more focused and agile, and continues to play a meaningful role in our country. We appointed a new Managing Director and we continue to strengthen the management team. With the guidance of the Board, they have tackled the COVID-19 pandemic with alacrity and continue to deliver for all our customers and stakeholders.

With these milestones under our belt, I have decided to work with the Board and the shareholders to effect the next phase of the transition and to identify and put in place the next Chairman of the Board. To allow for sufficient advance notice, so that the Board can ensure a smooth and successful transition, my resignation will take effect at the end of 2020.

I am honoured to have served as Chairman of the Bank especially during such a critical and exciting time. I would like to thank you, our shareholders, and the regulator for your continued support and confidence.

On behalf of the Board, I would also like to send special thanks to all of the employees of the Bank all across Botswana for their unparalleled efforts and their performance as individuals and as a collective. The energy and focus shown during the brand transition exhibited the commitment and ability to deliver on mandate and has allowed us to carry a seven decade legacy over into a new African bank, with global reach. I would also like to thank our stakeholders; in particular, our valuable customers and Absa Group Limited, our majority shareholder, for their unwavering support, as well as all our key stakeholders. We are who we are today because of you!

"I am honoured to have served as Chairman of the Bank especially during such a critical and exciting time. I would like to thank you, our shareholders, and the regulator for your continued support and confidence."

Managing Director's report

Keabetswe Pheko-Moshagane
Managing Director

In my first year in the role of Managing Director of this prestigious banking institution, I am proud to announce that despite the challenging economic environment in which we operate, we achieved positive financial results for the year ending 31 December 2019.

These positive results are especially fulfilling as they were achieved at a time when we transitioned from Barclays to Absa and within a challenging economic environment. The details of this transition are elaborated later in this report.

Economic overview

In 2019, weak international trade and investment slowed the global economy to its lowest performance since the global financial crisis over a decade ago. This was underlined by the 2019 International Monetary Fund global growth estimates of 2.9%.

Locally, the macro-economic backdrop in Botswana was challenging during the period under review. 2019 Real GDP growth was lowered to 3.6% from 3.9% after second and third quarter growth reached just 3.1% year-on-year. Primary sector contraction also weighed on growth, with drought impacting the agriculture sector and mining negatively impacted by weaker diamond production. Headline inflation was largely subdued, trending below the Bank of Botswana 3 to 6% target band and falling to a cyclical low of 2.1% in November 2019. The Bank of Botswana's Monetary Policy Committee reduced the Bank Rate to a record low of 4.75% in August 2019, driven by growth concerns amid weaker global and regional economic growth.

Business review

The Bank achieved a Profit before Tax of P678 million for the period under review on a statutory basis, representing a year-on-year growth of 15%. This is supported by a revenue growth of 7%, above the banking industry average of 6%, strong Return on Equity of 23.6%, again higher than the banking industry average of 16.6%, and a controlled Cost to Income Ratio of 56.4%.

Governance, risk and regulatory environment

The Bank is committed to business integrity and professionalism at all levels of the business and in all activities. I am very grateful to have a Board of Directors that supports best practice and upholds the highest standards of corporate governance. The Bank continues to abide by the principles established in the Kings IV Code of Governance, as well as the guidelines from Bank of Botswana and the Botswana Stock Exchange. From a managerial perspective, we have ensured that an appropriate and robust risk framework is in place across our entire business, guiding ethical practice.

Growing our market share continued, and will continue to be, a key strategic focus area for the Bank. However, this has been done within the context of the Enterprise Risk Management Framework and Conduct Risk Policies, emphasising to our employees the need to ensure growth in the right way and by treating customers fairly.

The banking and operating environment continues to evolve specifically around compliance regulations and expectations. Throughout the period under review, it remained key for us to keep abreast of these changes. The implementation of the amended Financial Intelligence Agency Act gave rise to more stringent obligations on the financial sector. This was driven by efforts to comply with international standards related to anti-money laundering and counter-terrorism. We will continue to exert all efforts, not only to comply with legislation, but also to fulfil our role as a key partner and role player in the Botswana banking sector and assist government as needed.

Supporting private sector growth

As part of our commitment to supporting customers and clients as well as contributing to the tourism and hospitality sector, we opened a new dedicated Business Banking and Premier Banking Suite in Maun in 2019. Through interventions such as this, we intend to remain a key player in supporting and ensuring the success of the Botswana tourism industry.

As a key participant in the Botswana Banking Sector, we continued to host our annual flagship Economic Forum in 2019, under the theme – "Rethinking the catalytic role of the private sector for inclusive growth". The forum served as a conversation-

starter to address the use of digital solutions and encourage entrepreneurship in our market. We are proud to continue to provide this platform as a means of identifying, supporting and facilitating opportunities for businesses to thrive.

During 2019, we also launched a dedicated Enterprise Development Centre in Gaborone, fully equipped with computers, printers and meeting rooms to facilitate a collaborative working environment between Small and Medium Enterprises ("SMME"). Our Enterprise Supply Chain Development ("ESD") program is designed to encourage our corporate clients to assist the SMMEs who support and supply them. Under the ESD programme, we disbursed loans over P97million in 2019. We are confident that this programme will continue to positively influence our business community, in turn benefitting our country.

Transition from Barclays to Absa

The key focus here was the execution of a transition program within scope, budget and timelines with keen focus on risk management. We managed to deliver 95% of the projects as planned, with the remaining projects to be delivered in 2020. The projects delivered in 2019 included the migration of our core banking system. With these migrations complete, we upgraded our technology stack, and moved away from an unsupported domain infrastructure. We also replaced the human capital management system with a cloud-based application and migrated the Host Channels for Corporate and Investment Banking ("CIB"). These changes contribute to the Bank's strategy to become a scalable, digitally-led business.

The transition to Absa also includes changing our brand, which encompasses the re-branding of all technology and digital platforms, corporate and retail premises, business assets and marketing collateral.

Human capital

While challenging in many ways, the transition period presented a unique opportunity to review and revise our people strategy, especially elements focused on talent and leadership. This process allowed us to introduce a new talent management framework. This framework will continue to guide all aspects of the lifecycle of employees from the time they join the bank and throughout their career with the Bank. We also focused our attention on prioritising employee engagement to ensure that our employees were supported as they worked tirelessly to deliver our strategic initiatives, including the separation process.

Customer focus and achievements

Our strategy is focused on customer centricity, emphasising initiatives geared towards improving the customer experience and ensuring that we 'bring possibilities to life' for all customers and the communities within which we operate.

One key component of our strategy is offering convenience to our customers when transacting. In 2019, we intensified our drive to ensure that clients and customers continuously use our digital platforms, and truly, I must say we have gained significant positive momentum towards achieving our goal of becoming a digitally-led bank.

We have recorded encouraging growth in registration and usage of all our digital channels, including mobile banking and internet banking. Notably, the Absa Botswana Mobile App has seen usage above 70% of registered users, growth that is attributed to the introduction of a series of product enhancements during the period under review. Updates have included enhanced security features and improved functionalities that replicate our familiar retail internet banking offering.

Financial inclusion is another area that we continue to address as a bank, which we aim to achieve through strategic partnerships created with Mobile Network Operators ("MNOs"). This includes the introduction of a mobile wallet solution, which enables customers to transfer money from their bank accounts to mobile wallets across all networks. We also launched the Bulk Mobile Disbursement, offering corporate clients the convenience of issuing bulk payments to Orange Money and MyZaka mobile wallets.

In line with the Bank's focus on deepening relationships with our existing customer base, product-holding per customer grew steadily during the period under review. In order to provide instant benefits to our customers when they transact at various merchant outlets, we have signed agreements with 15 new partners. Furthermore, our customers can now enjoy discounts with a range of restaurant, hotel, beauty salon and health spa merchants.

The progress we have made in developing solutions that are responsive to our clients' needs was recognised through the following prestigious awards:

- Best Transaction and Best Cash Management Bank in Botswana by the Asian Banker for 2019
- Best Investment Bank - EMEA Finance African Banking Awards 2019
- Best Bank in 2019 by The Banker

Corporate Social Investment

Our continued contribution to growth and development of Botswana as a country and a society is paramount to the overall success of our business. Our primary focus in 2019 was on creating sustainability and shaping society. As a result, our revised Citizenship Strategy speaks to our desire to play a leading and transformative role in our society, an agenda driven through the following four pillars:

- Thought leadership – driving issues important to our development and growth;
- Sustainability – impact on people and our planet;
- Shaping society – promoting education and skills development to drive new and innovative programs; and
- Building trust – through development of capacity in institutions.

The results of these efforts were clearly demonstrated by the programs that we have been driving in partnership with organisations such as Maitisong Theatre, Project Concern International and Stepping Stones International. It is pleasing to note that our employees continue to play a vital role in driving

our Citizenship agenda by contributing their time, skills and labour, bringing to life our determination to make a difference in the lives of the people that we live and work with.

The highlight of our employee-volunteering program in 2019 was the opportunity to provide life and money skills training to various soccer teams across Botswana through our partnership with the Botswana Football Association.

Sustainability is of critical importance to us, demonstrated through a range of initiatives we have taken to play our part as a responsible corporate citizen. At a group level, the Bank has signed on to the Principles for Responsible Banking, joining a coalition of 130 banks around the world. By signing onto these principles, we are effectively aligning our business to the United Nations Sustainable Development Goals.

We have played an active role in various initiatives that contribute to the successful attainment of the Sustainable Development Goals. These initiatives include our Ready to Work initiative, as well as the FG Mogae Scholarship Fund, both of which contribute to education and skills development of people in our communities.

From an environmental context, we are working in a building that has been equipped to support effective and efficient water and power usage. This infrastructure supports in-office recycling facilities, allowing each employee to play his or her part in waste reduction. These waste reduction and recycling strategies have been implemented at our head office and at our Corporate Services Centre in Block 8.

Looking ahead

Our success as a business is due to the support we continue to receive from our communities, and it is our obligation to do all we can to support them in turn. Our renewed commitment as a corporate citizen is to play a shaping role in society. It is from this premise that we have the ambition to become a leading, purpose-oriented African bank that recognises that our own sustainability is directly linked to the present and future of the communities where we operate.

The Bank's strategy will continue to focus on driving growth in our key business segments Retail, Business Banking and Corporate and Investment Banking. Key elements of our strategy entail driving growth and growing market share, leveraging digital and innovation and adding value to the customer experience, strategic partnerships in pursuit of building a customer centric digitally-led bank, creating a thriving organisation that is an active force for good in society; and reinforcing our Pan African ambition. Focusing on these ambitions, we will continue to ensure that we remain relevant in the fast-changing environment that we operate in and are prepared to adjust and refine our strategy accordingly.

At the time of preparing this statement, the world has been besieged by a devastating COVID-19 pandemic. This pandemic will have devasting impact on both the local and global economy. Our 2020 forecast anticipates that growth prospects will remain highly uncertain as a result of this pandemic.

Throughout 2020, we will take all necessary steps to ensure the sustainability of our country, economy and our company whilst ensuring that health and safety of our employees, customers and all stakeholders is at the centre of everything we do.

However, this time next year, I hope to report sufficient growth in the execution of our chosen priorities and the fulfilment of our mandate of bringing possibilities to life.

Appreciation

I would like to thank my team and all Absa Bank Botswana Limited employees for their commitment, dedication to executing our strategy and delivering shareholder value, as well as Absa Group Limited for their continued support. I would also like to extend our gratitude to our chairman, Mr Motshidisi, and the Board for their unwavering support through their extra ordinary work and leadership. Lastly, but by no means least, our customers for their continued loyalty and trusting us as their preferred financial services partner.

"We have played an active role in various initiatives that contribute to the successful attainment of the Sustainable Development Goals. These initiatives include our Ready to Work initiative, as well as the FG Mogae Scholarship Fund, both of which contribute to education and skills development of people in our communities."


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Our Separation journey

The key focus for the Separation function throughout the period under review remains the sustainable separation from Barclays PLC, with primary attention placed upon risk management and execution - within scope, on budget and maintaining timelines.

To achieve this objective, the Bank had identified 99 Separation projects to deliver during 2019, and by the end of the reporting period 94 projects had been delivered, which was 95% of the overall target. The remaining projects were to be delivered within the first two months of 2020.

The key successes achieved during the period under review included the following:

- Migration of our **core banking system** in April 2019, with **digital channels** following in May 2020. With these migrations, we have been able to upgrade our technology stack and platforms to allow greater performance efficiency and stability.
- Replacement of the human capital management system took place in July 2019, paving the way for the new cloud-based application. This new system supports the Bank's strategy to become **a scalable, digitally-led business**, including a full human resources suite and payroll in one solution.
- The scope of the project was to migrate Acquiring (system for Point of Sale transactions) to a single platform by replacing the Base24 system located at the Barclays PLC United Kingdom Data Centre with PowerCard solution provided by Hightech Payment Systems (HPS). The Project was successfully delivered on 16 March 2020.
- Replacement of our Financial Crime application with **Netreveal** in September 2019 provided access to a single consistent **Financial Crime platform** for transaction monitoring, sanctions and risk rating with enhanced management information and analytics capabilities.
- In October 2019, 1,443 laptops and desktops were replaced, and all users exited the Barclays Plc domain.
- Replacement and migration of Host Channels for Corporate and Investment Banking (CIB) in October 2019 created a simpler client experience and reduced the number of online channels in use; an important step towards full replacement of legacy channels.

The brand migration encompassed the re-branding of all technology and digital platforms, corporate and retail premises, business assets and marketing collateral, creating a single brand presence. This process built upon existing brand values and increased consumer brand awareness, ensuring a consistent identity across all Absa Group subsidiaries.This migration to a single brand established economies of scale in brand development and operational changes across our various technology platforms. The Bank's investment in the Absa brand enhanced experience and ensured active engagement with customers as well as stakeholders, thereby establishing a strong brand foundation for growth into the future.

At the close of 2019, the Bank had substantially completed legal and regulatory separation processes, updating the Regulator on progress made, which is a process that will continue into the next year.

The Separation program was well resourced throughout the period under review. The bank will utilise a combination of in-house and contracted expertise to deliver on the remaining projects for 2020.

Leveraging the Separation legacy to deliver on strategic intent.

Over the last two years, Change Enablement was the custodian of the Barclays Separation journey. In order to manage the dynamic complexity of Change Execution across a single Change Book of Work, a set of key high-value capabilities were developed:

- Portfolio and value management;
- Technology enablement;
- Change governance;
- Risk management;
- People change management; and
- Reporting and management information systems.

> **"The brand migration encompassed the re-branding of all technology and digital platforms, corporate and retail premises, business assets and marketing collateral, creating a single brand presence."**

These skillsets proved valuable for improved change delivery and enhanced alignment with the Bank's strategy. The oversight and governance of portfolio execution, spend, and risk informed the prioritisation of execution initiatives and optimised the trade-off decision-making processes.

As a result of this highly efficient and successful process, and the capacity that has been built with the Separation Function, this team will continue to run the Bank's projects to support Absa Bank Botswana Limited's ability to remain a change-driven organisation.

Country Management Committee

Keabetswe Pheko – Moshagane
Managing Director

A seasoned executive with over ten years of experience in the banking and telecommunications industry, Keabetswe was appointed Managing Director of the Bank in April 2019. She joined the Bank in 2010 as the Head of Core Banking Applications, after which she held the position of Head of Technology, overseeing the execution of Bank projects, programs and initiatives ensuring the business operates in a stable environment. Prior to her appointment as Managing Director, Keabetswe held the position of the Bank's Chief Operations Officer (COO). Prior to joining the Bank, she consulted for various companies in South Africa.

Keabetswe has a Bachelor of Administration in Information Technology specialising in IT Management and Business Applications from Tshwane University of Technology, and a Masters in Business Administration (MBA) from the Management College of Southern Africa (MANCOSA). She has also completed the University of Stellenbosch Management Development Program and several leadership training programs.

Mumba Kalifungwa
Finance Director

The Bank appointed appointed Mumba as Finance Director in 2015. With over 20 years' post qualifying experience in Banking, Auditing, Taxation and Financial Management, he joined the Bank from Barclays Bank Zambia, where he held the position of Chief Financial Officer, also serving as Chairman of the Board of the Audit Committee of the Zambia Institute of Mass Communication. Mumba holds a Master of Business Administration (MBA) from Herriot Watt University, Scotland and is a fellow member of the Chartered Institute of Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA) and Botswana Institute of Chartered Accountants (BICA).

Tumelo Mokowe
Human Resources Director

With over 12 years experience, Tumelo has held various positions within the Human Resources function, including Training, Governance and Employee Relations, Head of Human Resources Operations and Employee Relations before his appointment as Human Resources Director in 2017.

Tumelo has completed several leadership programmes, including the University of Stellenbosch Management Development Programme and a basic certificate in Labour Law from the University of Cape Town. In 2019, Tumelo completed a Finance for Non-Finance Managers qualification with the Botswana Accountancy College (BAC), also completing Advanced Development Initiatives through the Absa Leadership Academy in the same year.

Brighton Banda*
Retail Director

With over 20 years of experience in senior management across the African banking sector, Brighton joined the Bank as Consumer Banking Director in 2014. Prior to assuming this role, he was Regional Head of Retail Lending from 2012. He holds an honours degree in Economics from the University of Zimbabwe, and has extensive knowledge of the African markets, having worked in Product, Risk and Operations in banks across Zimbabwe, South Africa, Kenya and Nigeria.

Leroy Klein
Country Treasurer

Leroy joined the Bank in 2008 as a Treasury Analyst and was appointed as Country Treasurer in 2017. With over 12 years of experience in the banking sector, he has held middle and senior management roles within the Treasury function. Prior to joining the Bank, he was a Senior Auditor at KPMG Botswana, and is a Fellow of the Association of Certified Chartered Accountants (FCCA) and is a member of the Botswana Institute of Chartered Accountants (BICA).

Titose Musa
Head of Compliance

With over 20 years of experience in the banking sector, the Bank appointed Titose Head of Compliance in 2013. Her extensive experience includes Organisational Strategic Alignment, Risk Management, and Performance and Financial Management Change, as well as People Management.

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

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

* Brighton Banda's assignment with the Bank ended in August 2019 and Shathiso Choto was appointed Acting Retail Director until December 2019

Country Management Committee

Kealeboga N. Bojosi
Head of Legal and Secretariat

Kealeboga is the Head of Legal and Company Secretariat. He has read, taught and practiced law in Botswana and England, specialising in Banking, Finance and General Commercial Law. Amongst other qualifications, he holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University and is a Solicitor of the Supreme Court of England and Wales.

Obonye Malope
Head of Marketing and Corporate Relations

The Bank appointed Obonye Head of Marketing and Corporate Relations in March 2019. Obonye has over 12 years' experience in Marketing and Brand Management and held the role of Director-Marketing and Communications for First National Bank Botswana (FNBB) prior to joining the Bank. She previously held the position of Marketing Manager – Consumer for FNBB, preceded by the role of Brand and Communications Manager for Mascom Wireless.

Obonye has a bachelor's degree in Radio and Television from Southern Illinois University –Carbondale, and is currently pursuing a Master of Business Administration (MBA) at the African Leadership University in Kigali, Rwanda.

Tebogo Direng
Acting Chief Operating Officer
(May 2019 – December 2019)

Tebogo is a seasoned banker with over 16 years of experience in the sector. She joined the Bank in 2015 as Head of Sales-Retail Banking, prior to which she was seconded to the Regional office in South Africa as a Credit Analyst in 2006. On her return to Botswana, she joined Stanbic Bank Botswana as a Group Schemes Manager, later re-joining the Bank in 2007 as the Head of Sales for credit cards. She moved to Head of Consumer Operations in 2018 and was appointed interim Chief Operating Officer from May 2019 to December 2019.

Tebogo has a Bachelor of Business Administration majoring in marketing and has a Master's degree in Strategic Management from Derby University (UK). She graduated with a Master of Business Administration (MBA) from Gordon Institute of Business Science (GIBS). She has completed various leadership courses, including the University of Stellenbosch Management Development Programme and she is also a member of the Association of Global MBA's (AMBA).

Mavric Webbstock
Corporate and Investment Banking Director

Mavric joined the Bank as the Corporate and Investment Banking Director in March 2018 and has over 16 years of experience in wholesale banking, ranging from listed and mid-corporates to the public sector and business banking. He has held several leadership roles within the Absa Group including: Provincial Head of Acquisition in Business Banking (South Africa), Provincial Head of Investments (South Africa), Provincial Head of Wholesale (South Africa), Retail and Franchise and Provincial Head of Agri- Business (South Africa). Before joining Absa, Mavric was Head of Corporate Banking for Nedbank in KwaZulu-Natal, South Africa.

A qualified chemical engineer, Mavric holds a BSc in Engineering from the University of Natal and a Master of Business Administration (MBA) from the University of Cape Town.

Kabo Molomo
Chief Risk Officer

The Bank appointed Kabo as Chief Risk Officer in 2018. He has over 15 years of experience in Risk Management and has held various leadership roles in Corporate Lending and Corporate Recoveries, including a secondment to National Bank of Commerce (an Absa Group subsidiary in Tanzania). He previously held the position of Corporate Credit Risk Director, playing a pivotal role in the growth of the Corporate and Investment Banking business. Prior to joining the Bank, Kabo was an auditor at Ernst & Young Botswana.

He has a bachelor's degree in Accountancy and a Master of Business Administration (MBA) from the University of Botswana and he is a Fellow of the Association of Certified Chartered Accountants (FCCA) and of the Botswana Institute of Chartered Accountants (BICA).

Finance Director's report

Mumba Kalifungwa
Finance Director

Overview

Absa Bank Botswana delivered strong results in the 2019 financial year, despite the challenging economic and competitive environment.

Despite tough competition and the challenging economic and environment, the Bank delivered strong results in the 2019 financial year. The results are testament to our resilience as a business and our ability to continually drive balance sheet efficiency and maximise the potential of our digital channels.

These results and the strides made in 2019 reaffirm our position as a leading financial services provider in our market, supported by our focus on connecting with clients and customers, and providing products and services that 'Bring their possibilities to life' across Botswana.

Statement of comprehensive income

Despite the challenging environment we operate in, a steady growth in income across business segments, relative to the previous year, frames our performance for the year under review. We achieved a profit before tax of P 678 million on a statutory basis, representing growth of 15% year-on- year. This performance was influenced by growth in income, contained costs, and a recovery of expected credit losses.

Total income is up year-on-year by 7%, translating to an increase of P 101 million. This was propelled by balance sheet growth of 11% and an increase in net fees and commission income by 7% year-on-year.

We continued to drive momentum across all key segments to negate the effects of compressed margins arising from an increase in cost of funding. Net Interest income increased 6% year-on-year, mainly driven by balance sheet growth. The business remained resilient in its selected market segments, continuing to drive growth in our priority sectors.

Our operating costs were well contained, with the business achieving a Cost to Income (CIR) ratio of 56%. Costs increased by 8% year-on-year, driven largely by technology-spend as part of the process of separation from Barclays PLC. Underlying costs increased by 5% year-on-year.

On a year-on-year basis, credit losses decreased by 64% compared to the previous year, with an overall net recovery of P 66 million for the period ending 31 December 2019. Our year-to-date expected credit losses performance has benefited from a significant recovery from one of our corporate clients, enhanced collections capability, and conservative credit extension to high-risk sectors.

Statement of financial position

Loans and advances to customers grew by 13% year-on-year from P 11.8 billion to P 13.4 billion. This growth in loans was realised across all business segments as we continue to drive up our volumes by focusing on client penetration and acquisition. Customer deposits increased by 21% year-on-year from P 12 billion to P 14 billion driven by positive growth across our business segments. Our balance sheet position remains solid at a total financial position of P 18.8 billion, with strong liquidity and capital adequacy levels with customer loans and deposits as key drivers of our Balance sheet.

Capital and liquidity

Given our strong profitability, our Return on Equity (ROE) stands solid at 23.6%, comparing favourably to the banking industry average of 16.6%. Regulatory capital stood at P 2.5 billion, representing a capital adequacy ratio of 19.23% against a regulatory limit of 15%; and liquid assets were at 19%, well above the regulatory minimum of 10%.

Dividend

A final dividend of 25 thebe per share was declared for the second half of the year. This brings the total dividend declared for the year 2019 to P 323 million, which was is in line with our commitment to deliver sustainable returns to shareholders, whilst meeting our capital requirements.

Further information on our 2019 results presentation are outlined on www.absa.co.bw/bank-reports/ or Financial results pages (page 56 Reporting changes).

Key figures

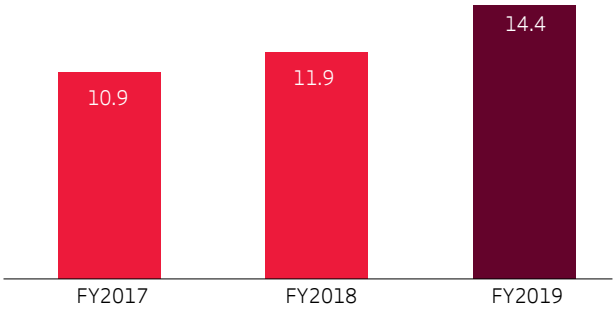
	2015	2016	2017	2018	**2019**
Return on equity (%)	16.9	22.3	22.1	22.8	**23.6**
Return on assets (%)	1.8	2.5	2.9	2.7	**2.8**
Earnings per share (thebe per share)	30.57	45.68	50.71	53.54	**61.09**
Return on risk weighted assets (%)	2.9	4.0	4.1	3.5	**4.1**
Capital adequacy ratio (%)	19.5	19.8	19.4	17.6	**19.23**
Costs to income ratio (%)	55.2	49.2	51.9	55.5	**56.4**
Fee income to total income (%)	29.3	33.2	33.0	34.7	**35**
Loans and advances to customers (p' million)	9 783	9 376	10 721	11 835	**13 362**
Customer deposits (P' million)	11 051	11 219	10 981	11 855	**14 378**

Revenue by segment FY 2019 (%)

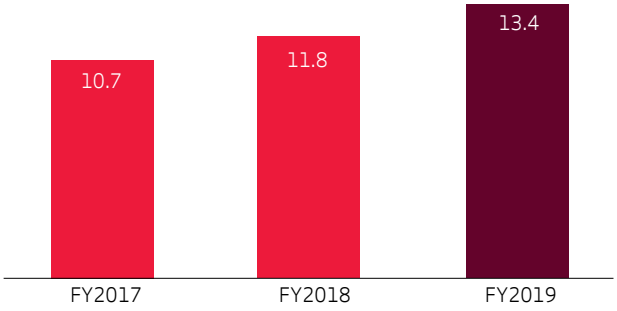
72 Retail Business Banking

28 Corporate Investment Banking

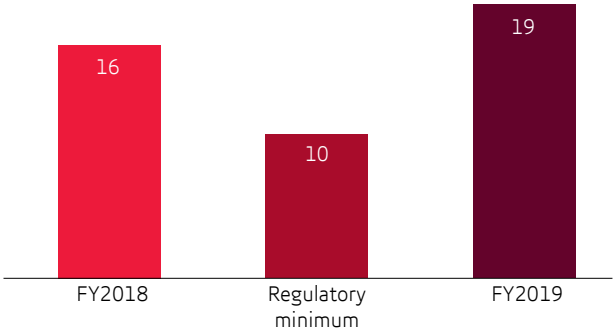
Customer deposits (P'billion)



Loans and advances to customers (P'billion)



Liquid asset ratio (%)



> "These compelling results and the progress made in 2019 reaffirm our position as a leading financial services provider in our market, supported by our focus on connecting with clients and customers, and providing products and services that 'Bring their possibilities to life' across Botswana."

Corporate and Investment Banking

In 2019, the business maintained its strategy to bank our client's entire value chain, encompassing employee and personal banking as well as enterprise supplier development. While mining continues to be a major sector that underpins the Botswana economy, the tourism and hospitality sector were also key in driving performance in the past year.

Corporate income up by **6.8%** year-on-year

Having recorded a 4% GDP growth in 2018, the continued recovery in the mining sector, specifically in diamond income, albeit slow, is still expected to generate an annual GDP growth of 3.6% for 2019. The trade war between the two global trade powers – China and the United States contributed to a weaker global diamond demand hence the downward revision of the GDP figures.

As highlighted above, the business continued to focus on the high growth sectors in the economy, mainly mining and energy, consumer (wholesale and retail), tourism and hospitality as well as financial services. Despite the outbreak of the corona virus (COVID-19), towards the end of the year that threatens the viability of the global economy, our focus as business will remain on the sectors that government has targeted as engines of growth to diversify the Botswana economy.

Corporate income is up by 6.8% driven by corporate assets as well as liabilities which grew by 5.1% and 33%, respectively. The growth in liabilities was underpinned by a rise in customer deposits. The significantly high corporate segment profit resulted from a recovery on a single corporate expected credit loss. Net fee and commission income declined by 7.7%. On the other hand, Markets income was flat due to intense competition in the market.

Awards and achievements

We were named Best investment bank for the second year in a row by the EMEA Banking African Finance Award, which reinforced our position as the market leader in Botswana and a significant player in the Botswana economy. Additionally, we were awarded Best Transaction Bank by Country and Best Cash Management Bank by Country in the Asian Banker Transaction Banking Awards.

Botswana's economic outlook for 2020 remains highly uncertain amid the COVID-19 outbreak. As a small country that depends heavily on a volatile export segment, Botswana is extremely vulnerable to swings in the global economic growth and commodity prices. The outbreak of the COVID-19 is already causing severe disruptions to the global economy with the country's integral diamond sectors as well as hospitality bearing the biggest brunt at the moment. The outbreak is also expected to have a far reaching negative impact on households and across the entire business spectrum despite anticipated monetary policy support from the central bank. A revised GDP forecast of 2.6% (down from the initial 3.8%) is anticipated.

Retail Banking

From 2018 to 2019, the Retail Banking business saw overall customer numbers rise by almost 6%, driven by increased acquisition efforts across the various solutions and channels.

Absa Botswana Mobile Banking App saw usage of over

70%

of registered users during the period under review.

This growth was supported by the Winning Choices campaign that ran for most of 2019, where customers had the opportunity to win prizes, including two Audi luxury cars and a series of cash prizes.

In line with the Bank's focus on deepening relationships with our existing customer base, product holding per customer also saw steady growth during the period under review. Through the development of partnerships with over 15 restaurants, hotels, beauty and health spas, we provided our customers with opportunities to access instant discount benefits with these premium merchants.

A key component of our strategy is to offer convenience to our customers when transacting. This is evidenced in the onboarding of users to our digital platforms, particularly the Absa Botswana Mobile Banking App, which saw usage of over 70% of registered users during the period under review. The transition from Barclays Mobile App to Absa Mobile App came with a new look and feel and integration of BTC Smega Wallet functionality.

Branches remain a pivotal component of our distribution strategy, with positive progress made in the refurbishment and relocation of key branches across the country during the period under review.

These efforts improved the overall customer and colleague experience in the branches, as well as reinforcing the new Absa brand values and culture. A key product update in Retail Banking was the enhancement of the unsecured personal loan product, increasing viability for specific income segments. A number of "Open House" events were also successfully held with developers during the reporting period, showcasing our flexible mortgages offering.

Looking ahead

Despite the prospect of lower than projected economic growth and the anticipated negative impact of the COVID 19 pandemic, the Bank's outlook remains positive. The Bank will continue to invest in our branch network and advancing digital infrastructure in order to deliver superior customer service.

Business Banking Report

Business Banking realised positive growth during the period under review. Customer assets grew by 8% while liabilities increased by 1%. Total income grew by 1%, but profit after tax declined due to increased impairment and costs.

During the year under review, Business Banking continued to focus on key priority sectors to grow the balance sheet and income statement. **The Relationship Banking** model remained a key focus, supported by enhanced product development and improving client service.

In the past year Business Banking promoted the following products - Purchase Order Finance, Business Internet Banking, Enterprise Supply Chain Development, and Commercial Asset Finance. Furthermore, the Tourism Strategy has been implemented through the opening of the Maun Business and Premier Suite.

2019 also saw the Bank facilitate the first **Procurement Pitso**, with invitations extended to corporate procurement managers from across a range of industry segments. Capacity building and training was carried out with over 750 customers through the Business Club at the **Enterprise Development Centre** and across the regions of Botswana.

Looking ahead

Moving into 2020, Business Banking will continue to focus on priority sectors with the main driver being the Enterprise Supply Chain Development in partnership with selected corporate entities in the mining sector.

Procurement Pitso

In September 2019 the Bank proudly sponsored the Procurement and Enterprise Development Pitso, which was the first of its kind. The event brought together corporates, SMEs, procurement managers and supply chain specialists, to meet, discuss and share ways in which the Bank could support local SMEs.

The theme of the Pitso, "Unleashing the power of procurement to create access and opportunity for SMEs to drive inclusive growth" was directly aligned to the Bank's Enterprise and Supply Chain Development Programme ('the ESD Programme'), which is an initiative that directly addresses the core needs of the SME sector. We believe that as a responsible corporate citizen we are in a unique position to serve SMEs by using our core assets, strategic positioning and influence. We do this by identifying large corporates that we do business with, and influencing them to identify opportunities within their supply chain that can be opened up to SMEs.

The SME sector has proved to be an important driver of economic growth and employment creation across the world. In Botswana, research has shown that nearly 90% of all registered businesses are SMEs and employ over 300 000 people formally and informally.

In 2019 , we disbursed over P 97 million million through the ESD Programme to SMEs mainly in the mining sector.

Our commitment to the SME sector also saw us opening the Enterprise Development Centre in August 2019, which is a designated business suitefully equipped with resources – including internet access, laptops, printers, faxes as well as meeting rooms to facilitate networking.

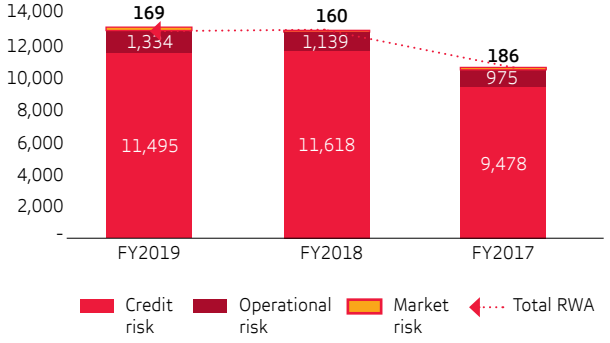
Treasury and Balance Sheet Management

Capital adequacy position

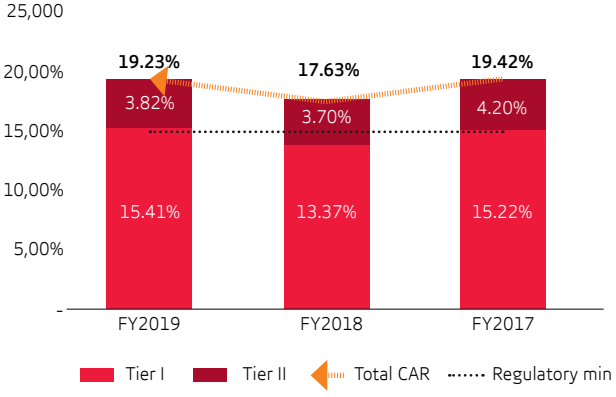
The Bank remained well capitalised throughout 2019 ending the year with a Capital Adequacy Ratio ("CAR") of 19.23% compared to 17.63% in 2018. This was above the regulatory requirement of 15%. This is despite a 13% growth in total customer assets year on year.The Common Equity Ratio ("CET1") ratio of 15.41% was significantly above the regulatory minimum limit of 7.5%. The Bank manages its capital position at an internal target that includes a Board-approved buffer. This buffer is set after considering several risk types that could impact capital levels under stressed scenarios.

The Bank actively managed its capital composition and consumption levels through its Balance sheet management initiatives focusing on Risk Weight Assets ("RWA") optimisation and the capital mix in 2019. CAR position was driven by higher profitability and an increase in RWA's on the back of the banks growth strategy.

Risk weighted assets ('000)



Capital adequacy ratio



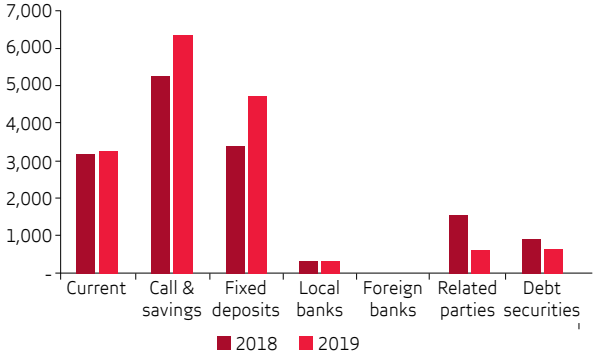
Liquidity and funding position

Optimising the funding profile of the bank within structural and regulatory constraints to ensure efficient and sustainable operations remains a key priority for the bank.

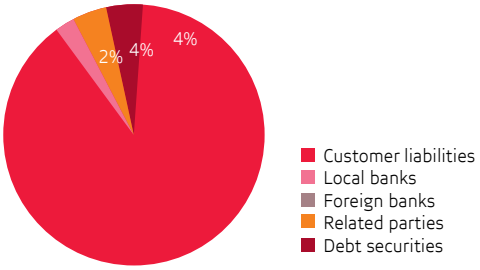
We closed the year with a healthy funding and liquidity position. A liquid asset ratio ("LAR") of 18.92% compared to 16.04% in 2018. This was well above the regulatory 10% requirements and the internal target.

The Bank was able to contain the cost of funding within reasonable levels. This was achieved through optimising the funding profile and targeting cost efficient liabilities.

Liability profile



2019 Liability Contribution



Customer liabilities were substantially up by 21% year on year, the largest contributors to the increase came from fixed deposits, savings and call deposits. Furthermore, related parties liabilities saw the largest decline year on year, on the back of a decline in foreign currency lending. Our liabilities continue to be dominated by customer liabilities, which are considered stable behaviourally and the profile reflects some diversification.

Looking ahead

Treasury will continue on the journey to optimise capital structure, seek appropriate and cost efficient funding, maintain a liquidity maturity profile to meet the Banks growth aspirations and implement sustainable balance sheet management strategies within the risk appetite.

The year ahead is expected to be characterised by a low interest rate environment due to global economic challenges and therefore we expect volatility in the liquidity market. Further containment of funding costs will be vital in mitigating the impact of short term asset placements and negative costs of carry.

Risk Review

Throughout 2019, Botswana remained exposed to downside risks associated with the prospect of weak global economic activity.

These risks were compounded by a series of factors including the following: the deepening China-US trade dispute; uncertainty associated with the impact of the UK Brexit process and continued modest domestic economic growth driven by weaknesses in diamond markets; and severe drought.

Notwithstanding the above, data continued to play a significant part in Risk Management in 2019, driving all key risk decisions in 2019, including the following:

- Effective use of **Enterprise Risk Management Framework** in strategy execution;
- Organisational culture transformation in terms of effective risk management; and
- Enhanced control environment through embedment of critical processes assessments.

The Risk team played an enabling role in 2019 by providing Risk Intelligence, which increased appetite and nurtured innovation. This was achieved through continued support of sustained growth through provision of risk appetite in chosen growth sectors and segments. This enabled the Bank to maintain a dynamic risk management appetite throughout the period under review.

Capital optimisation was a key highlight throughout 2019 as it was an effective tool for capital demand forecasting and stress-testing, while reducing overall capital costs for the Bank. We were able to implement risk quantification in operational Risk Weighed Assets and ensured optimum use of operational risk tools to provide insights across the business.

The period under review saw significant changes of our regulatory reporting environment, with key processes moved towards automation. This improved the quality of regulatory submissions, also ensuring we provided insights to increase market share.

During the process of separation from Barclays Plc, supported by the Absa Group Limited, the Bank developed new policies and models that aligned with our objectives and ensured we remained customer-centric.

Future prospects

As digital migration expands, businesses are able to design products and trade online, and individuals are able to conduct financial services and payments without reaching beyond their mobile devices or computers. In parallel, the government is migrating to online platforms to facilitate convenient and efficient public services. Digitisation has enabled the bank to rethink business models that are more impactful and sustainable, and continue with investment in in-house risk models.

With the advent of the COVID-19 pandemic, the outlook for Botswana is sombre as the hospitality and travel industries are essentially reduced to skeleton staff, and the diamond sector has slowed down substantially. Downturn in these two sectors that are critical to Botswana's GDP will no doubt present new challenges in 2020 from a risk management perspective.

"The Risk team played an enabling role in 2019 by providing Risk Intelligence, which increased appetite and nurtured innovation. This was achieved through continued support of sustained growth through provision of risk appetite in chosen growth sectors and segments. This enabled the Bank to maintain a dynamic risk management appetite throughout the period under review."

People Function

The year under review was characterised by substantial changes in the Bank towards the transition to Absa Bank Botswana Limited. It was a high-paced and intensive process, supported in terms of business culture by the People Function.

Of significance was the deployment of a cloud based Core Human Resource Management system by Workday. The deployment of the system gave the Bank the ability to consolidate independent systems and applications into one with high interface abilities. This gave, and continues to give, People Managers and colleagues a simplified and seamless experience.

Talent, succession and learning

The transition from Barclays to Absa presented an opportunity to revise our people strategy, particularly talent acquisition, retention and leadership. A new talent management framework was introduced and firmly embedded in 2019. Supported by new policies and standards, this framework is now fully integrated into all of our process and will continue to guide the lifecycle of all bank employees.

This new approach has been used to design and develop people management standards that will be used to support our managers with the "Absa way" of leading and managing teams and employees., This firmly established the culture and values aspects of the Absa brand. This management approach is underpinned by a new leadership philosophy and framework that encapsulates the Absa values and culture. This extends to organisational assessments to guide acquisition of the right leaders, building an organisation with required capabilities.

Due to the evolving needs of the Bank, the People Function needed to consider new and diverse skill sets within its talent agenda. This new broader approach to talent acquisition and skills development was vital to supporting the evolution of business culture during the transition. While this is important to the Bank as a whole, it is also critical for the individual development of all staff members.

Furthermore, the Bank continued its graduate evaluation and intake process; an on-going process for the Bank, which will continue into the next year.

Furthermore, all employees benefitted from access to a range of in-house development programmes as well as training with international and national Absa training partners, including International Institute of Management Development (IMD) and Duke University.

Employee experience

One of our key priorities in 2019 was to ensure continuous improvement on colleague experience, strengthened by our employee value offering. We strongly believe in our employees encapsulated by the Absa value: our people are our strength. Therefore, it is critical that we constantly evaluate and improve our offerings. To realise this, there was a specific focus on retention, including reward for top performers in an effort to remain the employer of choice in the financial services and banking sector.

To achieve this objective, we focused our attention on prioritising employee engagement and wellbeing as critical aspects of our People Strategy. Some employee benefits were reviewed to align to market standards. This included a

review of funeral benefits, including a top-up benefit for coffin purchase to the value of P20, 000 for employees, and P50, 000 contribution towards burial logistics. The employer pension contribution of 13 % was increased to 13.5 % and the employees medical aid scheme B was enhanced to Scheme B plus, which includes additional benefits. The Bank places significant emphasis on colleagues and their experiences hence this area will remain a key focal area.

Employee engagement

The Bank remains committed to building employee engagement throughout the organisation and embedding engagement in our culture. As part of this commitment, we carried out a number of activities during the period under review to improve engagement, continuing development of a healthy and active working environment.

These activities included a sports and wellness day conducted across the country, a new values launch, and an awards ceremony to celebrate long-serving employees and high performing employees. In July 2019, we launched the new digital people platform – Workday – expanding our staff engagement tools and enabling us to roll out our new Values set as part of the rebranding process.

The Bank remains committed to growing new and existing partnerships, and strengthening relations with all stakeholders, including the Botswana Bank Employees Union (BOBEU). Our partnership with BOBEU resulted in the parties successfully concluding salary negotiations and collaboratively engaging on other employee matters on a regular basis during the period under review.

Reward and people transformation

Aimed at securing an effective workforce, reward remained a critical component of our People strategy. To support this component of our strategy, we embarked on a review of our Recognition programme, during 2019. This Colleague recognition programme saw a number of employees from various functions across the Bank win regional awards as individuals and part of teams. In addition, the Bank continued to recognise committed staff and the retention of institutional knowledge through our annual Long service Awards.

Citizenship in 2019

Our continued contribution to the growth and development of Botswana is a fundamental aspect of the success of our business.

As Absa Bank Botswana Limited we have articulated the role that we would like to play in our revised strategy - **Play a Shaping Role in Society.**

With this in mind we identified four pillars to focus on and drive our Citizenship Agenda:

Thought leadership: key issues important to our development and growth

Sustainability: impact on people and our planet

Shaping society: education and skills development through ReadytoWork, driving new and innovative programmes

Building trust: building capacity in institutions

Our primary focus in 2019 was creating sustainability and shaping society, demonstrated through partnership with organisations. This was achieved through partnerships with the Maitisong Theatre, Project Concern International, and Stepping Stones International.

ReadytoWork remains our anchor programme, providing learning material on work, people, entrepreneurship, and money skills for young people preparing to enter the workforce. First launched in 2016, this digital learning platform was successfully delivered to over 2000 youth in 2019, bringing the overall total to just over 10,000 youth across Botswana over the past three years.

Our partners Project Concern International and Stepping Stones International continue to utilise ReadytoWork in other funded programs, including the USAID-funded DREAMS project. This project saw 12,470 adolescents trained in money skills and 498 in all 4 modules: entrepreneurship, work, people, and money skills.

One of our most successful initiatives is the innovative **Madi Majwana** radio drama. This regular programme seeks to educate the general public and school children about money skills.

The focus for Madi Majwana in 2019 was the transition of youth from school to the workplace, women-led households, and youth-run businesses. Madi Majwana has created a platform for promoting healthy discussions on money matters. The radio drama coupled with the theatrical presentations and listening sessions held with school children encourage healthy debates on issues of money.

Currently in its fifth year, the radio drama and theatrical performances have reached over 700,000 individuals across Botswana.

Our **scholarship programme** is a key component of our efforts to shape society, providing an opportunity for financially disadvantaged youth to pursue higher education. There are currently 36 students studying towards a Master's degree at Botswana International University of Science and Technology (BIUST), Botswana Accountancy College (BAC), Botswana University of Agriculture and Natural Resource (BUAN) and the University of Botswana (UB). Since its inception in 2008, a total of 76 Batswana have benefited from the scholarship fund.

During the period under review, we had the privilege of hosting young scholars selected to study at the African Leadership University in Rwanda. The six students received the Absa-funded scholarship from the Nelson Mandela Foundation scholarship programme.

They spent eight weeks at Absa working with Marketing and Corporate Relations, Finance, Risk, Management Information and the People Function. They participated in community initiatives where they shared their talent and skills with children at Mogoditshane Senior Secondary School and at a career fair at Maru-a-Pula Secondary School.

Our colleagues continue to play a vital role in driving our Citizenship Agenda by contributing their time, skills and labour to various charitable ventures. These efforts confirm our determination to make a difference in the lives of the people that we live and work with. Throughout the year, colleagues were engaged with various activities including the second annual Financial Literacy Festival in partnership with Maitisong Theatre, the University of Botswana Entrepreneurship Week, World Environment Day and the Day of the African Child.

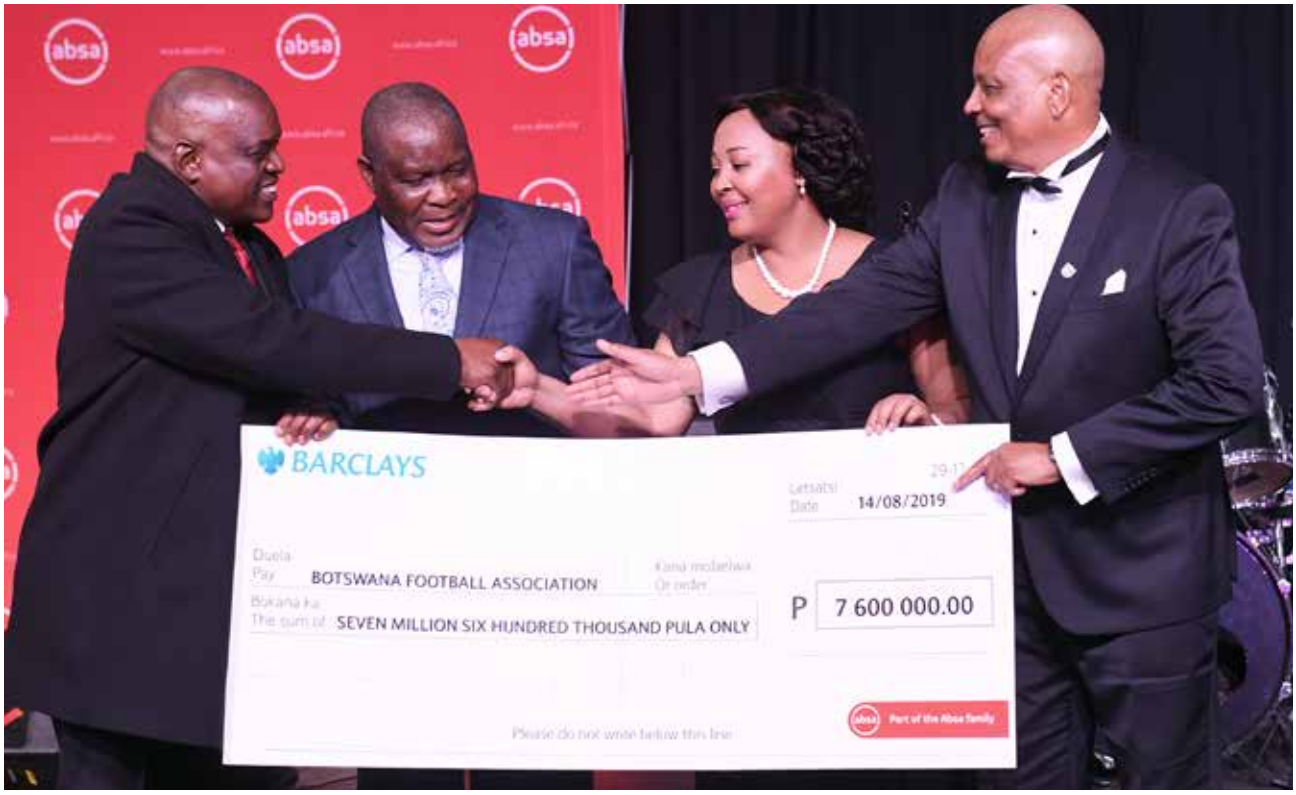
In 2019, the highlight of our colleague volunteering programme was the provision of money skills training to various soccer teams across Botswana through our partnership with the Botswana Football Association.

As a responsible corporate citizen, and through our desire to build trust within organisations, we continue to play an active role in the **UNICEF Chief Executive Officer Forum**. This forum contributes to discussions on children's rights, mental health issues and work life balance. Our colleagues have also dedicated their time to participating in campaigns that seek to educate children, their parents and guardians about their rights and responsibilities. We also participated in the inaugural First Lady's Walk in commemoration of the **16 Days of Activism Against Gender Based Violence**.

Sponsorships

In August 2019, we launched our sponsorship of the Botswana Football Association. The sponsorship, amounting to P 7.6 million over two years includes a Corporate Social Investment component that will provide 200 schools with indestructible soccer balls, soccer coaching and life skills sessions.

We also continued to actively sponsor key events such as the Sandveldt Farmer's Day, Ghanzi Agricultural Show and the inaugural Procurement and Enterprise Development Pitso.



Board of Directors

Oduetse Andrew Motshidisi

Chairman of the Board of Directors

Oduetse joined the Bank's Board of Directors in 2016, and was appointed Board Chairman on 1 July 2017. He has 30 years of experience in the financial services sector, including 15 years as the Deputy Governor of Bank of Botswana. Prior to his appointment as Deputy Governor, he held several senior positions at the Central Bank, including heading the Foreign Exchange Reserves Management. He has served on a number of Boards including those of the Motor Vehicle Accident (MVA) Fund, the Botswana Stock Exchange (BSE) and the Botswana Institute for Development Policy Analysis (BIDPA).

Oduetse holds a Bachelor of Arts from the University of Botswana and Swaziland and has a Master's degree in Master of Arts in Public Policy from the University of Wisconsin-Madison in the United States of America.

Lawrence Maika

Non-Executive Director *

Former Chairman of the Audit Committee

Lawrence joined the Bank's Board of Directors in 2005 and was Chairman of the Audit Committee until his retirement from the Board in June 2019. He is the Managing Director of Nsenya (Pty) Ltd and also manages a firm of accountants. Lawrence has served on a number of boards of directors, including Botswana Meat Commission (BMC), Sefalana Holdings Company Limited, Botswana Housing Corporation (BHC), Bank of Botswana and Botswana Savings Bank.

A certified chartered accountant, Lawrence is a fellow of the Botswana Institute of Chartered Accountants (BICA) and is a fellow of the Association of Chartered Certified Accountants (FCCA).

Ambassador Alfred Dube

Non-Executive Director

Chairman of the Human Resources, Nominations and Remunerations Committee

Member of the Risk Committee

Ambassador Dube joined the Bank's Board of Directors in 2009. A Foreign Policy Specialist with a diplomatic career spanning over 40 years, he has held appointments as Botswana's Ambassador to Sweden & the Nordic countries; United Kingdom (as High Commissioner), People's Republic of China, Japan, and the High Commissioner to Malaysia and Singapore. He also served as Permanent Representative to the United Nations, New York. After retirement from diplomatic service, Ambassador Dube served as Managing Director of the Lazare Kaplan Botswana diamond company, a subsidiary of Lazare Kaplan International, New York. He also served as Director in the Office of the Institute for Security Studies, Addis Ababa, Ethiopia. He holds a Bachelor of Arts Degree with Honours from the University of Essex in the United Kingdom.

Kenneth Molosi

Non-Executive Director

Member of the Audit Committee

Member of the Human Resources, Nominations and Remunerations Committee

Kenneth joined the Bank's Board of Directors in 2009. He is currently the Chief Executive Officer of EOH Consulting, a leading management consultancy in Botswana. Mr. Molosi is a strategist and business transformation specialist with a keen interest in innovation, strategic use of technology, talent management and SME scaling and growth. He has over 20 years of experience in ICT solution deployment and management consulting in the public and private sectors. In his capacity as a facilitator on the high-impact Stanford Seed Transformation Programme, Kenneth supports SMEs in the region to scale, grow and create jobs.

Kenneth holds a Master of Science (MSc) in Information Systems from Pace University in the United States of America, and a Bachelor of Business Administration from Brock University, Canada.

He is passionate about leadership and currently sits on the Advisory Board of the University of Stellenbosch Executive Development Limited.

* Mr. Lawrence Maika retired from the Board in June 2019

Tobias Mynhardt
Non-Executive Director**

Former Chairman of the Risk Committee

Tobias served on the Bank's Board of Directors of from 2016 to June 2019 until his resignation. He is the Managing Director of the Cash Bazaar Holdings Group. He is also the Managing Director of New African Properties Limited and Deputy Chairman of Furnmart Limited, both of which are listed on the Botswana Stock Exchange (BSE). He has been in the investment industry for over 20 years.

He holds Master's degree in Economics and a postgraduate diploma in Economics from the London School of Economics (LSE), a Bachelor of Commerce - Honours degree in Economics from the University of Cape Town and Bachelor of Commerce in Economics and Accounting from the University of Stellenbosch, South Africa.

Kgotlayarona Ramaphane
Non-Executive Director

Member of the Risk Committee

Member of the Human Resources, Nominations and Remunerations Committee

Kgotlayarona joined the Bank's Board of Directors in 2018. With over 30 years of experience in project and business management in public enterprises, he was CEO of the Public Enterprises Evaluation and Privatisation Agency (PEEPA) for seven years. He also served as Head of Performance Monitoring of PEEPA, where he was responsible for advising the Government of Botswana on corporate governance issues. Prior to joining PEEPA, Kgotlayarona served in a number of high profile positions in leading organisations, including Botswana Railways and Botswana Technology Centre, and as a board member of Botswana Privatisation Assets Holding.

He holds a Master of Business Administration (MBA) from the University of Stirling in the United Kingdom, and a Bachelor of Commerce from the University of Botswana. He is also a qualified PRINCE2 Project Management Practitioner and a Corporate Governance Practitioner.

Mohamed Osman
Non-Executive Director

Chairman of the Audit Committee

Mohamed joined the Barclays Bank of Botswana Board in August 2018 and was appointed as the Bank's Audit Committee Chairman in July 2019. He has been chairing the Audit Committee since the retirement of Lawrence Maika.

He is the Group Finance Director of the Sefalana Group, a position he has held since 2013. He is a Certified Chartered Accountant and is a fellow member of both the Institute of Chartered Accountants of England and Wales (ICAEW) and Botswana Institute of Chartered Accountants (BICA). Mohamed is Botswana's representative of the ICAEW. He has over 13 years' experience in the provision of audit and advisory services. He has worked as a Senior Manager at leading audit firms including Ernst and Young UK and both KPMG UK and Botswana. Mohamed has a Masters in Business Administration in International Management from the University of Edinburgh and a B.Com (Hons) in Accounting and Finance from the University of Birmingham.

** Mr. Tobias Mynhardt resigned from the Board in June 2019

Corporate Governance Review

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

The Bank adheres to, and has, adopted local and international corporate governance principles. Locally, as an entity listed on the Botswana Stock Exchange ("BSE"), the Bank is subject, and adheres, to **BSE' Listings Requirements**, and the **BSE Code of Best Practice on Corporate Governance** ('the Code'). The Code provides that every company listed on the BSE's domestic Board should have a balanced Board. The Bank, therefore, strives to ensure that its Board is balanced and effective and supports the highest standards of corporate governance, comprising all relevant skills and experience. To achieve the requirements of a balanced and effective board, the Bank also strictly adheres to the Bank of Botswana Guidelines on the Appointment of Directors and Senior Officials ("Bank of Botswana Guidelines"). These guidelines apply to all licenced banks and provide guidance on the implementation of the provisions of the **Banking Act (Chapter 46: 04)** with regards to appointment of effective boards.

Application of King IV

The Bank is committed to adherence to the King IV code of corporate governance guidelines. Additionally, at the Absa Group Limited ("AGL" or "(Group") level, the Group is guided by a number of corporate governance polices that ensure compliance with the King Code. Accordingly, in 2019, the Board adopted the Group Governance Framework, developed pursuant to the recommendations of King IV, and as a general governance improvement mechanism for the Group. This Framework standardises the application of policies and standards and ensures the Bank's minimum requirements in governance, internal controls, financial management, disclosure controls, risk management, legal and regulatory compliance, internal audit, ethics management, human resource management, information management, stakeholder relationships and sustainability are complied with. It provides clarity on roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries as well as the management of discretion limits across the Group.

Similarly, the Bank also adopted the Group's Policy on Legal Entities and Directors, which is intended to operationalise key governance principles for effective board and legal entity governance. We are also continuously seeking to improve our governance practices and to comply with the 17 Principles in King IV. In this way, for example, the Bank continuously assesses and evaluates its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness in line with King IV. Based on this evaluation, the Bank appointed the additional Non-Executive Directors to ensure that the Board has the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively evaluation of its own performance and that of its committee. Similarly, through its Risk and Audit Committees, the Board continuously governs the risk in a way that supports the organisation in setting and achieving its strategic objectives as well as ensure compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation.

The Board

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

- Approving and upholding the Bank's purpose, values and behaviours

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

Objectives

The main objectives of the Board are as follows:

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

The Board must ensure that management strikes an appropriate balance between promoting long-term sustainable growth and delivering short-term performance.

Accordingly, there should be alignment between the Bank's strategy as approved by its Absa Bank Botswana Board and the Group's overall strategy as set by the Group's Board.

Board composition

The size and composition of the Board is prescribed by the Bank's Constitution and the Board Charter, which specify that the number of Directors shall not be more than 15 and not less than four (4). The composition of the Board is also guided by provisions of the Banking Act, the Code and the Group policies to ensure that the Board comprises of individuals of the right skills, experience and expertise bearing in mind the size and business of the Bank. The Board is composed of Non-Executive Directors ("NEDs") and Executive Directors. The Executive Directors are the Managing Director and the Finance Director.

Board meetings

The Board has a minimum of four (4) scheduled meetings per year and all Directors are expected to attend all meetings. In practice, the Board meets more frequently than four (4) times per year, responding to the demands of the business. In 2019, the Board held a total of 8 meetings. A quorum for Board meetings consists of a majority of the members.

A quorum may be reached provided the members are in attendance, either in person or by teleconference.

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

Director	Board	Audit Committee	Risk Committee	Human Resources, Remuneration and Nominations Committee
Oduetse Motshidisi	7/8	-	-	-
Lawrence Maika*	6/6	4/4		
Alfred Dube	8/8	-	5/5	5/5
Kenneth Molosi	8/8	6/6	-	5/5
Tobias Mynhardt**	6/6	-	2/2	-
Mohamed Osman	6/8	6/6	-	-
Kgotlayarona Ramaphane	7/8	-	5/5	5/5
Reinette van de Merwe***	3/3	1/1	1/1	1/1
Keabetswe Pheko – Moshagane	5/5	4/4	3/3	4/4
Mumba Kalifungwa	8/8	5/5	5/5	4/4

* Mr Lawrence Maika retired from the Board in June 2019
** Mr Tobias Mynhardt resigned from the Board in June 2019
*** Ms. Reinette van der Merwe's assignment with the Bank ended in March 2019

Remuneration of Directors

Approved Directors' remuneration in 2019 (P'000)

Director	Board Committee	Audit Committee	Risk Committee	HR Committee	Executive Remuneration	Total
Odueste Motshidisi	577 500					**577 500**
Alfred Dube	184 800		37 400	74 800		**297 000**
Lawrence Maika	92 400	63 800				**156 200**
Kenneth Molosi	184 800	63 800		37 400		**286 000**
Tobias Mynhardt	92 400		37 400			**129 800**
Mohamed Osman	184 800	95 700				**280 500**
Kgotlayarona Ramaphane	184 800		56 100	37 400		**278 300**
Reinette van der Merwe					3 535 210	**3 535 210**
Keabetswe Pheko – Moshagane					5 478 040	**5 478 040**
Mumba Kalifungwa					3 447 600	**3 447 600**

Approved Directors' remuneration in 2019 (P'000)

**Key management remuneration is disclosed in note 55 page 136 of this report.

Board fees per annum are as follows

	P'000
Board	P 578
Board Members	P 185
Audit Committee Chairman	P 127
Audit Committee	P 63
Risk Committee Chairperson	P 75
Risk Committee Member	P 37
Human Resources Remuneration and Nominations Chairperson	P 75
Human Resources and Remuneration Member	P 37

Board effectiveness review

The Board conducts an annual self-assessment to review effectiveness and identify areas for improvement, and to encourage constructive dialogue. All gaps and proposed improvements are assessed at Board meetings, and remedial actions agreed by the Board. In 2019, the Board further enhanced the effectiveness review by engaging an external company to facilitate the effectiveness of the Board, Board members, Board Committees and the Secretariat. Feedback of the assessments was shared with the Board and the results will be used to further enhance its effectiveness and build on good practice on corporate governance.

Skills

The members of the Board are individuals from a diverse range of industrial and professional skills, knowledge and experience, and are not involved in the day-to-day management of the Bank. The Bank maintains a Board skills matrix, designed to continually review and assess skills, expertise and knowledge requirements, ensure that all skills needed to effectively discharge its mandate are present. The skills matrix is tabled for review and approval by the Bank's Board at every quarterly meeting.

Board changes

The Board continues to be chaired by Mr Odueste Motshidisi and currently comprises five (5) Non-Executive Directors ("NEDs"). In June 2019, Mr Lawrence Maika, who had led the Bank's Audit Committee and had been a member of the Board since 2005 retired. During the period under review, Mr Tobias Mynhardt, who chaired the Risk Committee, resigned from the Board. The Bank is currently in the advanced stages of appointing additional NEDs to the Board. Brief biographical details of the Directors are presented on page 26 of this report.

The Board Charter and Board Committees Terms of Reference

The Bank's Board Charter addresses the composition and responsibilities of the Board, as well as Terms of Reference for the Bank's Sub-Committee, reviewed and approved by the Board annually.

Good corporate governance practice is an essential ingredient in creating and sustaining shareholder value, and ensuring that conduct is ethical, legal, and transparent for the benefit of all Bank stakeholders. Therefore, the Bank has significant responsibilities to its customers and to the public at large in contributing to a stable and secure environment, thereby enhancing trust in the financial institutions industry.

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

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

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

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

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

Board Committees

Audit Committee

The Board Audit Committee meets at least four (4) times a year. Its primary objective is to ensure that the Bank has implemented and manages an effective audit management plan and set of policies that will support the Bank's ability to achieve its strategic objectives. In line with corporate governance best practice, a NED other than the Chairperson of the Board is appointed to chair the Committee. Following the retirement of Mr. Lawrence Maika in June 2019, Mr Mohamed Osman has been chairing the Audit Committee. As representatives of management, the following are mandatory attendees to the Committee meetings.

- Managing Director
- Finance Director
- Head of Compliance
- Chief Operations Officer
- Chief Risk Officer
- Head of Legal and Secretariat.

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

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

Risk Committee

The Board Risk Committee meets at least four (4) times a year. Its primary objective is to ensure that the Bank has implemented and manages an effective risk management plan and policies that will support the Bank's ability to achieve its strategic objectives. The Committee ensures that the Bank has effective capital and liquidity processes in place, and their management is effective and optimal. The following are mandatory attendees to the Committee meeting:

- Managing Director
- Finance Director
- Chief Operations Officer
- Chief Risk Officer
- Head of Compliance
- Country Treasurer
- Head of Legal and Secretariat.

Human Resources, Remunerations and Nominations and Committee

The Board Human Resources Remunerations and Nominations Committee meets at least four (4) times a year and its primary objective is to provide oversight over the recruitment, staffing, and succession planning, as well as performance and compensation of executive management through review of various incentive proposals. The Committee is also tasked with reviewing the level of competency and skill at the Executive and Board levels, and providing recommendations for achieving the best overall skills coverage, whether through up-skilling or recruitment. In addition, it is within the Committee's mandate to consider the overall strategy and approach to any issues or projects of significant impact to the Bank's People Function. However, it is important to note that the mandate of the Committee does not extend to day-to-day management activities. The Managing Director, Finance Director and Human Resources Director are mandatory attendees of Committee meeting as representatives of the Bank's Executive, The Committee is chaired by Ambassador Alfred Dube.

Credit Committee

In 2019, in line with good corporate governance practice and upon recommendation of the Bank of Botswana, the Bank established the Credit Committee. This Committee is separate from the Risk Committee and is mandated to exercise oversite over Credit Risk. The Committee will resume work in 2020 following the appointment of additional NEDs to the Board.

The Committee will comprise three (3) independent NEDs, with members of the Committee due to be appointed in 2020 aafter finalizing regulatory approvals to be appointed to the Board.

The following will be mandatory invitees to the Committee:

- Managing Director
- Retail Director
- Business Banking Director
- Head of Corporate Investment Banking
- Chief Credit Officer
- Head of Corporate Credit
- Consumer Director, and
- Head of Business Support and Corporate Recoveries

Management Committees

Country Management Committee (CMC)

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

The objectives of the CMC are to ensure the following:

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

Membership of the CMC comprises the following:

- Managing Director (as its Chairperson)
- Finance Director
- Country Treasurer
- Chief Risk Officer
- Retail Director
- Chief Operations Officer
- Head of Corporate Investment Banking
- Head of Compliance
- Head of Marketing and Corporate Relations
- Human Resources Director and
- Head of Legal and Secretariat.

Country Asset and Liability Management Committee (ALCO)

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

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

- Funding and investment of the balance sheet
- Liquidity and cash flow
- Exposure to interest and exchange rate movements
- Capital position and dividend flow
- Asset and liability margins, and
- Compliance with all Internal and regulatory limits and ratios for the above activities.

Membership of the Country ALCO comprises the following:

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

By invitation
- Chief Operations Officer
- Head of Markets.

Executive Risk Committee (ERC)

The Committee is responsible for reviewing the bank wide risk profile. The Committee is further responsible for:

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

Membership of the Executive Risk Committee comprises of the following:

- Chief Risk Officer (Chairman)
- Managing Director
- Finance Director
- Chief Operations Officer
- Head of Compliance
- Head of Marketing and Corporate Relations
- Chief Internal Auditor
- Retail Director
- Head of Business Banking
- Head of Corporate Investment Banking
- People Function Director
- Country Treasurer
- Head of Legal and Secretariat.

Remunerations and Promotions Committee (RPC)

The duties and responsibilities of this management committee are to:

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

Membership of the Remunerations and Promotions Committee comprises the following:

- Managing Director (Chairperson);
- Finance Director
- Head of Compliance and
- Human Resources Director.

Operations Committee (OPCO)

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

- Provide oversight of all key operational issues facing the Bank (including IT and other operational projects) and to ensure timely, robust delivery of operational and IT investments within budget
- Ensure the effectiveness of operational and IT capability and resource management across the Bank
- Provide management oversight and review of all operational and IT projects, and ensure that projects are managed according to PRINCE 2 principles, and within timelines and budget

- Review Group, Global Retail Banking (GRB) and the Group operations and IT projects intended for, or impacting upon the country
- Provide oversight of sourcing and alliances and
- Review business continuity management.

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

Membership of the Operations Committee comprises the following:

- Chief Operations Officer (Chairperson)
- Finance Director
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Human Resources Director
- Head of Technology
- Head of Consumer Operations
- Head of Internal Control Unit
- Head of Sourcing
- Head of Customer Service
- Head of Control Rigour
- Head of Change and Performance Improvement and
- Head of Payments.

Brand and Reputation Committee (B&RC)

The duties and responsibilities of the Committee are to as follows:

- Protect and enhance the brand and reputation of Absa;
- Support the Bank to remain a leader in the field of corporate social responsibility;
- Ensure that the Bank treats customers fairly and in accordance with its Treating Customers Fairly principles;
- Confirm the brand and reputational risks in the business, together with the adequacy of mitigating actions, escalating these to the Absa Brand and Reputation Committee, as appropriate;
- Agree and monitor the implementation of the customer agenda in the business, including treating customers fairly, customer service and customer complaints;
- Confirm and monitor the implementation of the external corporate affairs plan, and the community and environmental strategy; and
- Approve community projects for implementation.

Membership of the Brand and Reputation Committee comprises the following:

- Managing Director (Chairperson)
- Finance Director
- Chief Operations Officer
- Head of Legal and Secretariat
- Head of Corporate Investment Banking
- Head of Marketing and Corporate Relations
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Country Treasurer and
- Head of Client Coverage.

Risk Control Forum (RCF)

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

The duties and responsibilities of the Forum are as follows:

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

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

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

The business invitees to the Forum comprise of the following:

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

> **"The Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and managing the Bank based on their knowledge and experience."**

Our Values

1. We drive high performance to achieve sustainable results
2. We are obsessed with the customer
3. Our people are our strength
4. We have an African heartbeat

Find additional information on our website

Financials

Revenue

P1.63 billion

▲ 7%

F2018: P1.53 billion

Profit before tax

P678 million

▲ 15%

F2018: P588 million

Earnings per share

25 thebe

▲ 14%

F2018: 22 thebe

Directors responsibilites and approval

For the year ended 31 December 2019

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

To enable the directors to meet these responsibilities:

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

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

The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The annual financial statements of the Group have been prepared in accordance with the provisions of the Companies Act of Botswana (Companies Act, 2003); the Banking Act (CAP 46; 04); comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

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

It is the responsibility of the independent auditors to report on the annual financial statements. Their report to the shareholders of the Group is set out on pages 6 of this report.

The directors' report on pages 38 to 39 and annual financial statements of the Group, which appears on pages 56 to 139 were approved by the board of directors on 26 March 2020 and are signed on its behalf by

Oduetse A. Motshidisi
Chairman of the Board

Keabetswe Pheko - Moshagane
Managing Director

Mohamed Osman
Chairman of the Board Audit Committee

Corporate governance report

for the year ended 31 December 2019

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

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

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

Board of directors

The Board consists of:
5 Non-executive directors
2 Executive directors

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

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

Internal audit
The internal audit function is conducted by the local internal audit function with oversight from Absa Group Limited internal audit.

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

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

Integrated sustainability reporting and disclosure
The results of the Group are into the Absa Group Limited financial results which address sustainability at a Group level.

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

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

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

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

Directors report
for the year ended 31 December 2019

Company registration number registration	1732
Country of incorporation and domicile	Botswana
Nature of business and principal activities	Absa Bank of Botswana formerly, Barclays Bank of Botswana Limited (the "Bank") is a public limited company listed on the Botswana Stock Exchange and domiciled in Botswana. The annual financial statements of the Group comprise the Bank and its wholly owned subsidiary Absa Insurance Service (Pty) Ltd, formerly Barclays Insurance Services (Pty) Ltd (together referred to as 'the "Group"). Absa Insurance Services (Pty) Ltd is an insurance agent which earns its fees from referral of life and non-Life insurance products.
Directors	**Oduetse A. Motshidisi** (independent non-executive - Chairman of the Board) **Lawrence Maika** (independent non-executive retired 30 June 2019) **Kenneth Molosi** (independent non-executive) **Alfred Dube** (independent non-executive) **Tobias Mynhardt** (independent non-executive resigned 30 June 2019) **Kgotla Ramaphane** (independent non-executive) **Mohamed Osman** (independent non-executive) **Reinette van der Merwe** (Executive-Managing Director end of contract 31 March 2019) **Keabetswe Pheko-Moshagane** (Executive-Managing Director appointed 1 April 2019) **Mumba Kalifungwa** (Executive-Finance Director)
Registered office	5th Floor, Building 4 Prime Plaza Plot 74358 Central Business District Gaborone
Business address	5th Floor, Building 4 Prime Plaza Plot 74358 Central Business District Gaborone
Postal address	P O Box 478 Gaborone Botswana
Date of incorporation	17 March 1975
Holding company	Absa Group Limited
Ultimate holding company	Absa Group Limited
Auditors	KPMG, Chartered Accountants Plot 67977, Off Tlokweng Road Fairgrounds Office Park PO Box 1519, Gaborone
Company secretary	Dr. Kealeboga N. Bojosi

Review of financial results

The annual financial results of the Group are set out in the attached annual financial statements. The results do not, in the opinion of the directors, require further explanation.

	Consolidated		Company	
Key performance indicators	**2019 P'000**	2018 P'000	**2019 P'000**	2018 P'000
Profit for the year	**520 608**	454 544	**510 750**	447 372
Total comprehensive income	**523 721**	454 074	**513 863**	446 902
Taxation	**(156 964)**	(133 380)	**(154 524)**	(131 352)
Dividends declared and paid	**299 995**	259 935	**299 995**	259 935
Net (liabilities)/assets	**2 222 666**	1 993 892	**2 194 893**	1 975 978

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 39.

Property, plant and equipment

Details of changes in property, plant and equipment during the year are reflected in note 24.

Events after the reporting date

Events material to the understanding of these annual financial statements that occurred between the financial year end and the date of this report have been disclosed in note 57.

Going concern

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

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 Shareholders of Absa Bank Botswana Limited (formerly Barclays Bank of Botswana Limited)

Opinion
We have audited the consolidated financial statements of Absa Bank Botswana Limited (formerly Barclays Bank of Botswana Limited) (the Group), set out on pages 56 to 139, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, summary of accounting policies and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Absa Bank Botswana Limited as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and 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.

Other matter

The impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 57 to the financial statements, Covid-19 affects the Group and results in certain uncertainties for the future financial position and performance of the Group. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Group, the related disclosures and the appropriateness of the going concern assumption in the financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Group's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Covid 19.

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

Impairment of loans and advances to customers	
Refer to the following notes in the consolidated financial statements: › Note 2.17.3 – Significant accounting policies - Expected credit losses of financial assets › Note 3 – Judgements and estimates - Expected credit losses of financial assets › Note 22 – Loans and advances to customers › Note 49.7 – Credit risk	
Key audit matter	**How the matter was addressed in our audit**
The Group's gross loans and advances to customers amount to BWP13.9 billion as at 31 December 2019 with an allowance for impairment of BWP518 million recognised at 31 December 2019. The measurement of impairment using the expected credit loss ("ECL") model requires	Our procedures included the following: • We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the design, implementation and operating effectiveness of the related controls.

management to exercise significant judgements. Management applies significant judgment in the evaluation of significant increase in credit risk (SICR), the determination of estimated future cash flows, probability of default (PD), loss given default (LGD), estimation of exposure at default (EAD) and forward-looking economic expectations. The impairment allowance is considered on an individual (specific) and portfolio (collective) basis. **Retail portfolio (collective impairment basis)** A significant portion of the retail impairment is calculated on a collective basis. In calculating the impairment allowance for the retail portfolio, 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). **Wholesale and corporate portfolios (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; and	• We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of IFRS 9, *Financial Instruments* (IFRS 9). • We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities, in accordance with IFRS 9. Where credit losses were calculated on a modelled basis, we performed the following audit procedures, in conjunction with our internal credit risk specialists: - Tested the controls over the completeness and accuracy of the data that forms as an input into the impairment model through observation, with assistance from our information risk management specialists, of the extraction of data from the relevant systems. - Critically assessed the ECL models developed by management for reasonableness. This included using our credit risk specialists in our assessment of key judgements and assumptions applied in the calculation of portfolio ECLs. Our credit risk specialists re-performed model calculations to confirm the appropriateness of the risk parameter inputs applied. - Assessed the reasonableness of forward-looking information incorporated into the credit loss calculations considering multiple economic scenarios selected and the weighting applied to each scenario.

- Estimate the timing of the future cash flows. Due to the significance of loans and advances to customers and the significant estimates and judgement involved, the impairment of these loans and advances was considered to be a key audit matter.	- Challenged the parameters and significant assumptions applied in the calculation models by evaluating the data used by management, which included SICR and benchmarking against current macro-economic factors. - Assessed the appropriateness of management's adjustments made 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 based on our experience and industry trends. **Retail portfolio (collective impairment basis)** Where impairments had been made on a portfolio basis, our internal credit risk specialists performed the following procedures: • Re- performed the calculation of the ECL using independent inputs. • Performed an independent ECL estimate based on the input parameters using a challenger model and compared the ECL output to the Group's ECL. **Wholesale and corporate portfolios (Specific impairment basis)**

	Where impairments had been performed on an individual basis, our procedures included: • We challenged the credit losses recognised for a sample of loans and advances, by developing our own expectation of the amount of the expected credit losses and compared to management's calculation. • Where specific (stage 3) credit losses have been recognised, we considered the impairment indicators, uncertainties and assumptions applied by management. In addition, we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence and historical trends. • Inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. • We assessed collateral valuation techniques applied against Group policy and industry standards.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' responsibilities and approval, the Corporate Governance report and the Directors' report, which we obtained prior to the date

of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we 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 Financial Statements

The directors are responsible for the preparation of the consolidated financial statements which give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 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: AG Devlin 19960060
30 March 2020
Gaborone

KPMG, Chartered Accountants
Audit
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Independent Auditor's Report

To the Shareholders of Absa Bank Botswana Limited (formerly Barclays Bank of Botswana Limited)

Opinion

We have audited the separate financial statements of Absa Bank Botswana Limited (formerly Barclays Bank of Botswana Limited) (the "Bank"), set out on pages 56 to 139, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, summary of accounting policies and notes to the financial statements.

In our opinion, the separate financial statements give a true and fair view of the financial position of Absa Bank Botswana Limited as at 31 December 2019, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Banking Act (Cap 46:04).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank 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.

Other Matter

The impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 57 to the separate financial statements, Covid-19 affects the Bank and results in certain uncertainties for the future financial position and performance of the Bank. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the separate financial statements. All audits assess and challenge the reasonableness of estimates made by the Bank, the related disclosures and the appropriateness of the going concern assumption in the separate financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Bank's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Bank and this is particularly the case in relation to Covid 19.

Key Audit Matters

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

Impairment of loans and advances to customers	
Refer to the following notes in the separate financial statements: › Note 2.17.3 – Significant accounting policies - Expected credit losses on financial assets › Note 3 – Judgements and estimates - Expected credit losses of financial assets › Note 22 – Loans and advances to customers › Note 49.7 – Credit risk	
Key audit matter	**How the matter was addressed in our audit**
The Bank's gross loans and advances to customers amount to BWP13.9 billion as at 31 December 2019 with an allowance for impairment of BWP518 million recognised at 31 December 2019. The measurement of impairment using the expected credit loss ("ECL") model requires	Our procedures included the following: • We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the design, implementation and operating effectiveness of the related controls.

management to exercise significant judgements. Management applies significant judgement in the evaluation of significant increase in credit risk (SICR), the determination of estimated future cash flows, probability of default (PD), loss given default (LGD), estimation of exposure at default (EAD) and forward-looking economic expectations. The impairment allowance is considered on an individual (specific) and portfolio (collective) basis. **Retail portfolio (collective impairment basis)** A significant portion of the retail impairment is calculated on a collective basis. In calculating the impairment allowance for the retail portfolio, 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). **Wholesale and corporate portfolios (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; and	• We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of IFRS 9, *Financial Instruments* (IFRS 9). • We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities, in accordance with IFRS 9. Where credit losses were calculated on a modelled basis, we performed the following audit procedures, in conjunction with our internal credit risk specialists: - Tested the controls over the completeness and accuracy of the data that forms an input into the impairment model through observation, with assistance from our information risk management specialists, of the extraction of data from the relevant systems. - Critically assessed the ECL models developed by management for reasonableness. This included using our credit risk specialists in our assessment of key judgements and assumptions applied in the calculation of portfolio ECLs. Our credit risk specialists re-performed model calculations to confirm the appropriateness of the risk parameter inputs applied. - Assessed the reasonableness of forward-looking information incorporated into the credit loss calculations considering multiple economic scenarios selected and the weighting applied to each scenario.

- Estimate the timing of the future cash flows. Due to the significance of loans and advances to customers and the significant estimates and judgement involved, the impairment of these loans and advances was considered to be a key audit matter.	- Challenged the parameters and significant assumptions applied in the calculation models by evaluating the data used by management, which included SICR and benchmarking against current macro-economic factors. - Assessed the appropriateness of management's adjustments made 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 based on our experience and industry trends. **Retail portfolio (collective impairment basis)** Where impairments had been made on a portfolio basis, our internal credit risk specialists performed the following procedures: • Re- performed the calculation of the ECL using independent inputs. • Performed an independent ECL estimate based on the input parameters using a challenger model and compared the ECL output to the Bank's ECL. **Wholesale and corporate portfolios (Specific impairment basis)**

	Where impairments had been performed on an individual basis, our procedures included: • We challenged the credit losses recognised for a sample of loans and advances, by developing our own expectation of the amount of the expected credit losses and compared to management's calculation. • Where specific (stage 3) credit losses have been recognised, we considered the impairment indicators, uncertainties and assumptions applied by management. In addition, we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence and historical trends. • Inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. • We assessed collateral valuation techniques applied against Bank policy and industry standards.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' responsibilities and approval, the Corporate Governance report, the Directors' report and the Absa Bank Botswana Limited

2019 Annual Report. Other information does not include the separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Separate Financial Statements

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

In preparing the separate financial statements, the directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the 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 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: AG Devlin 19960060
03 June 2020
Gaborone

Statements of comprehensive income

for the year ended 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Effective interest income	6	**1 338 879**	1 213 506	**1 338 879**	1 213 506
Effective interest expense	7	**(278 344)**	(214 242)	**(278 344)**	(214 242)
Net interest income		**1 060 535**	999 264	**1 060 535**	999 264
Fee and commission income	8	**477 842**	401 581	**430 177**	356 763
Fee and commission expense	8	**(90 462)**	(40 167)	**(89 263)**	(40 167)
Net fee and commission income		**387 380**	361 414	**340 914**	316 596
Net trading income	9	**166 892**	166 508	**166 892**	166 508
Other income	10	**17 066**	3 646	**17 066**	3 646
Total income		**1 631 873**	1 530 832	**1 585 407**	1 486 014
Expected Credit Losses	11	**(34 023)**	(93 728)	**(34 023)**	(93 728)
Net operating income		**1 597 850**	1 437 104	**1 551 384**	1 392 286
Staff costs	12	**(463 728)**	(418 754)	**(463 728)**	(415 550)
Infrastructure costs	13	**(115 782)**	(107 976)	**(115 782)**	(107 976)
Administration and general expenses	14	**(340 768)**	(322 450)	**(306 600)**	(290 036)
Operating expenses		**(920 278)**	(849 180)	**(886 110)**	(813 562)
Profit before tax		**677 572**	587 924	**665 274**	578 724
Taxation	15	**(156 964)**	(133 380)	**(154 524)**	(131 352)
Profit for the year		**520 608**	454 544	**510 750**	447 372
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Movement in Financial Assets at Fair Value through OCI					
Fair value gains / (losses)		**3 991**	(603)	**3 991**	(603)
Deferred tax		**(878)**	133	**(878)**	133
		3 113	(470)	**3 113**	(470)
Total other comprehensive income /(loss) for the year, net of tax		**3 113**	(470)	**3 113**	(470)
Total comprehensive income for the year, net of tax		**523 721**	454 074	**513 863**	446 902
Earnings per share					
Basic and diluted (thebe per share)		**61.09**	53.34	**59.94**	52.44

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

Statements of financial position

as at 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Assets					
Cash	28	**529 450**	476 107	**529 450**	476 107
Balances at central bank	17	**890 439**	543 710	**890 439**	543 710
Trading portfolio assets	18	**-**	513	**-**	513
Derivative financial instruments	19	**48 769**	19 058	**48 769**	19 058
Financial assets at fair value through OCI	20	**2 251 097**	1 901 953	**2 251 097**	1 901 953
Loans and advances to banks	21	**1 059 520**	1 053 266	**1 059 520**	1 053 266
Due from related parties	55	**191 990**	811 422	**191 990**	811 422
Loans and advances to customers	22	**13 362 427**	11 834 679	**13 362 427**	11 834 679
Other receivables	26	**220 239**	186 166	**220 239**	186 138
Property, plant and equipment	24	**197 635**	133 137	**197 635**	133 137
Intangible assets	25	**817**	1 138	**817**	1 138
Deferred tax assets	32	**69 576**	63 614	**66 517**	60 088
Non-current assets held for sale	5	**-**	149	**-**	149
Total assets		**18 821 959**	17 024 912	**18 818 900**	17 021 358
Equity and liabilities					
Liabilities					
Deposits from banks	29	**302 972**	357 972	**302 972**	357 972
Due to related parties	55	**575 824**	1 525 543	**611 322**	1 556 637
Customer deposits	30	**14 377 542**	11 854 620	**14 376 541**	11 853 654
Derivative financial instruments	19	**36 074**	12 328	**36 074**	12 328
Other payables	34	**557 412**	333 409	**555 949**	328 750
Provisions	33	**35 412**	48 710	**20 582**	32 683
Current tax liability	42	**4 568**	2 415	**11 078**	7 333
Debt securities in issue	37	**350 673**	537 667	**350 673**	537 667
Subordinated debt	38	**358 816**	358 356	**358 816**	358 356
Total liabilities		**16 599 293**	15 031 020	**16 624 007**	15 045 380
Shareholders' equity					
Stated capital	39	**17 108**	17 108	**17 108**	17 108
General reserve	40	**118 347**	118 347	**118 347**	118 347
Fair value reserves	40	**2 373**	(740)	**2 373**	(740)
Share-based payment reserve	40	**3 323**	3 148	**3 323**	3 148
Share capital reserve	40	**2 060**	2 060	**2 060**	2 060
Retained income	40	**2 079 455**	1 853 969	**2 051 682**	1 836 055
Total equity attributable to equity holders		**2 222 666**	1 993 892	**2 194 893**	1 975 978
Total equity and liabilities		**18 821 959**	17 024 912	**18 818 900**	17 021 358

Statement of changes in equity

for the year ended 31 December 2019

Consolidated

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Available-for-sale investments revaluation reserve	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2018	17 108	107 206	-	6 104	(270)	1 820 410	2 060	1 952 618
Increase/(decrease) resulting from adoption of IFRS 9	-	-	(270)	-	270	(149 909)	-	(149 909)
Profit for the year	-	-	-	-	-	454 544	-	454 544
Other comprehensive loss for the year	-	-	(470)	-	-	-	-	(470)
Total comprehensive income for the year	**-**	**-**	**(470)**	**-**	**-**	**454 544**	**-**	**454 074**
Dividends paid	-	-	-	-	-	(259 935)	-	(259 935)
Recognition of share-based payments	-	-	-	(2 956)	-	-	-	(2 956)
Other transfers	-	11 141	-	-	-	(11 141)	-	-
Balance at 31 December 2018	**17 108**	**118 347**	**(740)**	**3 148**	**-**	**1 853 969**	**2 060**	**1 993 892**
Note	39			54				

Consolidated

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2019	17 108	118 347	(740)	3 148	1 853 969	2 060	1 993 892
Increase/(decrease) resulting from adoption of IFRS 16 (Notes 58)	-	-	-	-	(1 102)	-	(1 102)
Profit for the year	-	-	-	-	520 608	-	520 608
Other comprehensive income for the year	-	-	3 113	-	-	-	3 113
Total comprehensive income for the year	**-**	**-**	**3 113**	**-**	**520 608**	**-**	**523 721**
Dividends paid	-	-	-	-	(299 995)	-	(299 995)
Recognition of share-based payments	-	-	-	175	-	-	175
Transfer to retained earnings	-	-	-	-	5 975	-	5 975
Balance at 31 December 2019	**17 108**	**118 347**	**2 373**	**3 323**	**2 079 455**	**2 060**	**2 222 666**
Note	39			54			

Statement of changes in equity

for the year ended 31 December 2019

Company

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Available-for-sale investments revaluation reserve	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2018	17 108	107 206	-	6 104	(270)	1 809 668	2 060	1 941 876
Increase/(decrease) resulting from adoption of IFRS 9	-	-	(270)	-	270	(149 909)	-	(149 909)
Profit for the year	-	-	-	-	-	454 544	-	454 544
Other comprehensive loss for the year	-	-	(470)	-	-	-	-	(470)
Total comprehensive income for the year	**-**	**-**	**(470)**	**-**		**447 372**	**-**	**446 902**
Dividends paid	-	-	-	-	-	(259 935)	-	(259 935)
Recognition of share-based payments	-	-	-	(2 956)	-	-	-	(2 956)
Transfers to retained earnings	-	11 141	-	-	-	(11 141)	-	-
Balance at 31 December 2018	**17 108**	**118 347**	**(740)**	**3 148**	**-**	**1 835 055**	**2 060**	**1 975 978**
Note	39			54				

Company

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2019	**17 108**	**118 347**	**(740)**	**3 148**	**1 836 055**	**2 060**	**1 975 978**
Increase/(decrease) resulting from adoption of IFRS 16 (Notes 58)	**-**	**-**	**-**	**-**	**(1 102)**	**-**	**(1 102)**
Profit for the year	**-**	**-**	**-**	**-**	**510 750**	**-**	**510 750**
Other comprehensive income for the year	**-**	**-**	**3 113**	**-**	**-**	**-**	**3 113**
Total comprehensive income for the year	**-**	**-**	**3 113**	**-**	**510 750**	**-**	**513 863**
Dividends paid	**-**	**-**	**-**	**-**	**(299 995)**	**-**	**(299 995)**
Recognition of share-based payments	**-**	**-**	**-**	**175**	**-**	**-**	**175**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**5 974**	**-**	**5 974**
Balance at 31 December 2019	**17 108**	**118 347**	**2 373**	**3 323**	**2 051 682**	**2 060**	**2 194 893**
Note	39			54			

Statements of cash flows

for the year ended 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Cash flows from operating activities					
Cash used in operations	41	**(262 399)**	(183 845)	**(210 929)**	(186 399)
Net (increase)/ decrease in long term deposits to other banks		**-**	71 453	**(55 000)**	71 453
Net (decrease)/ increase in long term loans due to related parties		**8 403**	59 218	**8 403**	59 218
Net (increase) in loans and advances to customers		**(1 527 748)**	(1 396 865)	**(1 527 748)**	(1 396 865)
Decrease/ (Increase) in long term deposits received from related parties		**(1 142 654)**	471 032	**(1 142 654)**	471 032
Interest received	46	**1 338 879**	1 214 973	**1 338 879**	1 214 973
Interest paid	45	**(278 344)**	(220 179)	**(278 344)**	(220 179)
Income taxes paid net of refunds	42	**(157 792)**	(133 196)	**(154 227)**	(131 872)
Increase in deposits due to customers		**2 522 922**	883 695	**2 522 887**	884 925
(Increase)/decrease in trading portfolio assets		**513**	(399)	**513**	(399)
Increase in statutory reserve with the Central Bank		**(94 398)**	(46 749)	**(94 398)**	(46 749)
(Increase) in derivative financial instruments		**(5 965)**	(10 632)	**(5 965)**	(10 632)
Net cash generated by operating activities		**401 417**	708 506	**401 417**	708 506
Cash flows from investing activities					
Payments for property, plant and equipment	24	**(42 481)**	(21 696)	**(42 481)**	(21 696)
Proceeds from disposal of property, plant and equipment	43	**15 091**	358	**15 091**	358
Payments for intangible assets	25	**-**	(622)	**-**	(622)
Increase/ (decrease) in long term investment securities held at FVOCI		**(316 238)**	154 261	**(316 238)**	154 261
Net cash (used in)/generated by investing activities		**(343 628)**	132 301	**(343 628)**	132 301
Cash flows from financing activities					
Dividends paid to shareholders	44	**(299 995)**	(259 935)	**(299 995)**	(259 935)
Issuance of debt securities		**94 200**	332 ,910	**94 200**	332 910
Redemption of debt securities		**(278 800)**	-	**(278 800)**	-
Proceeds from subordinated debt		**-**	102 590	**-**	102 590
Payment of lease liabilities		**(32 754)**		**(32 754)**	
Net cash (used in)/generated by financing activities		**(517 349)**	175 565	**(517 349)**	175 565
Net (decrease)/increase in cash and cash equivalents		**(459 560)**	1 016 372	**(459 560)**	1 016 372
Cash and cash equivalents at the beginning of the year		**3 689 922**	2 673 550	**3 689 922**	2 673 550
Cash and cash equivalents at the end of the year	47	**3 230 362**	3 689 922	**3 230 362**	3 689 922

The accompanying notes form an integral part of these annual financial statement

Summary of accounting policies

for the year ended 31 December 2019

1. Statement of compliance

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

The annual financial statements of the Group for the year ended 31 December 2019 were authorised for issue by the board of directors on 26 March 2020.

2. Significant accounting policies

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

2.1 Adoption of new and revised accounting standards

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2019. Significant changes have been made to certain accounting policies, owing to the adoption of IFRS 16: Leases. Where there have been changes in accounting policies, those applied in 2019 have been clearly distinguished from the current reporting period. For details of the new and revised accounting policies refer to note 58.

2.2 Basis of preparation

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

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

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

2.3 Consolidation

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

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

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

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

2.4 Business combinations

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.4 Business combinations (continued)

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

2.5 Foreign currency

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

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Refer to note 9 for exchange gains and losses recognised.

2.6 Non-current assets held for sale

Non-current assets (or disposal group's comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and an active programme to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount or fair value, less cost to sell. Any impairment loss on a disposal group is first allocated to reduce goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, investment properties, insurance assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss reversed until finally sold.

Property, equipment and intangible assets, once classified as held for sale, are not depreciated or amortised. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.7 Revenue recognition

Net interest income

Interest revenue and interest charges are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income, as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate method. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

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

Revenue from contracts with customers

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

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

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

Net fee and commission income

Consulting, administration and similar service fees
Fee income received by the Group for administration, consulting and similar services is recognised as revenue as the service is provided. The service is billed and the cash is received on a monthly basis.

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

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

2. Significant accounting policies (continued)
2.7 Revenue recognition (continued)

Net trading income

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

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

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

2.8 Leasing

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

Implementation of IFRS 16 Leases IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases, and it replaces IAS 17 Leases (IAS 17).

The key change of IFRS 16 is the introduction of a single lessee accounting model, which requires a lessee to recognise assets and liabilities, for lease contracts with a term of more than 12 months, unless the underlying asset is low value, eliminating the classification of leases as either operating leases of finance leases for a lessee. As a result, a depreciation charge for the right-of-use assets and interest expense on lease liabilities is recognized as opposed to a straight-line operating lease expense. Lessor accounting remains similar to the previous standard (IAS 17) in which lessor continue to classify leases as finance or operating leases.

The group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January with no restatement of comparatives.

The group elected the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases, and a single discount rate to a portfolio of leases with similar characteristics. For the leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at initial application was determined as the carrying amount of the leased asset and lease liability under IAS 17 as at 31 December 2018.

In the application of this model the group has recognized the following at the date of initial application (unless the lease term is shorter than 12 months or the underlying asset is of low value):

- A lease liability for all leases previously classified as operating leases, measured at the present value of the remaining lease payments, discounted using the applicable entity's incremental borrowing rate at the date of initial application; and
- A right-of-use asset, measured retrospectively, using the applicable borrowing rate at the date of initial application.

As lessor

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

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

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

As lessee (2019)

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

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

Impact on financial statements
On transition to IFRS 16, the group recognized additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

In millions of Pula	
Right-of-use assets presented in property, plant and equipment	81 033
Lease liabilities	86 989
Retained earnings	(1 102)

When measuring lease liabilities for leases that were classified as operational leases, the Group discounted lease payments using its incremental borrowing rate as 1 January 2019. The weighted average rate applied is 4.6%.

2. Significant accounting policies (continued)

2.8 Leasing (continued)

	31 December 2018	Impact of initial adoption of IFRS 16	1 January 2019
Assets			
Right of use asset	-	81 033	**81 033**
Total assets	-	81 033	**81 033**
Liabilities			
Lease liabilities	13 144	(13 144)	**-**
Capitalised lease liabilities	-	86 989	**86 989**
Total liabilities	13 144	73 845	**86 989**
Equity			
Capital and reserves			
Retained earnings	1 853 969	(1 102)	**1 852 867**
Total liabilities and equity	1 867 113	72 743	**1 939 856**

As lessee (2018) under IAS 17

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.9 Employee benefits

Staff costs

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

Defined benefit scheme

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

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

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

Defined contribution scheme

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

Valuation of the retirement benefit plan

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

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

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

2.10 Share-based payments

Employee services settled in equity instruments
The Group operates equity-settled and cash-settled share-based payment plans.

2. Significant accounting policies (continued)

2.10 Share-based payments (continued)

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

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

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

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

In terms of the rules of the share-based payment schemes currently in effect within the Group (explained further in note 54), Absa Group Limited has the ultimate obligation to settle the deferred awards, and is accordingly considered to be the grantor of the awards under IFRS 2. The Group therefore accounts for the current schemes as equity-settled share-based payment arrangements.

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

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

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

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

Employee services settled in cash
The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period.

The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.11 Taxation

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

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

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

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

Value added taxation
Revenues, expenses and assets are recognised net of the amount of VAT, except the following:

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

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

2.12 Property, plant and equipment

Freehold land is not depreciated.

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

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

2. Significant accounting policies (continued)

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

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

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

Intangible assets:

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

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

2.13 Intangible assets

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

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

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

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

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

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

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

2.14 Impairment of Non-Financial Assets (excluding goodwill)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.15 Provisions

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

2.16 Contingent liabilities

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

2.17 Financial instruments

2.17.1 Initial recognition of financial assets and financial liabilities

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are capitalised to the initial carrying amount of

2. Significant accounting policies (continued)

the financial asset/liability, as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

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

2.17.2 Classification and measurement of financial instruments

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

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

The classification and subsequent measurement of financial assets depends on:

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

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

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

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

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

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

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within Interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss.

  When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as Effective interest within Interest and similar income using the effective interest rate method.
- Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value

2. Significant accounting policies (continued)

2.17.2 Classification and measurement of financial instruments (continued)

through profit or loss. Gains and losses on these instruments are recognised in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as Gains and losses from banking and trading activities or in profit or loss.

Equity instruments:
IFRS 9 provides that at initial recognition, an irrevocable election may be made to present subsequent changes in the fair value of an equity instrument in other comprehensive income, provided that the instrument is neither held for trading nor constitutes contingent consideration recognised in a business combination. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss. Dividends, when representing a return on investment, continue to be recognised in profit or loss when the Group's right to receive payment is established. All equity instruments for which the designation at fair value through other comprehensive income has not been applied are required to be recognised at fair value through profit or loss.

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

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

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

2.17.3 Expected credit losses on financial assets

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

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

- Financial assets at amortised cost
- Lease receivables
- Debt instruments at fair value through other comprehensive income
- Loan commitments not measured at fair value, and
- Financial guarantee contracts not measured at fair value

Impairment is recognised based on a three-stage approach:

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

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

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

Lifetime expected credit losses will no longer be recognised when there is evidence that the criteria are no longer met. This could include a history of timely payment performance. The low credit risk exemption in IFRS 9 has not been adopted by the Group.

The measurement of expected credit losses must reflect:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money (represented by the effective interest rate); and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 months and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

2. Significant accounting policies (continued)

2.17.3 Expected credit losses on financial assets (continued)

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

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk.

The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

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

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

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

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

Accounts are written off the sooner of:

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

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

2.17.4 Derecognition of financial instruments

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

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

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

2.17.5 Equity instruments

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

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

2.17.6 Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period.

2. Significant accounting policies (continued)

2.17.6 Derivative financial instruments (continued)

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

2.17.7 Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2.17.8 Offsetting

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

2.18 Cash and cash equivalents

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

2.18 Earnings per share

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

2.19 Segmental reporting

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

Operating segments are reported in a manner consistent with the internal reporting provided to the Country Management Committee ("CMC"). The CMC, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker.

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

2. Significant accounting policies (continued)

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

The segment analysis for the year is detailed on note 53.

2.20 Loan commitments

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

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

2.21 Financial guarantees

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

3. Judgements and estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Judgements and estimates (continued)

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

- Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level, and consist of three elements namely:
  - o A term structure, capturing typical default behaviour by the months since observation;
  - o A behavioural model which incorporates client level risk characteristics; and
  - o A macro-economic model that incorporates forward looking macro-economic scenarios
- EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

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

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

Critical areas of judgment with regards to IFRS 9: Financial Instruments

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

Key drivers of a significant increase in credit risk include:

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

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

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

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:

3. Judgements and estimates (continued)

Definition of credit impaired (continued)

- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection; or,
- Advice is received of customer insolvency or death.
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition, within the Retail portfolios:

- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from Stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

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

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

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

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

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

Incorporation of forward-looking information into the IFRS 9 modelling

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

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

Base scenario

- Global growth is forecast to continue on the steady path but less synchronized and balanced among advanced economies than in previous years.
- Sub-Saharan Africa's economy continues to face significant uncertainties and downside risk. Global uncertainties, including US trade and monetary policies, capital outflows, domestic political risks, fiscal vulnerabilities, volatile weather conditions and weak policy implementation continue to weigh on the outlook.

Mild upside scenario: Stronger near term growth

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

Mild downside scenario: Moderate recession

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

Share-based payments

As explained in section 2.10 the Group's equity share based payments schemes, are linked to the shares of its holding company, Absa Group Limited. The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Group may consider Absa Group Limited share price on the grant date to be the best indication of the grant date fair value. Where the fair value of share awards relating to share-based payments is not based on a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

3. Judgements and estimates (continued)

Approach to impairment of credit exposures (continued)

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

In the case of cash-settled share based payment schemes, where fair value is required to be determined at each reporting date,tt a consistent fair value methodology is applied. The fair value of the awards at each reporting date will impact the expense recognised over each reporting period.

Note 54 include details of the Group's share awards. Refer to note 54 for the carrying amount of liabilities arising from cash-settled arrangements.

Basis for determining fair values of investments

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

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

Debt securities and treasury and other eligible bills

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

Derivatives

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

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

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

3. Judgements and estimates (continued)

Approach to impairment of credit exposures (continued)

Measurement of assets and liabilities at Level 2

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

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

Measurement of assets and liabilities at Level 3

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

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

Basis for provision for commission refund

Commission earned from the principal in respect of credit insurance policies secured are refundable in the case of early settlements or cancelation of policies by the Group's customers. Management employs judgements in coming up with estimates of the proportion of the customers who will submit a claim for such refunds and the corresponding fees that may fall in this category.

4. Normalised view vs IFRS view

Absa Group Limited started a separation journey at a Group level from Barclays Plc in 2017, a process expected to be completed by 2021. As a consequence of the foregoing, the Group is required to incur certain costs as part of the separation from Barclays Plc. These costs are necessary to ensure a seamless separation of the African entities from Barclays Plc.

These separation costs are governed by what is known as a Transitional Services Agreement (TSA) with Absa Group Limited that defines the nature and terms of the costs. The separation costs will form part of the operating expenditure until the separation is complete.

The following statements show a reconciliation of the IFRS view and what is called the normalised view. Normalised view is essentially a term that is meant to give the market a view of what the performance of the business looks like when we exclude the once off transitional costs referred to above.

Consolidated

Statement of comprehensive income	IFRS View year ended 31 December 2019 P'000	Barclays separation costs year ended 31 December 2019 P'000	Normalised view year ended 31 December 2019 P'000
Effective interest income	1 338 879	-	1 338 879
Effective interest expense	(278 344)	-	(278 344)
Net interest income	1 060 535	-	1 060 535
Fee and commission income	477 842	-	477 842
Fee and commission expense	(90 462)	-	(90 462)
Net fee and commission income	387 380	-	387 380
Net trading and investing income	166 892	-	166 892
Other income	17 066	-	17 066
Total income	1 631 873	-	1 631 873
Expected credit losses/ Impairment losses	(34 023)		(34 023)
Net operation income	1 597 850	-	1 597 850
Staff costs	(463 728)		(463 728)
Infrastructure costs	(115 782)		(115 782)
Administration and general expenses	(340 768)	(83 001)	(257 767)
Operating expenses	(920 278)	(83 001)	(837 277)
Profit before tax	677 572	(83 001)	760 573
Taxation	(156 964)	17 948	(174 912)
Profit for the period	520 608	(65 053)	585 661
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Total other comprehensive income/(loss) for the period, net of tax	3 113	-	3 113
Total comprehensive income for the period, net of tax	523 721	(65 053)	588 774
Earnings per share			
Basic and diluted (thebe per share)	61.09	(7.63)	68.72

4. Normalised view vs IFRS view (continued)

Company

Statement of Comprehensive Income	IFRS View year ended 31 December 2019 P'000	Barclays separation costs year ended 31 December 2019 P'000	Normalised view year ended 31 December 2019 P'000
Effective interest income	1 338 879	-	1 338 879
Effective interest expense	(278 344)	-	(278 344)
Net interest income	1 060 535	-	1 060 535
Fee and commission income	430 177	-	430 177
Fee and commission expense	(89 263)	-	(89 263)
Net fee and commission income	340 914	-	340 914
Net trading and investing income	166 892	-	166 892
Other income	17 066	-	17 066
Total income	1 585 407	-	1 585 407
Expected credit losses/ Impairment losses	(34 023)	-	(34 023)
Net operation income	1 551 384	-	1 551 384
Staff costs	(463 728)		(463 728)
Infrastructure costs	(115 782)		(115 782)
Administration and general expenses	(306 600)	(83 001)	(223 599)
Operating expenses	(886 110)	(83 001)	(803 109)
Profit before tax	665 274	(83 001)	748 275
Taxation	(154 524)	17 948	(172 472)
Profit for the period	510 750	(65 053)	575 803
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets			
Net gain/(loss) on FVOCI / available for sale financial assets during the period	3 991	-	3 991
Deferred tax	(878)	-	(878)
	3 113	-	3 113
Total other comprehensive income/(loss) for the period, net of tax	3 113	-	3 113
Total comprehensive income for the period, net of tax	513 863	(65 053)	578 916
Earnings per share			
Basic and diluted (thebe per share)	59.94	(7.63)	(67.57)

4. Normalised view vs IFRS view (continued)

Consolidated

Statement of Comprehensive Income	IFRS View, year ended 31 December 2018 P'000	Barclays Plc separation costs, year ended 31 December 2018 P'000	Normalised view, year ended 31 December 2018 P'000
Effective interest income	1 213 506	-	1 213 506
Effective interest expense	(214 242)	-	(214 242)
Net interest income	**999 264**	**-**	**999 264**
Fee and commission income	401 581	-	401 581
Fee and commission expense	(40 167)	-	(40 167)
Net fee and commission income	**361 414**	**-**	**361 414**
Net trading income	166 508	-	166 508
Other income	3 646	-	3 646
Total income	**1 530 832**	**-**	**1 530 832**
Expected credit losses on loans and advances	(93 728)	-	(93 728)
Net operating income	**1 437 104**	**-**	**1 437 104**
Staff costs	(418 754)	-	(418 754)
Infrastructure costs	(107 976)	-	(107 976)
Administration and general expenses	(322 450)	(50 557)	(271 893)
Operating expenses	**(849 180)**	**(50 557)**	**(798 623)**
Profit before tax	587 924	(50 557)	638 481
Taxation	(133 380)	11 122	(144 502)
Profit for the year	**454 544**	**(39 435)**	**493 979**
Other comprehensive income			
Total OCI for the year, net of tax	**(470)**	**-**	**(470)**
Total comprehensive incomes for the year, net of tax	**454 074**	**(39 435)**	**493 509**
Earnings per share			
Basic and diluted (thebe per share)	**53.34**	**(4.63)**	**57.97**

4. Normalised view vs IFRS view (continued)

Company

Statement of Comprehensive Income	IFRS View, year ended 31 December 2018 P'000	Barclays Plc separation costs, year ended 31 December 2018 P'000	Normalised view, year ended 31 December 2018 P'000
Effective interest income	1 213 506	-	1 213 506
Effective interest expense	(214 242)	-	(214 242)
Net interest income	**999 264**	**-**	**999 264**
Fee and commission income	356 763	-	356 763
Fee and commission expense	(40 167)	-	(40 167)
Net fee and commission income	**316 596**	**-**	**316 596**
Net trading income	166 508	-	166 508
Other income	3 646	-	3 646
Total income	**1 486 014**	**-**	**1 486 014**
Expected credit losses on loans and advances	(93 728)	-	(93 728)
Net operating income	**1 392 286**	**-**	**1 392 286**
Staff costs	(415 550)	-	(415 550)
Infrastructure costs	(107 976)	-	(107 976)
Administration and general expenses	(290 036)	(50 557)	(239 479)
Operating expenses	**(813 562)**	**(50 557)**	**(763 005)**
Profit before tax	578 724	(50 557)	629 281
Taxation	(131 352)	11 122	(142 474)
Profit for the year	**447 372**	**(39 435)**	**486 807**
Other comprehensive income			
Total OCI for the year, net of tax	**(470)**	**-**	**(470)**
Total comprehensive incomes for the year, net of tax	**446 902**	**(39 435)**	**486 337**
Earnings per share			
Basic and diluted (thebe per share)	**52.44**	**(4.63)**	**57.07**

4. Normalised view vs IFRS view (continued)

Consolidated

	IFRS view as at 31 December 2019 P'000	Barclays separation costs as at 31 December 2019 P'000	Normalised view as at 31 December 2019 P'000
Assets			
Cash	529 450	-	529 450
Balances at the central bank	890 439	-	890 439
Derivative financial instruments	48 769	-	48 769
Financial assets at fair value through OCI	2 251 097	-	2 251 097
Loans and advances to banks	1 059 520	-	1 059 520
Due from related companies	191 990	23 803	215 793
Loans and advances to customers	13 362 427	-	13 362 427
Other receivables	220 239	(1 124)	219 115
Property, plant and equipment	197 635	(5 496)	192 139
Intangible assets	817	-	817
Deferred tax assets	69 576	-	69 576
Total assets	18 821 959	17 183	18 839 142
Equity and liabilities			
Liabilities			
Deposits from banks	302 972	-	302 972
Due to related companies	575 824	(25 951)	549 873
Customer deposits	14 377 542	-	14 377 542
Derivative financial instruments	36 074	-	36 074
Other payables	557 412	(26 144)	531 268
Provisions	35 412	(681)	34 731
Current tax payable	4 568	4 905	9 473
Debt securities in issue	350 673	-	350 673
Subordinated debt	358 816	-	358 816
Total liabilities	16 599 293	(47 871)	16 551 422
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	2 373	-	2 373
Share-based payment reserve	3 323	-	3 323
Share capital reserve	2 060	-	2 060
Retained income	2 079 455	65 054	2 144 509
Total equity attributable to equity holders	2 222 666	65 054	2 287 720
Total equity and liabilities	18 821 959	17 183	18 839 142

4. Normalised view vs IFRS view (continued)

Company

	IFRS view as at 31 December 2019 P'000	Barclays separation costs as at 31 December 2019 P'000	Normalised view as at 31 December 2019 P'000
Assets			
Cash	529 450	-	529 450
Balances at the central bank	890 439	-	890 439
Trading portfolio assets	48 769	-	48 769
Derivative financial instruments	2 251 097	-	2 251 097
Financial assets at fair value through OCI	1 059 520	-	1 059 520
Loans and advances to banks	191 990	23 803	215 793
Due from related companies	13 362 427	-	13 362 427
Loans and advances to customers	220 239	(1 124)	219 115
Other receivables	197 635	(5 496)	192 139
Current tax assets	817	-	817
Property plant and equipment	66 517	-	66 517
Non-current assets held for sale	18 818 900	17 183	18 836 083
Intangible assets	817	-	817
Deferred tax assets	66 517	-	66 517
Total assets	18 818 900	17 183	18 836 083
Equity and liabilities			
Liabilities			
Deposits from banks	302 972	-	302 972
Due to related companies	611 322	(25 951)	585 371
Customer deposits	14 376 541	-	14 376 541
Derivative financial instruments	36 074	-	36 074
Other payables	555 949	(26 144)	529 805
Provisions	20 582	(681)	19 901
Current tax payable	11 078	4 905	15 983
Debt securities in issue	350 673	-	350 673
Subordinated debt	358 816	-	358 816
Total liabilities	16 624 007	(47 871)	16 576 136
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	2 373	-	2 373
Share-based payment reserve	3 323	-	3 323
Share capital reserve	2 060	-	2 060
Retained income	2 051 682	65 054	2 116 736
Total equity attributable to equity holders	2 194 893	65 054	2 259 947
Total equity and liabilities	18 818 900	17 183	18 836 083

4. Normalised view vs IFRS view (continued)

Consolidated

Statement of financial position	IFRS view as at 31 December 2018 P'000	Barclays separation costs as at 31 December 2018 P'000	Normalised view as at 31 December 2018 P'000
Assets			
Cash	476 107	-	476 107
Balances at the central bank	543 710	-	543 710
Trading portfolio assets	513	-	513
Derivative financial instruments	19 058	-	19 058
Financial Assets at fair value through OCI	1 901 953	-	1 901 953
Loans and advances to banks	1 053 266	-	1 053 266
Due from related parties	811 422	(6 588)	818 010
Loans and advances to customers	11 834 679	-	11 834 679
Other receivables	186 166	77	186 089
Property and equipment	133 137	-	133 137
Non-current assets held for sale	149	-	149
Intangible assets	1 138	-	1 138
Deferred tax assets	63 614	-	63 614
Total assets	**17 024 912**	**(6 511)**	**17 031 423**
Equity and liabilities			
Liabilities			
Deposits from banks	357 972	-	357 972
Due to related parties	1 525 543	-	1 525 543
Customer deposits	11 854 620	-	11 854 620
Derivative financial instruments	12 328	-	12 328
Provisions	48 710	-	48 710
Other payables	333 409	44 046	289 363
Current tax payables	2 415	(11 122)	13 537
Debt securities in issue	537 667	-	537 667
Subordinated debt	358 356	-	358 356
Total liabilities	**15 031 020**	**32 924**	**14 998 096**
Shareholders' equity			
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserve	(740)	-	(740)
Share-based payment reserve	3 148	-	3 148
Share capital reserve	2 060	-	2 060
Retained income	1 853 969	(39 435)	1 893 404
Total equity attributable to equity holders	**1 993 892**	**(39 435)**	**2 033 327**
Total equity and liabilities	**17 024 912**	**(6 511)**	**17 031 423**

4. Normalised view vs IFRS view (continued)

Company

Statement of financial position	IFRS view as at 31 December 2018 P'000	Barclays separation costs as at 31 December 2018 P'000	Normalised view as at 31 December 2018 P'000
Assets			
Cash	476 107	-	476 107
Balances at the central bank	543 710	-	543 710
Trading portfolio assets	513	-	513
Derivative financial instruments	19 058	-	19 058
Financial Assets at fair value through OCI	1 901 953	-	1 901 953
Loans and advances to banks	1 053 266	-	1 053 266
Due from related parties	811 422	(6 588)	818 010
Loans and advances to customers	11 834 679	-	11 834 679
Other receivables	186 138	77	186 061
Property and equipment	133 137	-	133 137
Non-current assets held for sale	149	-	149
Intangible assets	1 138	-	1 138
Deferred tax assets	60 088	-	60 088
Total assets	**17 021 358**	**(6 511)**	**17 027 869**
Equity and liabilities			
Liabilities			
Deposits from banks	357 972	-	357 972
Due to related parties	1 556 637	-	1 556 637
Customer deposits	11 853 654	-	11 853 654
Derivative financial instruments	12 328	-	12 328
Provisions	32 683	-	32 683
Other payables	328 750	44 046	284 704
Current tax payables	7 333	(11 122)	18 455
Debt securities in issue	537 667	-	537 667
Subordinated debt	358 356	-	358 356
Total liabilities	**15 045 380**	**32 924**	**15 012 456**
Shareholders' equity			
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserve	(740)	-	(740)
Share-based payment reserve	3 148	-	3 148
Share capital reserve	2 060	-	2 060
Retained income	1 836 055	(39 435)	1 875 490
Total equity attributable to equity holders	**1 975 978**	**(39 435)**	**2 015 413**
Total equity and liabilities	**17 021 358**	**(6 511)**	**17 027 869**

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
5. Non-current assets held for sale				
Mochudi branch	**-**	5	**-**	5
Kanye branch	**-**	144	**-**	144
	-	149	**-**	149

During the year the bank sold its interest in Ghanzi property for a consideration of approximately P10 million. The Group also sold property in Mahalapye, Kanye and Mochudi for approximately of P5 million. Refer to note 10 for profit on disposal.

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
6. Effective interest income				
Financial assets at fair value through OCI	**41 056**	32 692	**41 056**	32 692
Loans to related parties	**22 976**	32 076	**22 976**	32 076
Loans and advances to banks	**6 600**	5 928	**6 600**	5 928
Loans and advances to customers	**1 268 247**	1 142 810	**1 268 247**	1 142 810
Total interest income	**1 338 879**	1 213 506	**1 338 879**	1 213 506

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
7. Effective interest expense				
Deposits from banks	**(2,927)**	(9,899)	**(2,927)**	(9,899)
Customer deposits	**(197,909)**	(148,268)	**(197,909)**	(148,268)
Debt securities in issue	**(17,925)**	(15,091)	**(17,925)**	(15,091)
Subordinated debt	**(19,396)**	(12,251)	**(19,396)**	(12,251)
Interest on lease liabilities	**(4,147)**	-	**(4,147)**	-
Loans from related companies	**(36,040)**	(28,733)	**(36,040)**	(28,733)
Total interest expense	**(278,344)**	(214,242)	**(278,344)**	(214,242)

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
8. Net fee and commission income				
Fee and commission income				
Risk related services	**81 413**	81 545	**33 748**	36 727
Non risk related services	**396 429**	320 036	**396 429**	320 036
Fee and commission income	**477 842**	401 581	**430 177**	356 763
Fee and commission expense				
Inter-bank transaction fees	**(90 462)**	(40 167)	**(89 263)**	(40 167)
Fee and commission expense	**(90 462)**	(40 167)	**(89 263)**	(40 167)

Risk related services include insurance commissions, arrangement fees and other non banking product incomes. Non risk related services include banking products related fees as monthly charges, card fee charge, visa fees, maintenance charges and premier bank fees.

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
9. Net trading income				
Trading income exchange gain	**33 904**	1 904	**33 904**	1 904
Net movement from financial assets designated at fair value	**(195)**	46	**(195)**	46
Treasury sales activities	**108 409**	131 060	**108 409**	131 060
Market making activities	**27 736**	33 498	**27 736**	33 498
Exchange gains and losses	**(2 962)**	-	**(2 962)**	-
Net trading income	**166 892**	166 508	**166 892**	166 508
10. Other income				
Gain on disposal of property and equipment	**13 673**	358	**13 673**	358
Rental income	**3 393**	3 288	**3 393**	3 288
Total Other income	**17 066**	3 646	**17 066**	3 646
11. Expected losses on loans and advances				
Stage 3 expected losses	**(70 671)**	(222 400)	**(70 671)**	(222 400)
Stage 2 expected losses	**44 273**	5 322	**44 273**	5 322
Stage 1 expected losses	**(33 358)**	96 609	**(33 358)**	96 609
Expected losses raised during the reporting period	**(59 756)**	(120 469)	**(59 756)**	(120 469)
Recoveries of loans and advances previously written off	**25 733**	26 741	**25 733**	26 741
Statement of comprehensive income charge	**(34 023)**	(93 728)	**(34 023)**	(93 728)
12. Staff costs				
Salaries and current services costs	**(343 182)**	(315 995)	**(343 182)**	(312 791)
Training costs	**(8 249)**	(9 028)	**(8 249)**	(9 028)
Staff medical costs	**(19 954)**	(17 891)	**(19 954)**	(17 891)
Leave pay	**5 420**	2 076	**5 420**	2 076
Allowances	**(44 401)**	(35 443)	**(44 401)**	(35 443)
Staff welfare	**(10 104)**	(6 400)	**(10 104)**	(6 400)
Pension cost -defined contribution plan contributions	**(44 438)**	(37 342)	**(44 438)**	(37 342)
Cash-settled share based payments	**1 355**	(1 687)	**1 355**	(1 687)
Equity-settled share based payments	**(175)**	2 956	**(175)**	2 956
Total staff cost	**(463 728)**	(418 754)	**(463 728)**	(415 550)
Average number of employees during period	**1 155**	1 156	**1 155**	1 156

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
13. Infrastructure costs				
Property cost	**(15 319)**	(12 535)	**(15 319)**	(12 535)
Equipment costs*	**(23 806)**	(18 004)	**(23 806)**	(18 004)
Depreciation of property, plant and equipment	**(36 417)**	(30 284)	**(36 417)**	(30 284)
Right of use depreciation	**(21 249)**	-	**(21 249)**	-
Operating lease rentals	**(10 321)**	(43 028)	**(10 321)**	(43 028)
Amortisation of intangible assets	**(322)**	(221)	**(322)**	(221)
Software licensing and other information technology	**(8 348)**	(3 904)	**(8 348)**	(3 904)
Total Infrastructure costs	**(115 782)**	(107 976)	**(115 782)**	(107 976)

*Equipment costs relate to items that were scoped out using the IFRS 16 exemption.

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
14. Administrative and general expenses				
Auditors' remuneration:				
Audit related services	**(4 963)**	(4 913)	**(4 963)**	(4 913)
	(4 963)	(4 913)	**(4 963)**	(4 913)
Consultancy, legal and professional fees	**(37 544)**	(36 164)	**(37 544)**	(36 164)
Marketing, advertising and sponsorship	**(29 880)**	(28 874)	**(29 880)**	(28 874)
Travel and accommodation	**(8 432)**	(8 642)	**(8 432)**	(8 642)
Cash Transport	**(19 497)**	(19 271)	**(19 497)**	(19 271)
Directors fees	**(2 134)**	(1 924)	**(2 134)**	(1 924)
Donations	**(3 571)**	(3 595)	**(3 571)**	(3 595)
Stationery and postage	**(16 932)**	(15 216)	**(16 932)**	(15 216)
Telephone	**(19 566)**	(14 183)	**(19 566)**	(14 183)
	(137 556)	(127 869)	**(137 556)**	(127 869)
Administrative and management fees charged by related parties (note 55)	**(65 923)**	(72 512)	**(65 923)**	(72 512)
Transitional service costs- recharges by related parties	**(25 411)**	(39 683)	**(25 411)**	(39 683)
Transitional service costs- other	**(57 590)**	(10 874)	**(57 590)**	(10 874)
Other costs- general	**(49 325)**	(66 599)	**(15 157)**	(34 185)
	(198 249)	(189 668)	**(15 157)**	(157 254)
Total administrative and general expenses	**(340 768)**	(322 450)	**(306 600)**	(290 036)
15. Income taxes				
15.1 Income tax recognised in profit or loss				
Current tax				
Normal tax - current year	**(149 656)**	(114 875)	**(147 265)**	(113 453)
	(149 656)	(114 875)	**(147 265)**	(113 453)
Deferred tax				
Deferred tax recognised in the current year	**(7 308)**	(18 505)	**(7 259)**	(18 177)
	(7 308)	(18 505)	**(6 841)**	(18 177)
Total income tax recognised in the current year	**(156 964)**	(133 380)	**(154 524)**	(131 352)

15. Income taxes (continued)

15.1 Income tax recognised in profit or loss (continued)

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

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
Reconciliation between operating profit and tax expense				
Profit before tax for the year	**677 572**	587 925	**665 274**	587 724
Income tax expense calculated at 22% (2018: 22%)	**149 065**	129 344	**146 360**	127 319
Effect of expenses that are not deductible in determining taxable profit	**5 343**	3 643	**5 343**	3 643
Arrangement fees and prepayments	**2 556**	393	**2 821**	390
Income tax expense recognised in profit or loss	**156 964**	133 380	**154 524**	131 352
Effective tax rate	**23.2%**	22.7%	**23.2%**	22.7%

16. Earnings per share

	Thebe	Thebe	**Thebe**	Thebe
Basic earnings per share	**61.09**	53.34	**59.94**	52.43
Basic earnings attributable to ordinary shareholders	**520 608**	454 544	**510 750**	446 902

	Number of shares	Number of shares	**Number of shares**	Number of shares
Issued shares at the beginning of the period	**852 161**	852 161	**852 161**	852 161
Weighted average number of ordinary shares	**852 161**	852 161	**852 161**	852 161

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

There were no potentially dilutive shares at 31 December 2019 (31 December 2018 Nil).

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
17. Balances at central bank				
Current account	**169 310**	38 864	**169 310**	38 864
Statutory reserve	**599 482**	505 084	**599 482**	505 084
Reverse repo	**121 720**	-	**121 720**	-
Gross balances at central bank	**890 512**	543 948	**890 512**	543 948
Expected credit losses	**(73)**	(238)	**(73)**	(238)
Carrying value	**890 439**	543 710	**890 439**	543 710

The minimum statutory reserve with the Bank of Botswana is calculated at 5% (2018: 5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing. The Group holds a reverse repo with the Central Bank as an overnight lending placement for liquidity purposes. The balance is interest earning and the carrying value of the balance approximates the fair value.

The carrying value of the cash approximates its fair value due to short maturity.

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
18. Trading portfolio assets				
Debt securities and other eligible bills	-	513	-	513
Trading portfolio assets	-	513	-	513

	Consolidated			Company		
	Notional Contract Amount P'000	Assets P'000	Liabilities P'000	Notional Contract Amount P'000	Assets P'000	Liabilities P'000
19. Derivative financial instruments						
2019						
Foreign exchange derivatives						
Forward foreign exchange	**926 418**	**23 957**	**15 061**	**926 418**	**23 957**	**15 061**
Currency swap	**839 533**	**24 632**	**20 833**	**839 533**	**24 632**	**20 833**
Over the counter options bought and sold	**359**	**180**	**180**	**359**	**180**	**180**
Foreign exchange derivatives	**1 766 310**	**48 769**	**36 074**	**1 766 310**	**48 769**	**36 074**
Total derivatives	**1 766 310**	**48 769**	**36 074**	**1 766 310**	**48 769**	**36 074**
2018						
Foreign exchange derivatives						
Forward foreign exchange	1 340 641	7 094	705	1 340 641	7 094	705
Currency swap	562 767	11 964	11 623	562 767	11 964	11 623
Foreign exchange derivatives	1 903 408	19 058	12 328	1 903 408	19 058	12 328
Total derivatives	1 903 408	19 058	12 328	1 903 408	19 058	12 328

20. Financial assets at fair value through other comprehensive income

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
Bank of Botswana certificates				
Less than 1 month	**1 496 518**	1 449 222	**1 496 518**	1 449 222
1-3 months	**284 000**	299 510	**284 000**	299 510
Total	**1 780 518**	1 748 732	**1 780 518**	1 748 732
Treasury bonds				
1- 5 years	**470 499**	153 141	**470 499**	153 141
Total	**470 499**	153 141	**470 499**	153 141
Debt securities				
Over 5 years	**80**	80	**80**	80
Total	**80**	80	**80**	80
Financial assets at FV through OCI	**2 251 097**	1 901 953	**2 251 097**	1 901 953

20. Financial assets at fair value through other comprehensive income (continued)

Financial assets at fair value through other comprehensive income (OCI) include Bank of Botswana Certificates, Treasury Bills and Government bonds. Bank of Botswana certificates amounting to P400 million (2018: P405 million) have been pledged as collateral for the use of the secured intra day trading facilities with Bank of Botswana.

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

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
21. Loans and advances to banks				
Current accounts	**562 279**	753 307	**562 335**	753 307
Fixed term	**497 386**	300 010	**497 386**	300 010
	1 059 665	1 053 317	**1 059 721**	1 053 317
Expected credit losses	**(145)**	(51)	**(145)**	(51)
Total carrying amount of loans and advances to banks	**1 059 520**	1 053 266	**1 059 576**	1 053 266

The fixed term deposits, short term deposits and current account balances are accounts held with other banks, both local and foreign banks. The carrying amount of the balances approximates their fair value. These balances are receivable on demand.

22. Loans and advances to customers

		Consolidated and Company	
		2019 P'000	2018 P'000
Mortgages		**2 182 257**	2 096 635
Personal and term loans		**4 337 945**	3 613 177
Credit cards		**460 390**	452 814
Finance leases	27	**417 171**	313 193
Overdrafts		**676 818**	679 347
Foreign currency loans		**1 986 304**	2 019 819
Scheme loans		**3 819 472**	3 216 959
Gross loans and advances to customers		**13 880 357**	**12 391 944**
Less: Expected losses			
Stage 3		**(331 951)**	(393 552)
Stage 2		**(131 015)**	(86 562)
Stage 1		**(54 964)**	(77 151)
Allowance for impairment		**(517 930)**	(557 265)
Net loans and advances to customers		**13 362 427**	**11 834 679**

Loans and advance to customers include finance lease receivables as disclosed in note 27.

Gross loans with variable rates are P12, 958 million (2018: P11, 863 million) and fixed rates are P 942 million (2018: 528 million).

23. Credit risk reconciliation- expected loss allowance

Consolidated and Company

	Balances at the beginning of the reporting period P'000	Asset moved / allowance transferred to stage 1 P'000	Asset moved / allowance transferred to stage 2 P'000	Asset moved / allowance transferred to stage 3 P'000	Current period provision P'000	Amounts written off P'000	Total P'000
2019							
Balances with the central bank and investment securities							
Stage 1	**238**	**-**	**-**	**-**	**(165)**	**-**	**73**
Total expected credit losses	**238**	**-**	**-**	**-**	**(165)**	**-**	**73**
Cash and cash equivalents							
Stage 1	**3**	**2**	**(2)**	**-**	**-**	**-**	**3**
Stage 2	**-**	**(1)**	**1**	**-**	**1**	**-**	**1**
Total expected credit losses	**3**	**1**	**(1)**	**-**	**1**	**-**	**4**
Loans and advances to banks							
Stage 1	**51**	**-**	**-**	**-**	**94**	**-**	**145**
Total expected credit losses	**51**	**-**	**-**	**-**	**94**	**-**	**145**
Loans and advances to customers							
Stage 1	**77 151**	**21 554**	**(15 590)**	**(5 964)**	**(22 007)**	**-**	**54 964**
Stage 2	**86 562**	**(4 719)**	**4 792**	**(73)**	**44 273**	**-**	**131 015**
Stage 3	**393 552**	**(1 919)**	**(27 733)**	**29 652**	**48 831**	**(110 432)**	**331 951**
Total expected credit losses	**557 265**	**14 916**	**(38 531)**	**23 615**	**71 097**	**(110 432)**	**517 930**
Provisions for undrawn facilities and guarantees							
Stage 1	**4 351**	**-**	**-**	**-**	**689**	**-**	**5 040**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total expected credit losses	**4351**	**-**	**-**	**-**	**689**	**-**	**5 040**
2018							
Balances with the central bank and investment securities							
Stage 1	37	-	-	-	201	-	238
Total expected credit losses	37	-	-	-	201	-	238
Loans and Advances to customers							
Stage 1	6	-	-	-	45	-	51
Total expected credit losses	6	-	-	-	45	-	51
Stage 1	176 929	27 428	(61 562)	(60 728)	(4 916)	-	77 151
Stage 2	93 637	34 136	-	(184 150)	142 939	-	86 562
Stage 3	438 060	(2)	(84)	244 962	(18 136)	(271 248)	393 552
Total expected credit losses	708 626	61 562	(61 646)	84	119 887	(271 248)	557 265
Financial instruments not on SOFP							
Stage 1	2 015	-	-	-	2 336	-	4 351
Total expected credit losses	2 015	-	-	-	2 336	-	4 351

Consolidated and Company

24. Property, plant and equipment

	Land and buildings P'000	Assets under construction P'000	Motor vehicles P'000	Computers and equipment P'000	Furniture and fittings P'000	Right of use assets P'000	Total P'000
Cost or valuation - 2019							
Balance at beginning of the year	285 510	12 520	12 170	146 551	49 468	-	506 219
Transfer from/(to) inventories	94	-	(98)	-	4	-	-
Additions	9 587	7 568	3 438	14 983	6 905		42 481
Right of use assets	-	-	-	-	-	81 033	81 033
Disposals	(1 139)	-	(2 633)	(12 784)	(562)	-	(17 118)
Balance at end of the year	294 052	20 088	12 877	148 750	55 815	81 033	612 615
Accumulated depreciation - 2019							
Balance at beginning of the year	(204 079)	-	(10 463)	(119 842)	(38 699)	-	(373 083)
Depreciation	(20 439)	-	(449)	(11 816)	(3 644)	-	(36 348)
Transfer to/(from) assets held for sale	(36)	-	37	-	(1)	-	-
Right of use depreciation	-	-	-	-	-	(21 249)	(21 249)
Disposals	1 139	-	2 634	11 365	562	-	15 700
Balance at end of the year	(223 415)	-	(8 241)	(120 293)	(41 782)	(21 249)	(414 980)
Carrying amount at end of year	70 637	20 088	4 636	28 457	14 033	59 784	197 635

As at 31 December 2019 property, plant and equipment includes right-of-use assets of P 59 784 million related to leased branches and office premises.

	Land and buildings P'000	Assets under construction P'000	Motor vehicles P'000	Computers and equipment P'000	Furniture and fittings P'000	Total P'000
Cost or valuation - 2018						
Balance at beginning of the year	200 841	40 642	11 707	179 067	55 073	487 330
Additions	5 054	6 956	1 674	5 531	2 481	21 696
Transfer to assets held for sale	-	-	(218)	(752)	(906)	(1 876)
Transfer from/(to) assets under construction	35 078	(35 078)	-	-	-	-
Other transfers	44 537	-	102	(37 295)	(7 180)	164
Disposals	-	-	(1 095)	-	-	(1 095)
Balance at end of the year	285 510	12 520	12 170	146 551	49 468	506 219
Accumulated depreciation - 2018						
Balance at beginning of the year	(142 701)	-	(11 505)	(144 025)	(47 330)	(345 561)
Depreciation	(12 478)	-	(147)	(13 449)	(3 738)	(29 812)
Transfer to assets held for sale	-	-	218	699	809	1 726
Other transfers	(48 900)	-	(124)	36 933	11 560	(531)
Disposals	-	-	1 095	-	-	1 095
Balance at end of the year	(204 079)	-	(10 463)	(119 842)	(38 699)	(373 083)
Carrying amount at beginning of year	81 431	12 520	1 707	26 709	10 769	133 137

Assets under construction comprises of on-going refurbishment activities at the Bank's various branches.

Consolidated and Company

	Internally generated software P'000	Other software P'000	Total P'000
25. Intangible assets			
Cost - 2019			
Balance at beginning of the year	**61 558**	**23 048**	**84 606**
Amortisation - 2019			
Scrapping of assets	**(61 558)**	**(20 319)**	**(81 877)**
Amortisation	**-**	**(321)**	**(321)**
Balance at end of the year	**(61 558)**	**(22 231)**	**(83 789)**
Carrying amount at end of year	**-**	**817**	**817**

Scrapping of assets above relate to intangible assets no longer in use

Cost - 2018			
Balance at beginning of the year	61 558	22 552	84 110
Acquisitions - internally developed	-	622	622
Transfers	-	(126)	(126)
Balance at end of the year	61 558	23 048	84 606
Amortisation and impairment losses - 2018			
Balance at beginning of the year	(61 558)	(21 689)	(83 247)
Amortisation	-	(221)	(221)
Balance at end of the year	(61 558)	(21 910)	(83 468)
Carrying amount at end of the year	-	1 138	1 138

		2019 P'000	2018 P'000
26. Other receivables			
Other receivables			
Prepayments		**6 834**	1 848
Other receivables		**211 571**	184 290
		218 405	186 138
Maturity analysis			
Current		**218 404**	186 138
		218 404	186 138
27. Finance lease receivables			
Current finance lease receivables		**35 876**	14 026
Non-current finance lease receivables		**381 295**	299 167
	22	**417 171**	313 193

27. Finance lease receivables (continued)

Consolidated and Company

	Minimum lease payments		Present value ofminimum lease payments	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
Not later than one year	**35 876**	14 418	**34 841**	14 026
Between 1-2 years	**65 058**	70 591	**60 438**	65 481
Between 2-3 years	**145 486**	105 126	**127 208**	93 627
Between 3-4 years	**58 698**	54 432	**47 795**	46 131
Between 4-5 years	**71 528**	76 683	**56 946**	62 597
Later than 5 years	**40 525**	39 195	**31 331**	31 331
	417 171	360 445	**358 559**	313 193
Less: unearned finance income	**(58 611)**	(47 252)	**n/a**	n/a
Present value of minimum lease payments receivable	**358 560**	313 193	**358 559**	313 193
Expected Credit Loss	**(24 099)**	(8 764)	**(24 099)**	(8 764)
	334 461	304 429	**334 460**	304 429

The Bank enters into finance leasing arrangements in respect of motor vehicles, machinery and equipment. All of the leases are denominated in Pula except for P2, 323 million contracted in USD (2018: P3, 056 million). The average term of the finance leases entered into is five years. Under the terms of the lease arrangements, no contingent rentals are receivable.

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
28. Cash				
- Local currency (Pula)	**496 119**	434 395	**496 119**	434 395
- Foreign currency	**33 331**	41 712	**33 331**	41 712
	529 450	476 107	**529 450**	476 107

The carrying value of the cash approximate their fair value.

29. Deposits from banks

Fixed deposits accounts	**148 094**	232 955	**148 094**	232 955
Current accounts	**154 878**	125 017	**154 878**	125 017
	302 972	357 972	**302 972**	357 972

The fixed terms deposits are short term deposits due to local bank, with an average maturity period of 1- 3 months. The current account are accounts held with foreign banks and due on demand. The carrying amount of both fixed and current approximates its fair value. These balances are receivable on demand.

30. Customer deposits

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
Cheque account deposits	**3 220 134**	3 162 355	**3 219 133**	3 161 389
Savings and transmission accounts	**6 404 699**	5 273 075	**6 404 699**	5 273 075
Fixed deposits accounts	**4 752 709**	3 419 190	**4 752 709**	3 419 190
Customer deposits	**14 377 542**	11 854 620	**14 376 541**	11 853 654

31. Retirement benefit plans

31.1 Defined benefit plans

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

	Consolidated and Company	
		Valuation at
	2019	2018
Discount rate	**5.0%**	5.0%
Change in pensions	**2.5%**	2.5%
Expected return on plant assets	**5.0%**	5.0%

	2019	2018
	P'000	P'000
Defined benefits plans:		
Interest on obligation	**(5 861)**	(5 924)
Interest income on assets	**5 967**	6 083
Interest cost on irrecoverable surplus	**(106)**	(159)
Amounts recognised in profit or loss	**-**	-
Actuarial gain financial assumptions:		
Experience adjustment	**(2 212)**	(2 032)
Return on plan assets	**(19)**	823
Change in irrecoverable surplus other than interest	**2 231**	1 209
Amounts recognised in other comprehensive	**-**	-

31.1 Defined benefit plans

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

Deferred defined benefits have been converted to defined contribution based on accrued benefits as at 31 May 2015. Annuities with respect to pensioners have been purchased with effect from 31 May 2015. Consequently settlement accounting treatment was adopted in 2015 disclosures and thus no defined benefit obligation remains in respect of the defined benefit deferred members. During 2016, a contractual agreement was signed between the Fund and the insurer which specifies that the obligation in respect of the pensioners has transferred to the insurer. In the past, the annual pension increase declared by the board of Trustees of the Fund was closely aligned to the prevailing inflation and was higher than the 2.5% as prescribed by the Fund rules. At the time of sourcing annuities, this was regularised.

The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The remaining surplus is not available to the Bank and is treated as a reduction in asset ceiling and is accounted as such. The value as at 31 December 2019 was P 0 million (2018: P2.1 million).

The amount included in the statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	Consolidated and Company	
	2019	2018
Present value of funded defined benefit obligation	**(120 630)**	(121 790)
Fair value of plan assets	**120 630**	123 915
Deficit	**-**	2 125
Restrictions on asset recognised	**-**	(2 125)
Net liability arising from defined benefit obligation	**-**	-

31. Retirement benefit plans (continued)

31.1 Defined benefit plans (continued)

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

	Consolidated		Company	
	2019	2018	**2019**	2018
Opening defined benefit obligation	**(121 790)**	(122 842)	**(121 790)**	(122 842)
Interest expense	**(5 861)**	(5 924)	**(5 861)**	(5 924)
Actuarial gains - financial assumption	**(2 212)**	(2 032)	**(2 212)**	(2 032)
Benefits paid	**9 233**	9 008	**9 233**	9 008
Closing defined benefit obligation	**(120 630)**	(121 790)	**(120 630)**	(121 790)

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

Opening fair value of plan assets	**123 915**	126 017	**123 915**	126 017
Return on plan assets (in excess of interest)	**(19)**	823	**(19)**	823
Interest income	**5967**	6 083	**5967**	6 083
Benefits paid	**(9 233)**	(9 008)	**(9 233)**	(9 008)
Closing fair value of plan assets	**120 630**	123 915	**120 630**	123 915

Actual return on plan assets

The insurance contract matches the benefit therefore the insurance asset taken as equal in value to the defined benefit obligation. The unused surplus in the Fund, is accumulated with the expected returns and the total value is added to the insurance policy value to determine the total value of the assets. The asset representing this surplus has been written down through an asset ceiling restriction as the Trustees had confirmed that the surplus would not be available to the Bank. As a result the net balance sheet asset is nil and the resulting expected net interest cost. continues to be applied with the insurance asset taken as equal in value to the defined benefit obligation.

32. Deferred tax

	Consolidated		Company	
	2019	2018	**2019**	2018
Deferred tax balances				
The net deferred tax asset at the end of the year is as follows:				
Deferred tax assets	**69 576**	63 614	**66 517**	60 088

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

Consolidated

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

32. Deferred tax (continued)

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

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in other comprehensive income P'000	Recognised directly in equity P'000	Balance at 31 December P'000
2018					
Intangible assets	(301)	311	-	-	10
Property, plant and equipment	(1 129)	(2 156)	-	-	(3 285)
Financial assets at fair value through OCI	(1 382)	1 458	(76)	-	-
Receivables	4 708	(187)	-	-	4 521
Expected credit Losses	23 771	(10 334)	-	42 283	55 720
Other financial liabilities	14 036	(5 746)	-	-	8 290
Financial assets at fair value through OCI	-	(1 851)	209	-	(1 642)
	39 703	(18 505)	133	42 283	63 614

Company

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in other comprehensive income P'000	Recognised directly in equity P'000	Balance at 31 December P'000
2019					
Intangible assets	**10**	**(10)**	**-**	**-**	**-**
Property, plant and equipment	**(3 285)**	**15 822**	**-**	**-**	**12 537**
Receivables	**4 521**	**(2 916)**	**-**	**-**	**1 605**
Expected credit Losses	**55 720**	**18 099**	**-**	**-**	**73 819**
Other financial liabilities	**4 764**	**(24 151)**	**-**	**-**	**(19 387)**
Financial assets at fair value through OCI	**(1 642)**	**463**	**(878)**	**-**	**(2 057)**
	60 088	**7 307**	**(878)**	**-**	**66 517**
2018					
Intangible assets	(301)	311	-	-	10
Property, plant and equipment	(1 129)	(2 156)	-	-	(3 285)
Financial assets at fair value through OCI	(1 382)	1 458	(76)	-	-
Receivables	4 708	(187)	-	-	4 521
Expected credit Losses	23 771	(10 334)	-	42 283	55 720
Other financial liabilities	10 182	(5 418)	-	-	4 764
Financial assets at fair value through OCI	-	(1 851)	209	-	(1 642)
	35 849	(18 177)	133	42 283	60 088

33. Provisions

Consolidated

	Sundry provisions P'000	Fees refundable P'000	Commission refundable P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Balance at 1 January 2019	**18 151**	**10 181**	**16 027**	**4 351**	**48 710**
Provisions made during the year	**1 025**	**-**	**10 479**	**689**	**12 193**
Provisions used during the year	**(13 815)**	**-**	**(11 676)**	**-**	**(25 491)**
Balance at 31 December 2019	**5 361**	**10 181**	**14 830**	**5 040**	**35 412**
Balance at 1 January 2018	5 378	10 181	17 518	-	33 077
Provisions made during the year	12 773	-	8 932	4 351	26 056
Provisions used during the year	-	-	(10 423)	-	(10 423)
Balance at 31 December 2018	18 151	10 181	16 027	4 351	48 710

Company

	Sundry provisions P'000	Fees refundable P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Balance at 1 January 2019	**18 151**	**10 181**	**4 351**	**32 683**
Provisions made during the year	**1 471**	**-**	**243**	**1 714**
Provisions used during the year	**(13 815)**	**-**	**-**	**(13 815)**
Balance at 31 December 2019	**5 807**	**10 181**	**5 040**	**20 582**
Balance at 1 January 2018	5 378	10 181	-	15 559
Provisions made during the year	12 773	-	4 351	17 124
Provisions used during the year	-	-	-	-
Balance at 31 December 2018	18 151	10 181	4 351	32 683

Sundry provisions comprise of provision for claims against the Bank, provision for operational losses.

Fees refundable relates to a provision raised as a result of Optional Issuer fees charged to customers in prior years. The bank will continue with its efforts to identify and refund this to the relevant customers until 2021 and any amount outstanding at that point will be treated as unclaimed funds accordingly.

Commission refundable relates to a provision for Barclays Insurance Services (Pty) Limited as a result of policy surrenders by customers should the loans be early settled.

Provision for undrawn facilities and guarantees arises from estimated credit losses on off balance sheet exposures as a result of the application of IFRS 9: Financial Instruments as well as expected credit losses on LC's qualifying as on balance sheet as per The Uniform Customs & Practice for Documentary Credits (UCP 600) rules.

		Consolidated		Company	
		2019	2018	**2019**	2018
34. Other payables					
Trade payables		**5 780**	5 957	**5 780**	5 957
Accrued expenses		**24 770**	25 094	**23 850**	21 195
Lease liability	35	**67 712**	-	**67 712**	-
Value added taxation		**9 813**	20 561	**9 270**	19 801
Clearing and other liabilities		**388 245**	201 934	**388 245**	201 934
Withholding tax		**28 579**	30 114	**28 579**	30 114
Operating lease adjustment		**-**	13 178	**-**	13 178
Staff related accruals		**32 110**	35 917	**32 110**	35 917
Cash-settled share based payments		**403**	654	**403**	654
		557 412	333 409	**555 949**	328 750

35. Lease liabilities

35.1 Leases as lessee (2019)

Maturity analysis of lease liabilities

		Consolidated		Company	
		2019	2018	**2019**	2018
Less than one year		**26 670**	-	**26 670**	-
Between one and five years		**20 423**	-	**20 423**	-
More than five years		**20 619**	-	**20 619**	-
	34	**67 712**	-	**67 712**	-

35.2 Leases as lessee (2018)

Payments recognised as an expense

Rental payments	**-**	(41 697)	**-**	(41 697)
Adjustments arising from straight lining lease contracts	**-**	(1 331)	**-**	(1 331)
	-	(43 028)	**-**	(43 028)

Non-cancellable operating lease commitments (2018)

Less than one year	**-**	23 541	**-**	23 541
Between one and five years	**-**	84 268	**-**	84 268
More than five years	**-**	-	**-**	-
	-	107 809	**-**	107 809

Liabilities recognised in respect of non-cancellable operating leases (2018)

Lease incentives				
Current	**-**	1 488	**-**	1 488
Non-current	**-**	11 656	**-**	11 656
	-	13 144	**-**	13 144

	Consolidated		Company	
	2019	2018	**2019**	2018
36. Customer deposits				
Cheque account deposits	**3 220 134**	3 162 355	**3 219,133**	3 161 389
Saving and transmission accounts	**6 404 699**	5 273,075	**6 404 699**	5 273 075
Fixed deposits	**4 752 709**	3 419 190	**4 752 709**	3 419 190
Customer deposits	**14 377 542**	11 854 620	**14 376 541**	11 853 654
Interest bearing deposits	**11 153 927**	8 692 265	**11 153 927**	8 692 265
Non interest bearing deposits	**3 223 615**	3 162 355	**3 222 614**	3 161 389
	14 377 542	11 854 620	**14 376 541**	11 853 654
Maturity analysis				
on demand	**9 621 352**	8 466 151	**9 620 351**	8 465 185
maturing within one year	**4 321 898**	2 985 611	**4 321 898**	2 985 611
maturing after one year	**434 292**	402 858	**434 292**	402 858
	14 377 542	11 854 620	**14 376 541**	11 853 654
Category analysis of customer deposits				
Pula	**2 289 184**	2 340 939	**2 288 183**	2 339 973
Foreign currency	**930 950**	821 416	**930 950**	821 416
Current account	**3 220 134**	3 162 355	**3 219 133**	3 161 389
Pula	**5 620 856**	4 453 385	**5 620 856**	4 453 385
Foreign currency	**783 843**	819 690	**783,843**	819 690
Savings account	**6 404 699**	5 273 075	**6 404 699**	5 273 075
Pula	**4 227 036**	2 963 830	**4 227 036**	2 963 830
Foreign currency	**525 673**	455 360	**525 673**	455 360
Term deposits	**4 752 709**	3 419 190	**4 752 709**	3 419 190
	14 377 542	11 854 620	**14 376 541**	11 853 654
Sector analysis of customer deposits				
Private individuals	**4 267 829**	4 027 615	**4 267 829**	4 027 615
Other financial institutions	**3 366 814**	2 271 941	**3 366 814**	2 271 941
Parastatals	**911 500**	662 037	**911 500**	662 037
Business	**4 397 177**	4 136 831	**4 396 176**	4 135 865
Local government	**1 425 564**	718 074	**1 425 564**	718 074
Central government	**8 658**	38 122	**8 658**	38 122
	14 377 542	11 854 620	**14 376 541**	11 853 654
37. Debt securities in issue				
Fixed rate medium term notes	**-**	158 525	**-**	158 525
Floating rate medium term notes	**350 673**	379 142	**350 673**	379 142
	350 673	537 667	**350 673**	537 667

Floating rate notes
In 2014, the Bank established a floating rate debt securities products placed with institutional investors. These comprise of various maturities and interest rates that are linked to market reference rates. In 2019 the Bank issue new notes amounting to P 94 million (2018: P236 million)

Medium term notes
In 2004, the Bank established and listed a domestic Medium Term Note Programme on the Botswana Stock Exchange. Under the programme, Bank issued notes for such periods and on such terms as agreed with the investors. In 2019 no new notes were issued in this catergory (2018; None).

37. Debt securities in issue (continued)

Consolidated and Company
2019

Issuance date	Principal (P '000)	Balance (P '000)	Interest Rate %	Interest basis	Redemption date	Stock code
22-Jun-18	18 000	18 023	5.25%	Floating	22/06/2021	Unlisted
15-Aug-18	78 700	79 237	5.30%	Floating	16/08/2021	Unlisted
16-Aug-18	60 000	60 401	5.55%	Floating	16/08/2021	Unlisted
15-Nov-18	97 410	98 178	6.25%	Floating	14/11/2023	Unlisted
09-May-19	2 000	2 017	6.00%	Floating	10/05/2024	Unlisted
16-May-19	70 000	70 446	4.75%	Floating	14/05/2020	Unlisted
23-May-19	7 500	7 543	5.00%	Floating	21/05/2021	Unlisted
03-Jun-19	3 000	3 015	6.25%	Floating	03/06/2024	Unlisted
25-Jun-19	1 500	1 502	5.75%	Floating	24/06/2024	Unlisted
28-Jun-19	4 200	4 201	5.75%	Floating	28/06/2024	Unlisted
01-Nov-19	6 000	6 060	6.00%	Floating	01/11/2024	Unlisted
	348 310	350 673				

2018

Issuance date	Principal (P '000)	Balance (P '000)	Interest Rate %	Interest basis	Redemption date	Stock code
31-Oct-14	43 600	43 889	3.91%	Floating	31/10/2019	BBB015
31-Oct-14	156 400	158 525	8.00%	Fixed	31/10/2019	BBB016
09-Mar-18	33 000	33 076	3.83%	Floating	11/03/2019	Unlisted
22-Jun-18	18 000	18 022	5.50%	Floating	22/06/2021	Unlisted
23-Jul-18	30 000	30 293	5.10%	Floating	23/07/2019	Unlisted
15-Aug-18	78 700	79 263	5.50%	Floating	16/08/2021	Unlisted
16-Aug-18	60 000	60 439	5.80%	Floating	16/08/2021	Unlisted
19-Oct-18	10 000	10 066	3.25%	Floating	21/10/2019	Unlisted
25-Oct-18	5 800	5 883	3.25%	Floating	25/10/2019	Unlisted
15-Nov-18	97 410	98 211	6.25%	Floating	14/11/2023	Unlisted
	532 910	537 667				

38. Subordinated debt

Group

	Initial call date	Interest rate	Maturity	2019 P'000	2018 P'000
Subordinated debt from fellow subsidiary in the Absa Group Limited entity, Absa Bank Limited	30/01/2015	4.98%	30/01/2025	255 282	254 788
Subordinated debt issued through medium term program	15/11/2018	4.75%	14/11/2028	103 534	103 568
				358 816	358 356

39. Stated capital

The total authorised and issued 852,161,250 shares at no par value (2018: 852,161,250 Authorised and issued shares at no par value).

All issued shares are fully paid. There were no shares issued during the current year (2018: none). There were no changes to authorised share capital during the current year (2018: none).

No preference shares are currently in issue by the Group.

Every shareholder shall have one vote for every share held. All dividends shall be declared and paid to the members in proportion to the shares held by them respectively.

Issued share capital

	Consolidated	
	2019	2018
852 161 250 (2018: 852 161 250) shares of stated capital.	**17 108**	17 108
	17 108	17 108

40. Reserves

All reserves are shown net of deferred tax where applicable.

Share capital reserve
The share capital reserve is a contingency reserve set aside by the Group.

General risk reserve
General risk reserve was created in accordance with previous requirement of the regulator Bank of Botswana. This requirement has since been revised and no transfer has been made in the current year.

Retained earnings
The retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve) and reduced by dividends paid to date.

Fair value reserve (2019)
These reserves comprises the cumulative net change in the fair value of available-for-sale financial assets (2018) and debt instruments at fair value through other comprehensive income (2019) until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to the profit or loss.

As a result of the implementation of IFRS 9 the accounting classification of these instruments changed to financials asset at fair value through other comprehensive income and the fair value reserve replaced the available for sale investments revaluation reserve.

Share based payment reserve
The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

	Consolidated		Company	
	2019	2018	**2019**	2018
41. Cash used in operations				
Profit after tax for the year	**520 608**	454 544	**510 750**	447 372
Adjustments for:				
Income tax expense	**157 792**	133 380	**154 524**	131 352
Interest income	**(1 060 535)**	(999 264)	**(1 060 535)**	(999 264)
Gain on disposal of property plant and equipment	**(13 673)**	(358)	**(13 673)**	(358)
Net gain arising on financial assets designated as at fair value through profit or loss	**(30 747)**	(3 825)	**(30 747)**	(3 825)
Expected credit losses/Impairments (see note 11)	**34 023**	93 728	**34 023**	93 728
Depreciation (note 24)	**57 597**	30 284	**57 597**	30 284
Amortisation (note 25)	**321**	221	**321**	221
Lease payments for Ifrs 16 exempt assets	**(34 127)**		**(34 127)**	
Net foreign exchange loss	**-**	48	**0**	48
Cash used in operations before working capital changes	**(368 741)**	(291 242)	**(381 867)**	(300 442)
Changes in working capital				
Increase in other receivables	**(34 073)**	(40 206)	**(34 101)**	(40 178)
Increase in other payables	**169 469**	75 139	**227 199**	68 939
Increase in provisions	**13 298**	11 282	**(12 101)**	12 773
(Decrease)/increase in amounts owing to related parties	**(42 352)**	61 182	**(10 059)**	72 509
Total changes in working capital	**106 342**	107 397	**170 938**	114 043
Cash used in operations	**(262 399)**	(183 845)	**(210 929)**	(186 399)
42. Taxation paid				
Tax payable at the beginning of the year	**(16 514)**	(20 737)	**(22 166)**	(25 752)
Current tax expense	**(145 846)**	(114 874)	**(143 139)**	(113 453)
Tax payable at the end of the year	**4 568**	2 415	**11 079**	7 333
	(157 792)	(133 196)	**(154 226)**	(131 872)
43. Proceeds on disposal of property plant and equipment				
Disposal proceeds	**15 091**	358	**15 091**	358
	15 091	358	**15 091**	358
44. Dividends paid				
Prior year final year dividend paid during the current year	**189 995**	180 000	**189 995**	180 000
Interim dividend paid	**110 000**	79 935	**110 000**	79 935
	299 995	259 935	**299 995**	259 935

2019

Prior year final year dividend paid during the current year

A final dividend of 22.29 thebe per share for the year ended 31 December 2018 was declared on 14 March 2019.

Interim dividend paid

An interim dividend of 12.91 thebe per share for the period ended 30 June 2019 was declared on 29 August 2019.
The average dividend per share paid for the year was 35 thebe (2018: 31 thebe) per share.

2018

Prior year final year dividend paid during the current year

A final dividend of 21.123 thebe per share for the year ended 31 December 2017 was declared on 15 March 2018.

Interim dividend paid

An interim dividend of 9.38 thebe per share for the period ended 30 June 2018 was declared on 5 September 2018.

	Consolidated and Company	
	2019	2018
45. Finance costs paid		
Interest paid	**(278 344)**	(220 179)
	(278 344)	(220 179)
46. Finance income received		
Interest received	**1 338 879**	1 214 973
	1 338 879	1 214 973
47. Cash and cash equivalents detail		
Balances at central banks (note 17)	**291 030**	38 626
Cash (Note 28)	**529 450**	476 107
Loans and advances to banks (note 21)	**1 059 665**	1 053 320
Deposits from banks (note 29)	**(302 972)**	(286 518)
Bank of Botswana notes (note 20)	**1 780 518**	1 747 571
Loans and advances from related parties	**154 963**	794 494
Loans and advances to related parties	**(282 291)**	(133 678)
	3 230 363	3 689 922

The statutory reserve is not available for use in the day-to-day operations of the Bank. Balances above consist of balances held on a short time basis.

48. Financial instruments

48.1 Categories of financial instruments

Consolidated

	Fair value through profit/loss - mandatory P'000	Fair value through OCI - debt instruments P'000	Amortised cost - debt instruments P'000	Amortised cost financial liabilities P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per statement of financial position - 2019						
Cash	-	-	**529 450**	-	-	**529 450**
Cash and balances at central bank	-	-	**890 439**	-	-	**890 439**
Balances with related companies	-	-	**191 990**	-	-	**191 990**
Loans and advances to banks	-	-	**1 059 520**	-	-	**1 059 520**
Derivative financial instruments	**48 769**	-	-	-	-	**48 769**
Financial assets at fair value through OCI	-	**2 251 097**	-	-	-	**2 251 097**
Loans and advances to customers	-	-	**13 362 427**	-	-	**13 362 427**
Other receivables	-	-	-	-	**220 239**	**220 239**
Total	**48 769**	**2 251 097**	**16 033 826**	-	**220 239**	**18 553 931**
Liabilities as per statement of financial position - 2019						
Deposits from banks	-	-	-	**302 972**	-	**302 972**
Balances with related companies	-	-	-	**575 824**	-	**575 824**
Derivative financial instruments	**36 074**	-	-	-	-	**36 074**
Deposits due to customers	-	-	-	**14 377 542**	-	**14 377 542**
Debt securities in issue	-	-	-	**350 673**	-	**350 673**
Other payables	-	-	-	-	**557 412**	**557 412**
Subordinated debt	-	-	-	**358 816**	-	**358 816**
Total	**36 074**	-	-	**15 965 827**	**557 412**	**16 559 313**

48. Financial instruments (continued)
48.1 Categories of financial instruments (continued)

Consolidated

	Fair value through profit/loss - mandatory P'000	Fair value through OCI - debt instruments P'000	Amortised cost - debt instruments P'000	Amortised cost financial liabilities P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position - 2018						
Cash	-	-	476 107	-	-	476 107
Cash and balances at central bank	-	-	543 710	-	-	543 710
Trading portfolio assets	513	-	-	-	-	513
Balances with related companies	-	-	811 422	-	-	811 422
Loans and advances to banks	-	-	1 053 266	-	-	1 053 266
Derivative financial instruments	19 058	-	-	-	-	19 058
Financial assets at fair value throuh OCI	-	1 901 953	-	-	-	1 901 953
Loans and advances to customers	-	-	11 834 679	-	-	11 834 679
Other receivables					186 166	186 166
Total	19 571	1 901 953	14 719 184	-	186 166	16 826 874
Liabilities as per Statement of Financial Position - 2018						
Deposits from banks	-	-	-	357 972	-	357 972
Balances with related companies	-	-	-	1 525 543	-	1 525 543
Derivative financial instruments	12 238	-	-	-	-	12 238
Deposits due to customers	-	-	-	11 854 620	-	11 854 620
Debt securities in issue	-	-	-	537 667	-	537 667
Other payables					333 409	333 409
Subordinated debt	-	-	-	358 356	-	358 356
Total	12 238	-	-	14 634 158	333 409	14 979 895

Company

	Fair value through profit/loss - mandatory P'000	Fair value through OCI - debt instruments P'000	Amortised cost - debt instruments P'000	Amortised cost financial liabilities P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per statement of financial position - 2019						
Cash	-	-	529 450	-	-	529 450
Cash and balances at central bank	-	-	890 439	-	-	890 439
Balances with related companies	-	-	191 990	-	-	191 990
Loans and advances to banks	-	-	1 059 520	-	-	1 059 520
Derivative financial instruments	48 769	-	-	-	-	48 769
Financial assets at fair value through OCI	-	2 251 097	-	-	-	2 251 097
Loans and advances to customers	-	-	13 362 427	-	-	13 362 427
Other receivables	-	-	-	-	220 239	220 239
Total	48 769	2 251 097	16 033 826	-	220 239	18 553 931
Liabilities as per statement of financial position - 2019						
Deposits from banks	-	-	-	302 972	-	302 972
Balances with related companies	-	-	-	611 322	-	611 322
Derivative financial instruments	36 074	-	-	-	-	36 074
Deposits due to customers	-	-	-	14 376 541	-	14 376 541
Debt securities in issue	-	-	-	350 673	-	350 673
Other payables	-	-	-	-	555 949	555 949
Subordinated debt	-	-	-	358 816	-	358 816
Total	36 074	-	-	16 000 324	555 949	16 592 347

48. Financial instruments (continued)

48.1 Categories of financial instruments (continued)

Company

	Fair value through profit/loss - mandatory P'000	Fair value through OCI - debt instruments P'000	Amortised cost - debt instruments P'000	Amortised cost financial liabilities P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per statement of financial position - 2018						
Cash	-	-	476 107	-	-	476 107
Cash and balances at central bank	-	-	543 710	-	-	543 710
Trading portfolio assets	513	-	-	-	-	513
Balances with related companies	-	-	811 422	-	-	811 422
Loans and advances to banks	-	-	1 053 266	-	-	1 053 266
Derivative financial instruments	19 058	-	-	-	-	19 058
Financial assets at fair value throuh OCI	-	1 901 953	-	-	-	1 901 953
Loans and advances to customers	-	-	11 834 679	-	-	11 834 679
Other receivables					186 138	186 138
Total	19 571	1 901 953	14 719 184	-	186 138	16 826 846
Liabilities as per statement of financial position - 2018						
Deposits from banks	-	-	-	357 972	-	357 972
Balances with related companies	-	-	-	1 556 637	-	1 556 637
Derivative financial instruments	12 238	-	-	-	-	12 238
Deposits due to customers	-	-	-	11 853 654	-	11 853 654
Debt securities in issue	-	-	-	537 667	-	537 667
Other payables					328 750	328 750
Subordinated debt	-	-	-	358 356	-	358 356
Total	12 238	-	-	14 664 286	328 750	15 005 364

49. Risk management

49.1 Capital risk management

The Group manages its capital at group level, considering both regulatory and economic capital. The Group's lead regulator Bank of Botswana sets and monitors capital requirements for the Group. The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group has adopted the standardised and basic indicator approaches to credit and operational risk management respectively. The Group calculates requirements for market risk in its trading and banking portfolios based upon the Group's value at risk (VaR) models.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

49. Risk management (continued)

49.1 Capital risk management (continued)

	Consolidated		Company	
	2019	2018	**2019**	2018
Tier 1 Capital				
Stated capital	**8 522**	8 522	**8 522**	8 522
Share premium	**8 586**	8 586	**8 586**	8 586
Share capital reserve	**2 060**	2 060	**2 060**	2 060
General risk reserve	**118 347**	118 347	**118 347**	118 347
Retained earnings	**2 079 455**	1 853 969	**2 051 682**	1 836 055
Proposed dividends	**(213 000)**	(190 000)	**(213 000)**	(190 000)
Less: intangible assets	**(817)**	(1 138)	**(817)**	(1 138)
Total Tier 1 Capital	**2 003 153**	1 800 346	**1 975 380**	1 782 432
Tier 2 Capital				
Subordinated redeemable debt	**352 590**	352 590	**352 590**	352 590
Unencumbered general provisions	**143 694**	125 034	**143 694**	125 034
Total Tier 2 Capital	**496 284**	477 624	**496 284**	477 624
Total regulatory capital	**2 499 437**	2 277 970	**2 471 664**	2 260 056
Risk weighted assets				
Credit risk weighted assets	**11 495 500**	11 622 923	**11 495 500**	11 622 923
Market risk weighted assets	**169 074**	159 960	**169 074**	159 960
Operational risk weighted assets	**1 334 155**	1 138 834	**1 334 155**	1 138 834
Total risk weighted assets	**12 998 729**	12 921 717	**12 998 729**	12 921 717
Capital adequacy ratio	**19.23%**	17.63%	**19.01%**	17.49%

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 15.4% at year end (2018: 13.79%).

49.2 Financial risk management objectives

Risk management processes

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps and Activities are:

Identify
- Establish the process for identifying and understanding business-level risks.

Assess
- Agree and implement measurement and reporting standards and methodologies.

Control
- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment

Report
- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and Key Risk Indicators.
- Communicate with external parties.

Manage and challenge
- Review and challenge all aspects of the Bank's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Bank's risk profile.
- Review and challenge risk management practices.

49. Risk management (continued)

49.3 Market risk

Market risk is the risk of a reduction in the Group's earnings or capital due to:

Traded market risk
The risk of the Group being impacted by changes in the level or volatility of market rates or prices. This includes changes in interest rates, inflation rates, credit spreads, property prices, commodity prices, equity and bond prices and foreign exchange levels.

Non-traded market risk
The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates.

Market risk exposure arises from equity commodity investments (listed or unlisted), loans or deposits that are interest bearing, any assets and liabilities in foreign currencies, or any investments in tradable securities, indices, etc.

The Group's market risk management objectives include: the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

Market risk measurement

The techniques used to measure and control market risk include:
- Daily value at risk (DVaR)
- Stress tests
- Stop loss

Daily value at risk (DVar)
DVar is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day. DVar is calculated using the historical simulation method with a historical sample of two years.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%. This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level (Stressed VaR). The Var model however has a limitation of assuming normal conditions. To complement it; tail metrics, stress testing and other sensitivity measures are used.

Stress tests
Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. If the potential losses exceed the trigger limit, the positions captured by the stress test are reviewed by Assets and Liabilities Committee (ALCO).

Stop loss
A stop loss policy has been instituted incorporating a 'management trigger level' at USD100, 000. If this trigger level is reached then all open positions must be closed immediately so as to protect the group against any further exchange rate losses.

Analysis of trading market risk exposures

The table below shows the DVaR statistics:

Consolidated and Company

	12 months to 31 December 2019			12 months to 31 December 2018		
	Average P'000	**High P'000**	**Low P'000**	Average P'000	High P'000	Low P'000
Interest rate risk	**77**	**88**	**13**	44	112	21
Foreign currency risk	**142**	**893**	**113**	135	699	25
	219	**981**	**126**	179	811	46

49. Risk management (continued)

49.3 Market risk

Analysis of trading market risk exposures

Consolidated and Company

	100 basis points parallel increase P'000	100 basis points parallel decrease P'000	50 basis points increase after 1 year P'000	50 basis points decrease after 1 year P'000
2019				
At 31 December	**68 500**	**(68 500)**	**34 250**	**(34 250)**
Average for the year	**70 563**	**(70 563)**	**35 281**	**(35 281)**
Maximum for the year	**79 000**	**(79 000)**	**36 750**	**(36 750)**
2018				
At 31 December	69 501	(69 501)	34 750	(34 750)
Average for the year	71 042	(71 042)	35 520	(35 520)
Maximum for the year	79 000	(79 000)	36 750	(36 750)

Overall non-trading interest rate risk positions are managed by Treasury function, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Treasury division at least monthly through the Assets and Liabilities Committee.

49. Risk management (continued)

49.3 Market risk (continued)

Consolidated and Company

	2019			2018		
	Interest rates Average	**Interest rates High**	**Interest rates Low**	Interest rates Average	Interest rates High	Interest rates Low
Assets						
Loans and advances to banks:						
BWP	**1.10%**	**1.50%**	**1.00%**	1.31%	1.70%	1.08%
USD	**1.20%**	**1.45%**	**1.00%**	0%	0.70%	0.00%
ZAR	**0.00%**	**0.00%**	**0.00%**	0%	0%	0%
Bank of Botswana certificates						
14 day	**1.57%**	**1.63%**	**1.39%**	1.52%	1.59%	1.47%
91 day	**1.61%**	**1.70%**	**1.48%**	1.54%	1.59%	1.46%
Loans and advances:						
Corporate	**6.86%**	**10.75%**	**3.75%**	7.75%	36%	4.25%
Retail	**12.60%**	**36.00%**	**6.25%**	11.80%	36%	7.50%
Staff	**4.65%**	**4.75%**	**4.25%**	4.40%	5%	0.00%
Balances with related parties						
USD	**2.15%**	**3.45%**	**1.60%**	2.43%	3.45%	1.35%
ZAR	**7.25%**	**7.58%**	**6.45%**	6.82%	7.48%	6.48%
Liabilities						
Deposits due to customers:						
Corporate	**0.40%**	**3.00%**	**0.10%**	0.36%	6.90%	0.25%
Retail	**1.33%**	**4.25%**	**0.00%**	1.10%	4.25%	0.00%
Staff	**1.33%**	**4.25%**	**0.00%**	1.10%	4.25%	0.00%
Deposits from banks:						
BWP	**1.10%**	**2.75%**	**1.00%**	2.56%	3.00%	1.15%
USD	**1.00%**	**1.00%**	**1.00%**	0%	0%	0.28%
Balances with related parties						
USD	**3.29%**	**3.80%**	**2.78%**	3.27%	3.80%	3.20%
Medium term notes	**6.00%**	**7.00%**	**4.98%**	6.35%	8.00%	3.91%
Floating rate notes	**5.50%**	**6.25%**	**4.75%**	4.69%	5.55%	3.25%

49. Risk management (continued)

49.4 Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Additional foreign exchange exposure is taken through the trading book; in particular, through FX forwards (including unmatured spot transactions), FX Swaps, and other market making activities.

The Bank manages foreign exchange exposures in line with ALCO and Barclays Bank market risk guidelines. Typically, all currencies other than the US dollar are fully matched with open positions being taken on the US dollar up to a maximum open position of US$25million. The limit was adhered to throughout the year.

The Bank conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intra day limit is set at US$50million and the overnight limit is US$25 million. These limits were adhered to throughout the year.
Market risk regulatory capital calculations (Trading and Banking Books)

The Bank is required to hold adequate capital to cover losses due to exposures to Market Risk. For day to day risk management, the Bank uses internal models such as Daily Value at Risk (DVaR), Net interest income and Economic Value of Equity (EVE) sensitivity, etc. However, for regulatory capital calculations, and as required by the Bank of Botswana, the Bank uses the Standardised Measurement Method. This entails using the prescribed methods to calculate the capital charge for the market risk that the Bank is exposed to. The Internal Models Approach (use of DVaR, Stressed Value at Risk SVaR) for regulatory capital calculations is not permitted under current Bank of Botswana regulatory guidelines.

The risks that form part of the Bank's capital charge are as follows: The interest rate and equity risks pertaining to financial instruments in the trading book; and Foreign exchange risk and commodities risk in the trading and banking books. In particular; the General and Specific Interest rate risk, the general and specific equity risks, the FX risks (including banking book) and commodity risks. The Bank uses the standardised maturity method for calculating its general interest rate risk, with adjustments for basis and correlation effects. The measurement methods are in line with Basel 2, which became effective 1 January 2016.

49.5 Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Assets and Liabilities Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The table below shows the repricing profile of the Bank's non-trading portfolios:

Consolidated

	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2019							
Assets							
Cash	-	-	-	-	-	529 450	**529 450**
Balances at central banks	890 439	-	-	-	-	-	**890 439**
Trading portfolio assets	-	-	-	-	-	-	**-**
Derivative financial instruments	48 769	-	-	-	-	-	**48 769**
Fair value through OCI Investments	1 183 256	150 000	491 125	308 641	118 075	-	**2 251 097**
Loans and advances to banks	1 059 520	-	-	-	-	-	**1 059 520**
Due from related parties	191 990	-	-	-	-	-	**191 990**
Loans and advances to customers	12 892 076	42 909	187 845	238 619	978	-	**13 362 427**
Other receivables	-	-	-	-	-	220 239	**220 239**
	16 266 050	**192 909**	**678 970**	**547 260**	**119 053**	**749 689**	**18 553 931**

49. Risk management (continued)

49.5 Interest rate risk (continued)

Consolidated

	Up to 1month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2019							
Liabilities							
Deposits from banks	302 972	-	-	-	-	-	**302 972**
Due to related parties	-	311 422	264 402	-	-	-	**575 824**
Customer accounts	7 264 643	1 513 736	1 851 004	388 590	-	3 359 569	**14 377 542**
Derivative financial instruments	36 074	-	-	-	-	-	**36 074**
Debt securities in issue	-	256 473	94 200	-	-	-	**350 673**
Subordinated debt	358 816	-	-	-	-	-	**358 816**
Other payables	557 412	-	-	-	-	-	**557 412**
Provisions	35 412	-	-	-	-	-	**35 412**
	8 555 329	**2 081 631**	**2 209 606**	**388 590**	**-**	**3 359 569**	**16 594 725**
Interest rate sensitivity gap	**7 710 721**	**(1 888 722)**	**(1 530 636)**	**158 670**	**119 053**	**(2 609 880)**	**1 959 206**

Consolidated

	Up to 1month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2018							
Assets							
Cash	-	-	-	-	-	476 107	**476 107**
Cash and balances at central banks	-	-	-	-	-	543 710	**543 710**
Trading portfolio assets	513	-	-	-	-	-	**513**
Derivative financial instruments	19 058	-	-	-	-	-	**19 058**
Fair value through OCI Investments	1 758 953	69 500	-	-	73 500	-	**1 901 953**
Loans and advances to banks	1 053 266	-	-	-	-	-	**1 053 266**
Due from related parties	1 303	59 259	750 860	-	-	-	**811 422**
Loans and advances to customers	11 285 621	46 164	216 928	284 630	1 336	-	**11 834 679**
Other receivables	-	-	-	-	-	186 166	**186 166**
	14 118 714	**174 923**	**967 788**	**284 630**	**74 836**	**1 205 983**	**16 826 874**
Liabilities							
Deposits from banks	357 972	-	-	-	-	-	**357 972**
Due to related parties	631 947	893 596	-	-	-	-	**1 525 543**
Customer accounts	6 042 587	1 404 184	880 752	364 743	-	3 162 355	**11 854 621**
Derivative financial instruments	12 328	-	-	-	-	-	**12 328**
Debt securities in issue	183 933	310 134	43 600	-	-	-	**537 667**
Subordinated debt	255 766	102 590	-	-	-	-	**358 356**
Trade and other payables	333 409	-	-	-	-	-	**333 409**
Provisions	48 710	-	-	-	-	-	**48 710**
	7 866 652	**2 710 504**	**924 352**	**364 743**	**-**	**3 162 355**	**15 028 606**
Interest rate sensitivity gap	**6 252 062**	**(2 535 427)**	**43 436**	**(80 113)**	**74 836**	**(1 956 372)**	**1 798 268**

49. Risk management (continued)
49.5 Interest rate risk (continued)

Company

	Up to 1month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2019							
Assets							
Cash	-	-	-	-	-	529 450	**529 450**
Balances at central banks	890 439	-	-	-	-	-	**890 439**
Trading portfolio assets	-	-	-	-	-	-	**-**
Derivative financial instruments	48 769	-	-	-	-	-	**48 769**
Fair value through OCI Investments	1 183 256	150 000	491 125	308 641	118 075	-	**2 251 097**
Loans and advances to banks	1 059 520	-	-	-	-	-	**1 059 520**
Due from related parties	191 990	-	-	-	-	-	**191 990**
Loans and advances to customers	12 892 076	42 909	187 845	238 619	978	-	**13 362 427**
Other receivables	-	-	-	-	-	220 239	**220 239**
	16 266 050	**192 909**	**678 970**	**547 260**	**119 053**	**749 689**	**18 553 931**
Liabilities							
Deposits from banks	302 972	-	-	-	-	-	**302 972**
Due to related parties	-	346 920	264 402	-	-	-	**611 322**
Customer accounts	7 264 643	1 513 736	1 851 004	388 590	-	3 358 568	**14 376 541**
Derivative financial instruments	36 074	-	-	-	-	-	**36 074**
Debt securities in issue	-	256 473	94 200	-	-	-	**350 673**
Subordinated debt	358 816	-	-	-	-	-	**358 816**
Other payables	-	-	-	-	-	555 949	**555 949**
Provisions	-	-	-	-	-	11 078	**11 078**
	7 962 505	**2 117 129**	**2 209 606**	**388 590**	**-**	**3 925 595**	**16 603 425**
Interest rate sensitivity gap	**8 303 545**	**(1 924 220)**	**(1 530 636)**	**158 670**	**119 053**	**(3 175 906)**	**1 950 506**
2018							
Assets							
Cash	-	-	-	-	-	476 107	**476 107**
Balances at central banks	-	-	-	-	-	543 710	**543 710**
Trading portfolio assets	513	-	-	-	-	-	**513**
Derivative financial instruments	19,058	-	-	-	-	-	**19 058**
Fair value through OCI Investments	1 758 953	69 500	-	-	73 500	-	**1 901 953**
Loans and advances to banks	1 053 266	-	-	-	-	-	**1 053 266**
Due from related parties	1 303	59 259	750 860	-	-	-	**811 422**
Loans and advances to customers	11 285 621	46 164	216 928	284 630	1 336	-	**11 834 679**
Other receivables	-	-	-	-	-	186 138	**186 138**
	14 118 714	**174 923**	**967 788**	**284 630**	**74 836**	**1 205 955**	**16 826 846**

49. Risk management (continued)

49.5 Interest rate risk (continued)

Company

	Up to 1month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2018							
Liabilities							
Deposits from banks	357 972	-	-	-	-	-	357 972
Items in the course of collection due to other banks	663 041	893 596	-	-	-	-	1 556 637
Customer accounts	6 042 587	1 404 184	880 752	364 743	-	3 161 389	11 853 655
Derivative financial instruments	12 328	-	-	-	-	-	12 328
Debt securities in issue	183 933	310 134	43 600	-	-	-	537 667
Subordinated debt	255 766	102 590	-	-	-	-	358 356
Trade and other payables	-	-	-	-	-	328 750	328 750
Provisions	-	-	-	-	-	32 683	32 683
	7 515 627	2 710 504	924 352	364 743	-	3 522 822	15 038 047
Interest rate sensitivity gap	**6 603 087**	**(2 535 427)**	**43 436**	**(80 113)**	**74 836**	**(2 316 867)**	**1 788 799**

49.6 Other price risks

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address Operational risk is delegated to senior management within each Business unit. This responsibility is supported by implementation of the localised operational risk standards for the management of risk in the following areas:

- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Compliance with regulatory and other legal requirements, and
- Reporting of operational losses and proposed remedial action

Compliance with the operational risk standards is supported by a programme of periodic conformance and internal audit reviews undertaken by assurance providers. The results of reviews are tracked for resolution by management and the respective governance forums.

In 2019 there was continued transformation of the Operational Risk management capabilities within the Bank. The investment in operational risk within the Bank remains sound. The focus on the management of operational risk is moving ahead with the industry trends as evidenced by the rollout of a number of strategic tools such as the Enterprise Risk management framework & Basel Committee on Banking Supervision (BCBS) 239 principles. The Bank continues to make strides in using operational risk management systematically to advance business objectives; this is evidenced by the lead indicators for operational risk showing a strong and stable performance for the 2019 financial year.

49. Risk management (continued)

49.7 Credit risk

The Group's approach is to provide direction on:
- Understanding the principal risks to achieving Group strategy;
- Establishing risk appetite; and
- Establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.
Steps and activities are:

Identify
- Establish the process for identifying and understanding business-level risks.

Assess
- Agree and implement measurement and reporting standards and methodologies.

Control
- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements
- Monitor the operation of the controls and adherence to risk direction and limits
- Provide early warning of control or appetite breaches, and
- Ensure that risk management practices and conditions are appropriate for the business environment .

Report
- Interpret and report on risk exposures, concentrations and risk-taking outcomes
- Interpret and report on sensitivities and Key Risk Indicators, and
- Communicate with external parties.

Manage and challenge
- Review and challenge all aspects of the Group's risk profile
- Assess new risk-return opportunities
- Advise on optimising the Group's risk profile, and
- Review and challenge risk management practices.

Consolidated

	Gross maximum exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
49.7.1 Maximum credit risk exposure				
2019				
Balances at central banks	890 512	890 512	-	-
Loans and advances to banks	1 059 665	1 059 665	-	-
Financial assets at fair value through OCI	2 251 097	2 251 097	-	-
Loans and advances to customers	13 880 357	12 280 482	916 634	683 241
Total gross maximum exposure to credit risk	18 081 631	16 481 758	916 634	683 241
Expected credit losses	(518 148)	(55 182)	(131 015)	(331 951)
Total net exposure to credit risk as disclosed on the statement of financial position	17 563 483	-	-	-
Assets not subject to IFRS 9 ECL requirements	48 769	-	-	-
Total financial assets per the statement of financial position	17 612 252	16 426 576	785 619	351 290
Expected credit losses and provision	(5 040)	(5 040)	-	-
Off statement of financial position exposure	2 621 230	2 621 230	-	-

The write-off amount for the year is P 110,432 million (2018: P 271,248 million) refer to note 23.

49. Risk management (continued)

49.7 Credit risk (continued)

Consolidated

	Gross maximum exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
49.7.1 Maximum credit risk exposure (continued)				
2018				
Balances at central banks	543 948	543 948	-	-
Loans and advances to banks	1 053 317	1 053 266	-	-
Financial assets at fair value through OCI	1 901 953	1 901 953	-	-
Loans and advances to Customers	12 391 944	10 218 080	1 505 603	668 261
Total gross maximum exposure to credit risk	**15 891 162**	**13 717 298**	**1 505 603**	**668 261**
Expected credit losses	(557 554)	(87 440)	(86 562)	(366 552)
Total net exposure to credit risk as disclosed on the statement of financial position	**15 333 608**	**13 629 858**	**1 419 041**	**301 709**
Assets not subject to IFRS 9 ECL requirements	1 685 364	-	-	-
Total financial assets per the statement of financial position	**17 018 683**	**13 629 858**	**1 419 041**	**301 709**
Expected credit losses and provision	(4 351)	(4 351)	-	-
Off statement of financial position exposure	2 598 166	2 598 166	-	-

Company

	Gross maximum exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
49.7.1 Maximum credit risk exposure (continued)				
2019				
Balances at central banks	**890 512**	**890 512**	**-**	**-**
Loans and advances to banks	**1 059 665**	**1 059 665**	**-**	**-**
Financial assets at fair value through OCI	**2 251 097**	**2 251 097**	**-**	**-**
Loans and advances to customers	**13 880 357**	**12 280 482**	**916 634**	**683 241**
Total gross maximum exposure to credit risk	**18 081 631**	**16 481 758**	**916 634**	**683 241**
Expected credit losses	**(518 148)**	**(55 182)**	**(131 015)**	**(331 951)**
Total net exposure to credit risk as disclosed on the statement of financial position	**17 563 483**	**-**	**-**	**-**
Assets not subject to IFRS 9 ECL requirements	**48 769**	**-**	**-**	**-**
Total financial assets per the statement of financial position	**17 612 252**	**16 426 576**	**785 619**	**351 290**
Expected credit losses and provision	**(5 040)**	**(5 040)**	**-**	**-**
Off statement of financial position exposure	**2 621 230**	**2 621 230**	**-**	**-**

The write-off amount for the year is P110,432 million (2018: P271,248 million) refer to note 23.

49. Risk management (continued)

49.7 Credit risk (continued)

Company

	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
2018				
Balances at central banks	543 948	543 948	-	-
Loans and advances to banks	1 053 317	1 053 266	-	-
Financial assets at fair value through OCI	1 901 953	1 901 953	-	-
Loans and advances to customers	12 391 944	10 218 080	1 505 603	668 261
Total gross maximum exposure to credit risk	**15 891 162**	**13 717 298**	**1 505 603**	**668 261**
Expected credit losses	(557 554)	(87 440)	(86 562)	(366 552)
Total net exposure to credit risk as disclosed on the statement of financial position	**15 333 608**	**13 629 858**	**1 419 041**	**301 709**
Assets not subject to IFRS 9 ECL requirements	1 685 364	-	-	-
Total financial assets per the statement of financial position	**17 018 683**	**13 629 858**	**1 419 041**	**301 709**
Expected credit losses and provision	(4 351)	(4 351)	-	-
Off statement of financial position exposure	2 598 166	2 598 166	-	-

49.7.2. Enforcement of collateral

Carrying value of assets held by the Group at the reporting date as a result of the enforcement of collateral is as follows:

	Consolidated and Company	
	2019 P'000	2018 P'000
Finance leases- movable property	**2 064**	1 057
Residential property	**14 036**	15 348
Balance at the end of the reporting period	**16 100**	16 045

The policy for financial assets that are written off but still subject to enforcement activity is disclosed under note 2.17.3

Growth

The loans and advances to customers experienced growth of 13% year on year. The growth was mainly driven by expansionary appetite to supported targeted growth on unsecured lending through the scheme platform followed by secured mortgages.

Portfolio Performance

The quality of the retail portfolio improved evidenced by a continued reduction in coverage. The growth in impairment charge in comparison to the previous year is driven mainly by the significant growth of the portfolio. The current year impairment performance has been stable and improving. This was achieved through use of data analytics to enhance collection and lending strategies to navigate against threats of general distress in market caused by economic downturn.

50. Risk management (continued)
50.1 Credit risk (continued)

	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000	Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
Consolidated									
Credit exposure by industry 2019									
Private individuals	**8 646 758**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 646 758**
Mining companies	**441 764**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**441 764**
Parastatals	**101 026**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101 026**
Business	**3 665 964**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 665 964**
Financial institutions	**1 024 845**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**5 687 117**
Gross exposure	**13 880 357**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**18 542 629**
Expected credit losses	**(517 930)**	**(145)**			**(73)**				**(518 148)**
Net exposure	**13 362 427**	**1 059 520**	**191 990**	**48 769**	**890 439**	**2 251 097**	**-**	**220 239**	**18 024 481**
Credit exposure by industry 2018									
Private individuals	7 528 220	-	-	-	-	-	-	-	7 528 220
Mining companies	211 581	-	-	-	-	-	-	-	211 581
Parastatals	131 801	-	-	-	-	-	-	-	131 801
Business	4 189 978	-	-	-	-	-	-	-	4 189 978
Financial institutions	330 364	1 053 317	811 422	19 058	543 948	1 901 953	513	186 166	4 846 741
Gross exposure	**12 391 944**	**1 053 317**	**811 422**	**19 058**	**543 948**	**1 901 953**	**513**	**186 166**	**16 908 321**
Expected credit losses	**(557 265)**	**(51)**	**-**	**-**	**(238)**	**-**	**-**	**-**	**(557 554)**
Net exposure	**11 834 679**	**1 053 266**	**811 422**	**19 058**	**543 710**	**1 901 953**	**513**	**186 166**	**16 350 767**
Company									
Credit exposure by industry 2019									
Private individuals	**8 646 758**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8 646 758**
Mining companies	**441 764**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**441 764**
Parastatals	**101 026**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101 026**
Business	**3 665 964**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 665 964**
Financial institutions	**1 024 845**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**5 687 117**
Gross Exposure	**13 880 357**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**18 542 629**
Expected credit losses	**(517 930)**	**(145)**			**(73)**				**(518 148)**
Net exposure	**13 362 427**	**1 059 520**	**191 990**	**48 769**	**890 439**	**2 251 097**	**-**	**220 239**	**18 024 481**
Credit exposure by industry 2018									
Private individuals	7 528 220	-	-	-	-	-	-	-	7 528 220
Mining companies	211 581	-	-	-	-	-	-	-	211 581
Parastatals	131 801	-	-	-	-	-	-	-	131 801
Business	4 189 978	-	-	-	-	-	-	-	4 189 978
Financial institutions	330 364	1 053 317	811 422	19 058	543 948	1 901 953	513	186 138	4 846 713
Gross exposure	**12 391 944**	**1 053 317**	**811 422**	**19 058**	**543 948**	**1 901 953**	**513**	**186 138**	**16 908 321**
Expected credit losses	**(557 265)**	**(51)**	**-**	**-**	**(238)**	**-**	**-**	**-**	**(557 554)**
Net exposure	**11 834 679**	**1 053 266**	**811 422**	**19 058**	**543 710**	**1 901 953**	**513**	**186 138**	**16 350 767**

50. Risk management (continued)
50.1 Credit risk (continued)

Consolidated

	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000	Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
Credit exposure by area									
2019									
Botswana	**13 856 510**	**461 313**	**-**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**17 728 440**
South Africa	**-**	**74 487**	**191 990**	**-**	**-**	**-**	**-**	**-**	**266 477**
SADC	**23 847**	**225**	**-**	**-**	**-**	**-**	**-**	**-**	**24 072**
UK	**-**	**164 148**	**-**	**-**	**-**	**-**	**-**	**-**	**164 148**
Europe	**-**	**121 871**	**-**	**-**	**-**	**-**	**-**	**-**	**121 871**
Other	**-**	**1 637**	**-**	**-**	**-**	**-**	**-**	**-**	**1 637**
USA	**-**	**235 984**	**-**	**-**	**-**	**-**	**-**	**-**	**235 984**
Gross exposure	**13 880 357**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**18 542 629**
Expected credit losses	**(517 930)**	**(145)**			**(73)**				**(518 148)**
Net exposure	**13 362 427**	**1 059 520**	**191 990**	**48 769**	**890 439**	**2 251 097**	**-**	**220 239**	**18 024 481**
Credit exposure by area									
2018									
Botswana	12 124 092	300 010	-	19 058	543 948	1 901 953	513	186 166	15 075 740
South Africa	-	6 848	810 866	-	-	-	-	-	817 714
SADC	267 852	644	556	-	-	-	-	-	269 052
UK	-	347 093	-	-	-	-	-	-	347 093
Europe	-	3 865	-	-	-	-	-	-	3 865
Other	-	530	-	-	-	-	-	-	530
USA	-	394 327	-	-	-	-	-	-	394 327
Gross exposure	**12 391 944**	**1 053 317**	**811 422**	**19 058**	**543 948**	**1 901 953**	**513**	**186 166**	**16 908 321**
Expected credit loss	**(557 265)**	**(51)**			**(238)**				
Net exposure	**11 861 679**	**1 053 266**	**811 422**	**19 058**	**543 710**	**1 901 953**	**513**	**186 166**	**16 350 767**

Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

50. Risk management (continued)
50.1 Credit risk (continued)

Company

	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000	Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
Credit exposure by area									
2019									
Botswana	**13 856 510**	**461 313**	**-**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**17 728 440**
South Africa	**-**	**74 487**	**191 990**	**-**	**-**	**-**	**-**	**-**	**266 477**
SADC	**23 847**	**225**	**-**	**-**	**-**	**-**	**-**	**-**	**24 072**
UK	**-**	**164 148**	**-**	**-**	**-**	**-**	**-**	**-**	**164 148**
Europe	**-**	**121 871**	**-**	**-**	**-**	**-**	**-**	**-**	**121 871**
Other	**-**	**1 637**	**-**	**-**	**-**	**-**	**-**	**-**	**1 637**
USA	**-**	**235 984**	**-**	**-**	**-**	**-**	**-**	**-**	**235 984**
Gross exposure	**13 880 357**	**1 059 665**	**191 990**	**48 769**	**890 512**	**2 251 097**	**-**	**220 239**	**18 542 629**
Expected credit losses	**(517 930)**	**(145)**			**(73)**				**(518 148)**
Net exposure	**13 362 427**	**1 059 520**	**191 990**	**48 769**	**890 439**	**2 251 097**	**-**	**220 239**	**18 024 481**
Credit exposure by area									
2018									
Botswana	12 124 092	300 010	-	19 058	543 948	1 901 953	513	186 138	15 075 712
South Africa	-	6 848	810 866	-	-	-	-	-	817 714
SADC	267 852	644	556	-	-	-	-	-	269 052
UK	-	347 093	-	-	-	-	-	-	347 093
Europe	-	3 865	-	-	-	-	-	-	3 865
Other	-	530	-	-	-	-	-	-	530
USA	-	394 327	-	-	-	-	-	-	394 327
Gross exposure	**12 391 944**	**1 053 317**	**811 422**	**19 058**	**543 948**	**1 901 953**	**513**	**186 138**	**16 908 293**
Expected credit loss	**(557 265)**	**(51)**	**(557 554)**	**(557 554)**	**(238)**	**(557 554)**		**(557 554)**	**(557 554)**
Net exposure	**11 834 679**	**1 053 266**	**811 422**	**19 058**	**543 710**	**1 901 953**	**513**	**186 138**	**16 350 739**

Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

50. Risk management (continued)
50.4 Credit risk (continued)

Consolidated and Company

	Commitments not on the statement of financial position P'000	Total P'000

Off – Balance sheet industrial analysis

	2019	2018
Private individuals	411 533	254 636
Mining companies	244 075	370 586
Parastatals	66 680	98 042
Business	1 876 080	1 777 551
Financial institutions	22 862	97 351
Gross exposure	2 621 230	2 598 166
Net exposure	2 621 230	2 598 166

50.5 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principle cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

Consolidated

	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Total P'000
Liabilities						
2019						
Due to related parties	575 824	-	-	-	-	575 824
Customer accounts	10 721 638	1 442 831	1 778 781	434 292	-	14 377 542
Debt Securities in issue	-	-	-	-	350 673	350 673
Subordinated debt	-	-	-	-	358 816	358 816
Deposits form banks	155 226	147 746	-	-	-	302 972
Other payables	557 412	-	-	-	-	557 412
Commitments not recognised on the statement of financial position	2 621 230	-	-	-	-	2 621 230
	14 631 330	1 590 577	1 778 781	434 292	709 489	19 144 469

50. Risk management (continued)
50.5 Liquidity risk (continued)

Consolidated

	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Total P'000
Liabilities						
2018						
Due to related parties	1 525 543	-	-	-	-	1 525 543
Customer accounts	9 204 941	1 404 184	880 752	364 743	-	11 854 620
Debt securities in issue	-	-	281 732	255 935	-	537 667
Subordinated debt	-	-	-	-	358 356	358 356
Deposits form Banks	282 566	75 406	-	-	-	357 972
Other payables	333 409	-	-	-	-	333 409
Commitments not recognised on the statement of financial position	2 598 173	-	-	-	-	2 598 173
	13 944 632	1 479 590	1 162 484	620 678	358 356	17 565 740

Company

	Less than 1 month P'000	**1-3 months P'000**	**3-12 months P'000**	**1-5 years P'000**	**5+ years P'000**	**Total P'000**
Liabilities						
2019						
Due to related parties	**611 322**	**-**	**-**	**-**	**-**	**611 322**
Customer accounts	**10 720 637**	**1 442 831**	**1 778 781**	**434 292**	**-**	**14 376 541**
Debt securities in issue	**-**	**-**	**-**	**-**	**350 673**	**350 673**
Subordinated debt	**-**	**-**	**-**	**-**	**358 816**	**358 816**
Deposits form banks	**155 226**	**147 746**	**-**	**-**	**-**	**302 972**
Other payables	**555 949**	**-**	**-**	**-**	**-**	**555 949**
Commitments not recognised on the statement of financial position	**2 621 230**	**-**	**-**	**-**	**-**	**2 621 230**
	14 664 364	**1 590 577**	**1 778 781**	**434 292**	**709 489**	**19 177 503**
2018						
Due to related parties	1 556 637	-	-	-	-	1 556 637
Customer accounts	9 203 975	1 404 184	880 752	364 743	-	11 853 654
Debt securities in issue	-	-	281 732	255 935	-	537 667
Subordinated debt	-	-	-	-	358 356	358 356
Deposits form Banks	282 566	75 406	-	-	-	357 972
Other payables	328 750	-	-	-	-	328 750
Commitments not recognised on the statement of financial position	2 598 173	-	-	-	-	2 598 173
	13 970 101	1 479 590	1 162 484	620 678	358 356	17 591 209

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

50. Risk management (continued)
50.5 Liquidity risk (continued)

Details of the reported Group ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	Consolidated and Company		
	Less than 1 month P'000	5+ years P'000	Total P'000
2019			
Gross settled:			
Derivative financial assets	**926 418**	**-**	**926 418**
Derivative financial liabilities	**839 892**	**-**	**839 892**
2018			
Gross settled:			
Derivative financial assets	1 340 641	-	1 340 641
Derivative financial liabilities	562 767	-	562 767

Stress liquidity risk

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from bank specific or systemic stress events. Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Bank's operations.

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:
- Determining, evaluating and testing the impact of adverse liquidity scenarios;
- Identifying appropriate rapid and effective responses to a crisis; and
- Setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that during a liquidity stress event, the Bank's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis are used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans. A detailed contingent funding and liquidity plan has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. To monitor the percentage of long-term assets maturing after 1 year as a percentage of total liabilities, a medium term mismatch ratio for both foreign currency and local currency is performed individually. Net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator, the Bank of Botswana. Primary reserve held is 5% of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

50. Risk management (continued)

50.6 Liquidity risk (continued)

Stress liquidity risk (continued)

Consolidated and Company

	2019	2018
At 31 December		
Foreign currency	**12%**	5%
Local currency	**39%**	33%
Average for the period		
Foreign currency	**9%**	3%
Local currency	**36%**	34%
Maximum for the period		
Foreign currency	**12%**	14%
Local currency	**40%**	38%
Minimum for the period		
Foreign currency	**5%**	0%
Local currency	**31%**	30%

51. Fair value of financial instruments not held at fair value

All of the below financial assets and financial liabilities have carrying amounts that approximate their fair values.

The disclosed fair value of these financial assets and financial liabilities measured at amortised cost approximate their carrying value for the following reasons:

- The loans and advances carrying amount approximates fair value to the use of expected cash flows and the frequent repricing of instruments
- The deposits, debt securities in issue and borrowed funds fair value of amortised cost deposits repayable on demand is considered to the equal to their carrying value, and
- Other financial assets liabilities are short-term in nature or have interest rates that reprice frequently

	2019 Carrying amount P'000	2019 Fair value P'000	2018 Carrying amount P'000	2018 Fair value P'000
Consolidated				
Financial Assets				
Cash	**529 450**	529 450	**476 107**	476 107
Balances at central bank	**890 439**	890 439	**543 710**	543 710
Due from related companies	**191 990**	191 990	**811 422**	811 422
Loans and advances to banks	**1 059 520**	1 059 520	**1 053 266**	1 053 266
Debt securities	**-**	-	**80**	80
Loans and advances to customers	**13 362 427**	13 362 427	**11 834 679**	11 834 679
Other receivables	**220 239**	220 239	**186 166**	186 166
Total	**16 254 065**	16 245 065	**14 925 430**	14 925 430
Financial Liabilities				
Deposits from banks	**302 972**	302 972	**357 972**	357 972
Due from related companies	**575 824**	575 824	**1 525 543**	1 525 543
Deposits due to customers	**14 377 542**	14 377 542	**11 854 620**	11 854 620
Debt securities in issue	**350 673**	350 673	**537 667**	537 667
Other payables	**557 412**	557 412	**333 409**	333 409
Subordinated debt	**358 816**	358 816	**358 356**	358 356
Total	**16 523 239**	16 523 239	**14 967 567**	14 967 567

51. Fair value of financial instruments not held at fair value (continued)

	2019 Carrying amount P'000	2019 Fair value P'000	2018 Carrying amount P'000	2018 Fair value P'000
Company				
Financial assets				
Cash	**529 450**	529 450	476 107	476 107
Balances at central bank	**890 439**	890 439	543 710	543 710
Due from related companies	**191 990**	191 990	811 422	811 422
Loans and advances to banks	**1 059 520**	1 059 520	1 053 266	1 053 266
Debt securities	**80**	80	80	80
Loans and advances to customers	**13 362 427**	13 362 427	11 834 679	11 834 679
Other receivables	**220 239**	220 239	186 138	186 138
Total	**16 254 065**	16 245 065	14 905 402	14 905 402
Financial liabilities				
Deposits from banks	**302 972**	302 972	357 972	357 972
Due from related companies	**611 322**	611 322	1 556 637	1 556 637
Deposits due to customers	**14 376 541**	14 376 541	11 853 654	11 853 654
Debt securities in issue	**350 673**	350 673	537 667	537 667
Other payables	**555 949**	555 949	328 750	328 750
Subordinated debt	**358 816**	358 816	358 356	358 356
Total	**16 556 273**	16 556 273	14 993 036	14 993 036

51.1. Fair value hierarchy

The following table provides an analysis of the Group's financial assets and financial liabilities that are not measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the instrument's fair value is observable. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. The following table provides an analysis of the Group's financial assets and financial liabilities that are not measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the instrument's fair value is observable. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined below.

Level 1
Items valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.
An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2
Items valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:
- Quoted price for similar assets or liabilities in an active market;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- Valuation model using observable inputs; and
- Valuation model using inputs derived from/corroborated by observable market data.

Level 3
Items valued using significant inputs that are not only based on observable market data. These include inputs based on an entity's own assumptions and assumptions applied by other market participants in pricing similar assets.

51. Fair value of financial instruments not held at fair value (continued)

51.1. Fair value hierarchy (continued)

Consolidated

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2019				
Financial assets				
Cash	**529 450**	**-**	**-**	**529 450**
Balances at central bank	**890 439**	**-**	**-**	**890 439**
Balances with related companies	**-**	**191 990**	**-**	**191 990**
Loans and advances to banks	**-**	**1 059 520**	**-**	**1 059 520**
Loans and advances to customers	**-**	**680 000**	**12 682 427**	**13 362 427**
Other receivables	**-**	**-**	**220 239**	**220 239**
	1 419 889	**1 931 510**	**12 902 666**	**16 254 065**
Financial lLiabilities				
Deposits from banks	**-**	**302 972**	**-**	**302 972**
Balances with related companies	**-**	**575 824**	**-**	**575 824**
Deposits due to customers	**-**	**14 377 542**	**-**	**14 377 542**
Debt securities in issue	**-**	**350 673**	**-**	**350 673**
Other payables	**-**	**-**	**557 412**	**557 412**
Subordinated debt	**-**	**358 816**	**-**	**358 816**
	-	**15 965 827**	**557 412**	**16 523 239**
2018				
Financial assets				
Cash	476 107	-	-	476 107
Balances at central bank	543 710	-	-	543 710
Balances with related companies	-	811 422	-	811 422
Loans and advances to banks	-	1 053 266	-	1 053 266
Loans and advances to customers	-	330 000	11 504 679	11 834 679
Other receivables	-	-	133 286	133 286
	1 019 817	**2 194 688**	**11 637 965**	**14 852 470**
Financial liabilities				
Deposits from banks	-	357 972	-	357 972
Balances with related companies	-	1 525 543	-	1 525 543
Deposits due to customers	4 960 833	6 893 787	-	11 854 620
Debt securities in issue	-	537 667	-	537 667
Trade and other payables	-	-	333 409	333 409
Subordinated debt	-	358 356	-	358 356
	4 960 833	**9 673 325**	**333 409**	**14 967 567**

51. Fair value of financial instruments not held at fair value (continued)

51.1. Fair value hierarchy (continued)

Company

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2019				
Financial assets				
Cash	529 450	-	-	529 450
Balances at central bank	890 439	-	-	890 439
Balances with related companies	-	191 990	-	191 990
Loans and advances to banks	-	1 059 520	-	1 059 520
Loans and advances to customers	-	680 000	12 682 427	13 362 427
Other receivables	-	-	220 239	220 239
	1 419 889	1 931 510	12 902 666	16 254 065
Financial liabilities				
Deposits from banks	-	302 972	-	302 972
Balances with related companies	-	611 322	-	611 322
Deposits due to customers	-	14 376 541	-	14 376 541
Debt securities in issue	-	350 673	-	350 673
Other payables	-	-	555 949	555 949
Subordinated debt	-	358 816	-	358 816
	-	16 000 324	555 949	16 556 273

Company

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2018				
Financial assets				
Cash	476 107	-	-	476 107
Balances at central bank	543 710	-	-	543 710
Balances with related companies	-	811 422	-	811 422
Loans and advances to banks	-	1 053 266	-	1 053 266
Loans and advances to customers	-	330 000	11 504 679	11 834 679
Other receivables	-	-	186 138	186 138
	1 019 817	2 194 688	11 690 817	14 852 470
Financial liabilities				
Deposits from banks	-	357 972	-	357 972
Balances with related companies	-	1 556 637	-	1 556 637
Deposits due to customers	4 960 833	6 892 821	-	11 853 654
Debt securities in issue	-	537 667	-	537 667
Trade and other payables	-	-	328 750	328 750
Subordinated debt	-	358 356	-	358 356
	4 960 833	9 703 453	328 750	14 993 280

52. Fair value hierarchy of assets and liabilities held at fair value

52.1 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Banked into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated and Company

	Level 1 P'000	Level 2 P'000	Total P'000
2019			
Recurring fair value measurements			
Financial assets			
Derivative financial instruments	**-**	**48 769**	**48 769**
	-	**48 769**	**48 769**
Fair value through other comprehensive income			
Treasury bills and other eligible bills	**1 746 517**	**-**	**1 746 517**
Treasury bonds	**504 580**	**-**	**504 580**
	2 251 097	**-**	**2 251 097**
Financial liabilities			
Fair value through profit or loss			
Derivative financial instruments	**-**	**36 074**	**36 074**
	-	**36 074**	**36 074**
2018			
Recurring fair value measurements			
Financial assets			
Fair value through profit or loss - held for trading			
Trading portfolio assets	-	513	513
Derivative financial instruments	-	19 058	19 058
	-	**19 571**	**19 571**
Fair value through other comprehensive income			
Treasury bills and other eligible bills	1 748 732	-	1 748 732
Treasury bonds	153 221	-	153 221
	1 901 953	**-**	**1 901 953**
Financial liabilities			
Fair value through profit or loss - held for trading			
Derivative financial instruments	-	12 238	12 238
	-	**12 238**	**12 238**

53. Segmental reporting

Statement of financial position

The Group comprises the following main business segments:
- Corporate and Investment Banking (CIB)
- Retail, Business Banking and other (RBB)

The Group has identified its reportable segments based on a combination of products and services offered to customers and clients and in the manner in which the Group's businesses are managed and reported to the CODM.

The following summary describes the operations in each of the Group's reportable segments:
CIB: offers corporate and investment banking solutions. The business model centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. Corporate, Markets, Sales and Treasury have been aggregated into CIB.

RBB: provides a comprehensive range of commercial banking products and services to medium, small business and retail customers. The RBB business unit Retail, Business Banking, Head Office and Treasury have been aggregated into the RBB segment.
Retail Banking: offers various products and services to customers through the following divisions:
- Home Loans: offers residential property-related finance solutions to customers
- Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers
- Card: provides credit cards and merchant acquiring. It includes financial services, which offers credit cards
- Personal Loans: offers unsecured instalment loans
- Transactional and Deposits: offers a range of transactional banking, savings and investment products, customer loyalty programme and services, and
- Other: head office costs, which are non-banking costs.

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2019			
Assets			
Derivative financial instruments	**-**	**48 769**	**48 769**
Fair value through OCI	**2 251 097**	**-**	**2 251 097**
Loans and advances to customers	**9 175 457**	**4 186 970**	**13 362 427**
Liabilities			
Customer accounts	**5 544 337**	**8 833 205**	**14 377 542**
Derivative financial instruments	**-**	**36 074**	**36 074**
Debt securities in issue	**350 673**	**-**	**350 673**
Subordinated debt	**358 816**	**-**	**358 816**
2018			
Assets			
Trading portfolio assets	-	513	513
Derivative financial instruments	-	19 058	19 058
Fair value through OCI	1 901 953	-	1 901 953
Loans and advances to customers	7 989 942	3 844 737	11 834 679
Liabilities			
Customer accounts	5 229 145	6 625 475	11 854 620
Derivative financial instruments	-	12 238	12 238
Debt securities in issue	537 667	-	537 667
Subordinated debt	358 356	-	358 356

53. Segmental reporting (continued)

Company

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2019			
Assets			
Derivative financial instruments	-	48 769	48 769
Fair value through OCI	2 251 097	-	2 251 097
Loans and advances to customers	9 175 457	4 186 970	13 362 427
Liabilities			
Customer accounts	5 543 336	8 833 205	14 376 541
Derivative financial instruments	-	36 074	36 074
Debt securities in issue	350 673	-	350 673
Subordinated debt	358 816	-	358 816
2018			
Assets			
Trading portfolio assets	-	513	513
Derivative financial instruments	-	19 058	19 058
Fair value through OCI	1 901 953	-	1 901 953
Loans and advances to customers	7 989 942	3 844 737	11 834 679
Liabilities			
Customer accounts	5 228 179	6 625 475	11 853 654
Derivative financial instruments	-	12 238	12 238
Debt securities in issue	537 667	-	537 667
Subordinated debt	358 356	-	358 356

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
53.1 Statement of comprehensive income				
Consolidated				
2019				
Net interest income	778 226	282 309	-	1 060 535
Net fee and commission income	344 133	43 247	-	387 380
Net trading income and other income	52 072	131 886	-	183 958
Total income	1 174 431	457 442	-	1 631 873
Expected credit losses	(80 171)	46 148	-	(34 023)
Net operating income	1 094 260	503 590	-	1 597 850
Operating expenses	(659 193)	(178 084)	(83 001)	(920 278)
Profit before tax	435 067	325 506	(83 001)	(677 572)
Taxation	(103 115)	(71 797)	17 948	(156 964)
Profit for the year	331 952	253 709	(65 053)	520 608

During the year CODM made changes to inter segmental cost allocation which resulted in changes to segmental profit allocation compared to the previous year.

53. Segmental reporting (continued)

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
53.1 Statement of comprehensive income (continued)				
Consolidated				
2018				
Net interest income	734 946	264 317	-	999 263
Net fee and commission income	314 634	46 780	-	361 414
Net trading income and other income	37 860	132 295	-	170 155
Total income	**1 087 440**	**443 392**	**-**	**1 530 832**
Expected Credit Losses	36 813	(130 541)	-	(93 728)
Net operating income	**1 124 253**	**312 851**	**-**	**1 437 104**
Operating expenses	(664 956)	(133 667)	(50 557)	(849 180)
Profit before tax	**459 297**	**179 184**	**(50 557)**	**587 924**
Taxation	(100 513)	(43 989)	11 122	(133 380)
Profit for the year	**358 784**	**135 195**	**(39 435)**	**454 544**
Company				
2019				
Net interest income	**778 226**	**282 309**	**-**	**1 060 535**
Net fee and commission income	**297 667**	**43 247**	**-**	**340 914**
Net trading income and other income	**52 072**	**131 886**	**-**	**183 958**
Total income	**1 127 966**	**457 442**	**-**	**1 585 407**
Expected Credit Losses	**(80 171)**	**46 148**	**-**	**(34 023)**
Net operating income	**1 047 794**	**503 590**	**-**	**1 551 384**
Operating expenses	**(625 025)**	**(178 084)**	**(83 001)**	**(886 110)**
Profit before tax	**422 769**	**325 506**	**(83 001)**	**665 274**
Taxation	**(100 675)**	**(71 797)**	**17 948**	**(154 524)**
Profit for the year	**322 094**	**253 709**	**(65 053)**	**510 750**

During the year CODM made changes to inter segmental cost allocation which resulted in changes to segmental profit allocation compared to the previous year.

2018				
Net interest income	734 946	264 317	-	999 263
Net fee and commission income	269 816	46 780	-	316 596
Net trading income and other income	37 860	132 295	-	170 155
Total income	**1 042 622**	**443 392**	**-**	**1 486 014**
Expected Credit Losses	36 813	(130 541)	-	(93 728)
Net operating income	**1 079 435**	**312 851**	**-**	**1 392 286**
Operating expenses	(629 338)	(133 667)	(50 557)	(813 562)
Profit before tax	**450 097**	**179 184**	**(50 557)**	**578 724**
Taxation	(98 485)	(43 989)	11 122	(131 352)
Profit for the year	**351 612**	**135 195**	**(39 435)**	**447 372**

54. Share-based payments

54.1 Description of the share-based payment arrangements

The following share-based payment arrangements were in existence during the current and prior years:

	2019 P'000	2018 P'000
54.2 Share options expense recognised during the year		
Employee expenses		
Equity-settled share based payments	**(175)**	(2 956)
Total expense recognised as employee costs	**(175)**	(2 966)

Share based reserves comprise of the Incentive Share Plan Scheme (Incentive Shares). Incentive Shares are granted to participants in the form of a provisional allocation of Absa Africa Group shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares.

Absa Group Limited Joiners Share Value Plan

The Joiners Share Value Plan ("JSVP") is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees Barclays Africa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to five years.

Absa Group Limited Share Value Plan

The Share Value Plan ("SVP") is a cash-settled share-based payment arrangement. The SVP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition. The amount that is paid to the participants is equal to the market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Absa Group Limited Retention Plan

The Share Value Retention Plan ("SVP Cliff") is a cash-settled share-based payment arrangement. The SVP Cliff awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Barclays Africa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

54. Share-based payments (continued)

54.2 Share options expense recognised during the year (continued)

Consolidated and Company

	Number of awards opening balance		Granted	Forfeited	Exercised	Closing balance
2019						
Equity Settled						
Long term incentive plan (LTIP)	**91 779**		**23 334**	**(10 228)**	**-**	**104 885**
Joiners share value plan (JSVP)	**-**		**5 480**	**-**	**(1 846)**	**3 634**
Share value plan (SVP)	**7 647**		**(2 020)**	**(889)**	**(3 009)**	**1 729**
2018						
Equity Settled						
Long term incentive plan (LTIP)	91 779	-	-	-	-	91 779
Share value plan (SVP)	4 906	-	4 964	-	(2 223)	7 647

	Weighted average share price at the exercise date		Weighted average contractual life of awards outstanding (years)			
	2019	2018	**2019**	2018	**2019**	2018
Equity Settled						
Long term incentive plan (LTIP)	**-**	-	**3**	2	**-**	108
Joiners share value plan (JSVP)	**177**	-	**1**	-	**177**	-
Share value plan (SVP)	**167**	120	**2**	2	**167**	136

55. Related parties

Absa Group Limited ("AGL") owns 67.82% of the ordinary shares of the Group. The rest are widely held on the Botswana Stock Exchange.

Significant subsidiaries

The Bank has a 100% owned subsidiary, Barclays Insurance Services (Pty) Limited, which is an insurance sales agent.

Consolidated

	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000	Recoveries received P'000	Recoveries paid P'000	Transitional Service costs P'000
2019								
Shareholders								
Absa Group Limited	**-**	**(65 923)**	**-**	**-**	**(299 999)**	**-**	**-**	**(55 651)**
	-	**(65 923)**	**-**	**-**	**(299 999)**	**-**	**-**	**(55 651)**
Other								
Absa Bank Limited	**-**	**-**	**22 479**	**(30 778)**	**-**	**-**	**-**	**-**
Other Absa Group Limited entities	**-**	**-**	**-**	**(17 213)**	**-**	**746**	**6 063**	**-**
	-	**-**	**22 479**	**(47 992)**	**-**	**746**	**6 063**	**-**

55. Related parties (continued)

2018

Shareholders								
Absa Group Limited	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
Other								
Absa Bank Limited	-	-	27 548	(18 882)	-	-	-	-
Other Absa Group Limited entities	-	-	4 528	(9 851)	-	466	(122)	-
	-	-	32 076	(28 733)	-	466	(122)	-

Transactions with key management personnel

IAS 24 Related Party Disclosures ("IAS 24"), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). A number of banking transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions.

Company

	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000	Recoveries received P'000	Recoveries paid P'000	Transitional Service costs P'000
2019								
Shareholders								
Absa Group Limited	**-**	**(65 923)**	**-**	**-**	**(299 999)**	**-**	**-**	**(55 651)**
	-	**(65 923)**	**-**	**-**	**(299 999)**	**-**	**-**	**(55 651)**
Other								
Absa Bank Limited	**-**	**-**	**22 479**	**(30 778)**	**-**	**-**	**-**	**-**
Other Absa Group Limited entities	**-**	**-**	**-**	**(17 213)**	**-**	**746**	**6 063**	**-**
	-	**-**	**22 479**	**(47 992)**	**-**	**746**	**6 063**	**-**
2018								
Shareholders								
Absa Group Limited	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
Other	-	-	27 548	(18 882)	-	-	-	-
Absa Bank Limited	-	-	4 528	(9 851)	-	466	(122)	-
Other Absa Group Limited entities	-	-	32 076	(28 733)	-	466	(122)	-
	-	-	32 076	(28 733)	-	466	(122)	-

Transactions with key management personnel

IAS 24 Related Party Disclosures ("IAS 24"), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). A number of banking transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions.

55. Related parties (continued)

Consolidated

	Current amounts receivable P'000	Loans to related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from related parties P'000	Total due to related parties P'000
2019						
Shareholders						
Absa Group Limited	**2 494**	**-**	**2 494**	**39 861**	**-**	**39 861**
	2 494	**-**	**2 494**	**39 861**	**-**	**39 861**
Other related parties						
Absa Bank Limited	**-**	**188 793**	**188 793**	**-**	**259 575**	**260 408**
Other Absa Group Limited entities	**703**	**-**	**703**	**9 649**	**266 739**	**275 555**
	703	**188 793**	**189 496**	**9 649**	**526 314**	**535 963**
Total	**3 197**	**188 793**	**191 990**	**49 510**	**526 314**	**575 824**
2018						
Shareholders						
Absa Group Limited	3 706	-	3 706	59 841	-	59 841
	3 706	-	3 706	59 841	-	59 841
Other related parties						
Absa Bank Limited	-	807 160	807 160	-	704 499	704 499
Other Absa Group Limited entities	476	80	556	3 457	757 746	761 203
	476	807 240	807 716	3 457	1 462 245	1 465 702
Total	**4 182**	**807 240**	**811 422**	**63 298**	**1 462 245**	**1 525 543**

Company

	Current amounts receivable P'000	Loans to related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from related parties P'000	Total due to related parties P'000
2019						
Shareholders						
Absa Group Limited	**2 494**	**-**	**2 494**	**39 861**	**-**	**39 861**
	2 494	**-**	**2 494**	**39 861**	**-**	**39 861**
Other related parties	**-**	**117 128**	**117 128**	**-**	**259 575**	**260 408**
Absa Bank Limited	**-**	**-**	**-**	**-**	**38 324**	**38 324**
Absa Insurance Service (Proprietary) Limited	**-**	**-**	**-**	**34 497**	**1 001**	**35 498**
Other Absa Group Limited entities	**703**	**-**	**703**	**9 649**	**266 739**	**276 388**
	703	**117128**	**117 831**	**44146**	**527315**	**571 461**
Total	**3 197**	**117 128**	**120 325**	**84 007**	**527 315**	**611 322**

55. Related parties (continued)

Company

	Current amounts receivable P'000	Loans to related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from related parties P'000	Total due to related parties P'000
2018						
Shareholders						
Absa Group Limited	3 706	-	3 706	59 841	-	59 841
	3 706	**-**	**3 706**	**59 841**	**-**	**59 841**
Other related parties						
Absa Bank Limited	-	807 160	807 160	-	704 499	704 499
Absa Insurance Service (Proprietary) Limited				30 128	966	31 094
Other Absa Group Limited entities	476	80	556	3 457	757 746	761 203
	476	807 240	807 716	33 585	1 463 211	1 496 796
Total	**4 182**	**807 240**	**811 422**	**93 426**	**1 463 211**	**1 556 637**

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Group, including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable. These loans have been assessed for ECL provisions under IFRS 9.

The Group provides and utilises services of its holding company and other group entities, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services.

The recharges and other costs are unsecured, interest free and are repayable on demand. Current accounts, fixed deposits, loans and deposits held with the group are at normal commercial terms.

The current amounts payable and receivable relate to management fees receivable and payable from related parties. The loans to and from related parties relate to current accounts and short term fixed deposit accounts. These balances form part of the cash on hand on the Statement of cash flows. There were no impairment provisions that related to balances and transactions with related parties.

Consolidated and Company

	Remuneration P'000	Pension contributions P'000	Share-based payments P'000	Interest received P'000	Interest paid P'000	Total P'000
2019						
Directors compensation						
Non-executive directors	**(2 070)**	**-**	**-**	**36**	**-**	**(2 034)**
Executive directors	**(8 384)**	**(399)**	**(143)**	**132**	**-**	**(8 794)**
	(10 454)	**-**	**(143)**	**168**	**-**	**(10 828)**
Key management compensation						
Key management	**(18 253)**	**(1 217)**	**(279)**	**581**	**(51)**	**(19 219)**
	(28 707)	**(1 616)**	**(422)**	**749**	**(51)**	**(30 047)**

55. Related parties (continued)

Consolidated and Company

	Remuneration P'000	Pension contributions P'000	Share-based payments P'000	Interest received P'000	Interest paid P'000	Total P'000
2018						
Directors compensation						
Non-executive directors	(1 924)	-	-	33	-	(1 891)
Executive directors	(7 948)	-	(2 864)	-	-	(10 812)
	(9 872)	-	(2 864)	33	-	(12 703)
Key management compensation						
Key management	(20 207)	(1 303)	(1)	15	(42)	(21 358)
	(30 079)	(1 303)	(2 865)	48	(42)	(34 061)

56. Capital commitments and contingencies

	Consolidated		Company	
	2019 P'000	2018 P'000	**2019 P'000**	2018 P'000
Capital commitments				
Authorised and contracted for	**17 224**	4 913	**17 224**	4 913
Authorised but not yet contracted for	**14 194**	24 178	**14 194**	24 178
	31 418	29 091	**31 418**	29 091
Contingent liabilities				
Undrawn commitments to customers	**2 377 000**	2 060 405	**2 377 000**	2 060 405
Letters of credit	**28 591**	320 739	**28 591**	320 739
Guarantees	**215 638**	217 022	**215 638**	217 022
	2 621 229	2 598 166	**2 621 229**	2 598 166

Undrawn commitments to customers are commitments to lend funds to customers, subject to certain conditions. Such commitments are generally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of the agreed facility. Short term commitments are those which have an original maturity of less than a year and may be unconditionally cancelled at any time.

Letters of credit commit the Bank to make payments to third parties to facilitate trade. These are short term, self-liquidating contingent liabilities arising from the movement of goods.

During the current year the Bank revised the interpretation of ICC Uniform Customs and Practice for Documentary Credits Rules ("UCP 600") which resulted in items that previously classified as off balance sheet to qualify for on balance sheet items. In 2019 P328 000, LC's and guarantees was recognized on balance sheet under lactoans and advances. (2018; Nil)

Performance and bid bonds are transaction-related contingencies where the Bank guarantees a transaction or performance. They generally attract a 50% risk weighting unless the nature of the counterparty allows otherwise.

57. Events after the reporting date

At the date of finalisation of the annual financial statements, there were no material events that occurred subsequent to the statement of financial position date that require adjustment to in the financial statements. The following material subsequent events however requires disclosure in the financial statements:

Name change
On 10 February 2020, Barclays Bank of Botswana Limited (company registration number: 1732) advised its shareholders that it had obtained approval from the Companies and Intellectual Property Authority for the change of name, and has been issued with a new Certificate of Incorporation. The company is now operating under the name Absa Bank Botswana Limited (company registration number: Bw00001237900).

COVID-19 outbreak
On March 11, 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. The pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of finalization of the financial statements its effects are subject to significant levels of uncertainty.

The impact of the coronavirus will be closely monitored and assessed for its impact on the business. The Bank has undertaken a variety of measures and implemented contingency plans to mitigate the negative impact of the Corona virus pandemic. The response plan covers operational and credit risk responses to ensure that the Bank will be able to operate and service clients.

There could potentially be adverse effects on the valuation of some financial instruments as the global equity markets experience negative shocks and volatility. The Bank continues to monitor the markets to be proactive in maintaining adequate capital adequacy ratios. There is however a high chance that this continued pressure on global markets, as a result of the COVID-19 pandemic, would lead to significant unrealised market losses.

In light of the above, management has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, management is of the view that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. The board concurs with this assessment.

58. New accounting pronouncements

Adoption of new and revised standards
During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2019. Apart from the detail included in note 58 the adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies.

The Bank adopted the following standards, interpretations and amended standards during the year:

IFRS 16 Leases - replaces the previous leases accounting standard and eliminates the classification of leases as either operating leases or finance leases for lessees. The standard introduces a single accounting model instead, which recognises all leases on the statement of financial position. The Bank adopted IFRS 16 as of 1st January 2019 using the retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS17.

On transition to IFRS 16, the Bank recognized additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

In millions of Pula	
Right-of-use assets presented in property, plant and equipment	81 003
Lease liabilities	67 716
Retained earnings	(1 102)

IFRIC 23 Uncertainty Over Income Tax Treatments - Interpretation clarifying the accounting for uncertainties in income taxes. This standard has had no impact in the financials.

IAS 19 Employee Benefits - Amendments to clarify the determination of current service cost and net interest in the instance that a defined benefit plan amendment, curtailment or settlement takes place, as well as the effect on the asset ceiling of a plan amendment, curtailment or settlement. The adoption of IAS 19 has no had no material impact in the Bank's financial statements as disclosed in note 12.

58. New accounting pronouncements (continued)

New and revised International Financial Reporting Standards issued not yet effective
At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Standard	Annual periods beginning on or after
IAS 1	Classification of liabilities as current or non-current - Amendments which aim to help companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	1 January 2020
IFRS 3	Business Combinations - Amendments to the definitions included in the appendix to IFRS 3 which will assist entities in determining whether an acquisition made is of a business or a Bank of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.	Acquisitions on or after 1 January 2020

Apart from the instances detailed above the Bank is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

59. Shareholders information

	2019 No. of Ordinary shares held	2019 % holding	Ranking
Absa Group Limited	577 964 146	67.82	1
FNB Botswana Nominees (Pty) Ltd Re:BIFM BPOPF-Equity	36 298 202	4.26	2
FNB Botswana Nominees (Pty) Ltd Re:AA BPOPF Equity	28 664 335	3.36	3
Fnbbn (Pty) Ltd Re: Ag BPOPF Equity Portfolio B	27 314 605	3.21	4
Motor Vehicle Accident Fund	21 736 440	2.55	5
FNB Botswana Nominees (Pty) Ltd Re:IAM BPOPF Equity	18 926 719	2.22	6
FNB Botswana Nominees (Pty) Ltd Re:Ag BPOPF Equity	14 718 582	1.73	7
FNB Noms Bw (Pty) Ltd Re: BPOPF Equity Portfolio C - Ag	12 150 434	1.43	8
Stanbic Nominees Botswana Re BIFM Plef	10 369 483	1.22	9
Stanbic Nominees Botswana Re BIFM Mlf	9 750 267	1.14	10
Stanbic Nominees Botswana Re Investec Debswana Pension Fund	8 583 210	1.01	11
Stanbic Nominees Botswana Re Allan Gray Debswana Pf	5 457 974	0.64	12
Scbn (Pty) Ltd Re: Iam 030/30 Metropolitan Life Bw Policy	4 122 931	0.48	13
Stanbic Nominees Botswana Re:Investec Bw Manged Fund	3 326 559	0.39	14
Stanbic Nominees Botswana Re Aa Debswana Pension Fund	2 954 424	0.35	15
Scbn (Pty) Ltd Re: Bifm 028914400011 Ub Dc Pf	2 357 152	0.28	16
FNB Botswana Nominees (Pty) Ltd Re:IAM Bobdcspf	2 249 933	0.26	17
Scbn (Pty) Ltd Re:BIFM WUC Staff Pension Fund	2 085 300	0.25	18
FNB Botswana Nominees (Pty) Ltd Re:BIFM DPPF	1 797 288	0.21	19
Stanbic Nominees Botswana Re :BIFM Burs Employee Pf	1 772 754	0.21	20
Others	59 560 514	6.99	
Total Shareholding	**852 161 252**	**100**	

59. Shareholder information (continued)

Public shareholding	No. of shareholders	Number of shares	Shareholding %
Totals shares in issue at 31 December 2019	3 008	852 161 252	100.00%
Less: Non public shareholders	1	577 964 146	67.82%
Shareholders >10% and not Pension Funds regulated by NBFIRA	1	577 964 146	67.82%
Directors and associates	-	-	0.00%
Shares held by the public (as defined)	**3007**	**274 197 106**	**32.18%**

60. Value added statement

	2019 P'000	2018 P'000
Value created		
Income from services	1 893 151	1 741 428
Cost of services	(278 344)	(214 241)
Value created by operations	**1 614 807**	**1 527 187**
Non-operating income	17 066	3 636
Operating expenditure excluding staff costs and infrastructure costs	(340 768)	(322 450)
Total value created	**1 291 105**	**1 208 373**
Value distributed		
Employees- salaries and benefits	463 728	418 754
Shareholders-dividend	299 995	259 935
Government- taxation	156 964	133 380
Total value distributed	**920 687**	**812 069**
Value retained		
Retained income	220 613	194 609
Infrastructure costs	115 782	107 976
Total value retained	**336 395**	**302 585**
Total value distributed and retained	**1 257 082**	**1 114 654**

Notice to shareholders

for the year ended 31 December 2019

Annual General Meeting of the Shareholders of the Absa Bank Botswana Limited

Notice is hereby given that the 34th Annual General Meeting of shareholders of Absa Bank Botswana Limited shall be held by means of audio or audio and visual communication on Monday 29 June 2020 at/or about 12.30pm in terms of Article 11.1 (b) of the Constitution of the Company for the following purpose:

1. To receive and adopt the Annual Financial Statements for the year ended 31 December 2019 together with the Directors and Independent Auditor's reports thereon.
2. To confirm the appointment of Cosmas Moapare as Director in accordance with Section 20:10 of the Constitution
3. To confirm the appointment of Benjamin Monaheng Kodisang as Director in accordance with Section 20:10 of the Constitution
4. To confirm the appointment of Sari Helena Nikka as Director in accordance with Section 20:10 of the Constitution
5. To re-elect as a Director Kenneth Molosi who retires by rotation in accordance with Section 20:10 of the Constitution, and who being eligible, offers himself for re- election.
6. To re- lect as a Director Alfred Majaye Dube who retires by rotation and in accordance with Section 20:10 of the Constitution, and who being eligible, offers himself for re-election.
7. To approve the remuneration of the Directors for the ensuing year.
8. To approve the remuneration of the Auditors, KPMG Botswana, for the year ended 31 December 2019.
9. To approve the appointment of Auditors Ernst and Young Botswana for the ensuing year.
10. To approve, by special resolution, the amendment of the Constitution of the Company in terms of section 43(3) of the Companies Act to align it to current regulatory requirements and good corporate governance practices.
11. To approve, by special resolution, any substantial gifts made by the Company, details of which are available at the Company's registered office for perusal.

In the event that you wish to nominate any person(s) as directors or auditors other than one of the directors retiring or incumbent auditors, you must deliver to the Company Secretary, not less than 7 (seven) nor more than 14 (fourteen) clear days before the date of the meeting, a nomination signed by a member qualified to attend and vote at the meeting with notice by the nominated persons that they are willing to be elected as directors or auditors, as the case may be.

Proxies

A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend, speak and to vote in his/her stead. A proxy need not also be a member. A proxy form is available at the end of the Annual Report.

Proxy forms are also available at the office of the Company Secretary at Absa Bank Botswana Limited, Plot 74358, Building Four, Prime Plaza, Central Business District, Gaborone

Completed proxy forms must be deposited there not less than 48 hours before the meeting.

By order of the Board

Kealeboga N. Bojosi
Company Secretary

Registered office

5th Floor
Building 4 Prime Plaza, Plot 74358
Central Business District
Gaborone
Botswana

i Details of the audio and / or visual meeting will be shared with the shareholders no later than 10 days before the meeting. Shareholders are advised to contact contactus@corpservebotswana.com to RSVP for the meeting or further enquires

ii A draft of the constitution will be sent to shareholders simultaneously with the notice convening the Annual General Meeting and can also be viewed on the Company website www.absa.co.bw The draft constitution will also be made available for inspection by shareholders at the Company's registered office as well as through our transfer secretaries Transaction Management Services (Pty) Ltd t/a Corpserve Botswana at Unit 206, Second Floor, Plot 64516 Showgrounds Close, Fairgrounds / Tel: +267 393 2244

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1. A draft of the constitution will be sent to shareholders simultaneously with the notice convening the Annual General Meeting. The draft constitution will also be made available for inspection by shareholders at our registered office as well as through our transfer secretaries Transaction Management Services (Pty) Ltd t/a Corpserve Botswana.

Annexure to the notice to shareholders

for the year ended 31 December 2019

Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

Resolution 11. To approve, by special resolution, any substantial gifts made by the Company

1. Scholarships to Botswana Accountancy College in the amount of BWP 644 520.00
2. Scholarships to University of Botswana in the amount of BWP 697 582.00
3. Scholarships to Botswana University of Agriculture and Natural Sciences in the amount of BWP 700 000.00
4. Scholarships Botswana International University of Science Technology Resources in the amount of BWP 700 000.00
5. Maitisong Theatre Madi Majwana Financial Literacy Radio drama in the amount of BWP 600 000.00
6. Botswana Football Association in the amount of BWP3 000,000

Proxy form

for the year ended 31 December 2019

Please complete in block letters.

I / We _____
of _____
being a shareholder (s) of Absa Bank Botswana Limited, hereby appoint
_____
or failing him/her_____
or failing him/her_____

as my/our proxy to vote for me/us on my/our behalf at the 34th Annual General Meeting of the Company to be held by means of audio or audio and visual communication on Monday 29th June 2020 at 12:30hrs which will be held for purposes of passing the proposed resolutions and to vote for / against the resolutions and / or abstain from voting in respect of the following:

	For	**Against**	**Abstain**
Ordinary resolution 1			
Ordinary resolution 2			
Ordinary resolution 3			
Ordinary resolution 4			
Ordinary resolution 5			
Ordinary resolution 6			
Ordinary resolution 7			
Ordinary resolution 8			
Ordinary resolution 9			
Special resolution 1			
Special resolution 2			

As witness my hand this_____ day of _____2020

Signature _____

Witness _____

as my/our proxy to vote for me/us on my/our behalf at the 34th Annual General Meeting of the Company to be held by means of audio or audio and visual communication on Monday 29th June 2020 at 12:30hrs which will be held for purposes of passing the proposed resolutions and to vote for / against the resolutions and / or abstain from voting in respect of the following:

Note:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.

2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/ signatories.

3. This form of proxy should be signed and returned to the Registered Office of the Company, Head Office Fifth Floor, Building 4, Prime Plaza, Plot 74358, Gaborone, Central Business District or emailed to contactus@corpservebotswana.com no later than 48 hours before the meeting.

1. A draft of the constitution will be sent to shareholders simultaneously with the notice convening the Annual General Meeting. The draft constitution will also be made available for inspection by shareholders at our registered office as well as through our transfer secretaries Transaction Management Services (Pty) Ltd t/a Corpserve Botswana.

Prior to 10 February 2020, documents relating to Absa Bank Botswana Limited (Registered number BW00001237900) and regulated by the Bank of Botswana, were published under the name Barclays Bank of Botswana Limited (registered number BW00001237900) and regulated by the Bank of Botswana. Barclays Bank of Botswana Limited used Barclays trademarks under license from Barclays Plc.