# BARCLAYS

# Condensed results of the audited consolidated annual financial statements for the year ended 31 December 2018

**Economic outlook**

**Global and Sub-Saharan Africa**
Moderating activity and heightened risks are clouding global economic prospects. The International Monetary Fund projections point to a slowing growth from an estimated 3.7% in 2018 to 3.5 % in 2019. Business and consumer confidence has declined in advanced economies on the back of elevated trade tensions, high levels of policy uncertainty in Europe and the declining growth in China. Severe weather events raise the possibility of large swings in international food prices in 2019.

Rising global uncertainties pose a threat to Sub-Saharan Africa's fragile recovery. These uncertainties include US trade and monetary policies, downside risks to several markets (particularly China), the growth outlook for both the UK and the Eurozone due to Brexit, volatile weather conditions and rising fiscal vulnerabilities. There are also a few elections in key markets such as, South Africa, Senegal and Mozambique, which add to the domestic uncertainties. Although we expect the continued focus on infrastructure expansion, policy accommodation and improved agriculture output to support growth, an unfavourable global environment could weigh on the region in 2019. Our estimates point to growth of 3.4% in 2019 but with increased downside risk.

Despite the tougher global environment, we have raised 2019 projections for the region's two largest markets, Nigeria and South Africa. In Nigeria, we expect growth of 2.7% year-on-year on a stronger non-oil sector, while there is likely to be a greater focus on policy and budget implementation post the February elections. In South Africa, we expect growth of 1.7% year-on-year for 2019 on the assumption of middle-of-the-road policy settings after this year's elections.

Monetary policy authorities in Sub-Saharan Africa are likely to be more cautious this year amid an unfavourable growth-inflation mix. Ghana and Nigeria still have scope for further policy easing though some countries, including South Africa, Namibia and Zambia, stand ready to tighten. Low oil prices bode well for the inflation outlook, but a run-up in prices as a result of Organisation of the Petroleum Exporting Countries (OPEC) cuts, and weaker FX, could drive inflation up faster than expected.

**Domestic economic outlook**
We believe economic growth in 2018 will be reported as significantly stronger 4.5% vs. 2.9% in 2017, as data already show that cumulative growth in the first 9 months of 2018 was 4.6% year-on-year. However, growth may falter in 2019, falling to 4.2% (Botswana Government forecasts) as global demand for diamonds is likely to be challenged by ongoing trade disputes (the US and China are the largest consumers of diamonds). Therefore, the non-mining sector will have to accelerate significantly if economic prospects are to brighten.

The growth in gross fixed capital formation (GFCF) and government expenditure is encouraging and could present upside risks particularly against the backdrop of the government's diversification agenda and high expenditure programme.

**Inflation and interest rates outlook**
Headline inflation was largely stable in 2018, tracking below 3.4% year-on-year before October, but fuel price under recoveries led to successive fuel price increases in the latter part of 2018, driving up inflation to 3.8% by November 2018. Headline inflation averaged 3.2% in 2018.Inflation is set to rise but remain comfortably within the Bank of Botswana's 3 - 6% target range in the year ahead. Upside risks include the expected wage increment for public sector workers, possible increases in administered prices, especially domestic fuel prices, and risks that food prices, which have been in negative territory since April 2018, could increase due to volatile weather conditions. The downside risks to inflation are the slower increases in global oil prices, which tend to feed through to most components of the consumer price basket. With risks to inflation being balanced and underlying pressures subdued, we believe the Central Bank will keep the policy rate on hold in 2019.

**Financial performance**

As part of the Absa Group separation from Barclays Plc, Barclays Bank of Botswana will continue to incur incremental separation costs in order to become fully independent of Barclays Plc, to this end Barclays Bank of Botswana has obtained approval from the Bank of Botswana to report two sets of financial results effective 2018. The Bank will therefore report a statutory view that includes all separation costs and a normalised view that excludes the separation costs.

**Statement of comprehensive income**
Despite the challenging environment we operate in, a steady growth in income across segments relative to the previous year has characterised our performance for the period under review. Profit before tax was P588 million for the year ended 31 December 2018. This represents a 5% growth year on-year on a statutory basis. This performance was influenced by growth in income, contained costs and favourable expected credit losses. Total revenue is up year-on-year, propelled by balance sheet growth and an increase in our fees and commission income. We continued to drive momentum across all our key segments to negate the effects of compressed margins. To this end, all our segments registered income growth and remained profitable over the period. Interest income increased by 6% year-on-year, mainly driven by balance sheet growth. The business remained resilient in its selected market segments and continued to drive credit growth.

Operating costs were well contained with the business achieving a cost to income ratio of 55.5% for the year ended 31 December 2018. This was driven by our continued focus on spending prudently.
Year-on-year costs increased by 12% largely as a result of increased technology spend as we embark on the separation journey from Barclays Plc. On a year-on-year basis our credit expected losses/impairments decreased by 35%. The performance is attributable to our enhanced collections capability and conservative credit extension to high risk sectors especially in the Retail segment. The expected credit losses have been computed in accordance with IFRS9, which was adopted effective 1 January 2018, the details of which are shown in statement of changes in equity.

**Statement of financial position**
Our overall balance sheet grew by 12% to P17 billion mainly driven by credit growth. Loans and advances to customers grew 10% year-on-year to P11.8 billion from P10.7 billion. The growth in loans was realised across all business segments as we continue to focus in client penetration and acquisition to drive up our volumes. Customer liabilities increased by 8% year-on-year to P11.9 billion from P10.9 billion driven by positive growth across our business segments.

Our balance sheet position remains solid at a position of P17 billion, with strong liquidity and capital adequacy levels. Our regulatory capital position stood at P2.2 billion representing a ratio of 17.6% (after taking into consideration the final dividend) against the regulatory limit of 15% and liquid assets were 16% which is well above the regulatory minimum of 10%.

**Corporate and Investment Banking (CIB)**

With GDP growth exceeding 4%, the local market showed promise during the financial year despite fairly cautious government spending with a re-evaluation of priorities accompanying leadership change. Sectors that performed well in 2018 include the diamond and resource sector (on the back of a global economic recovery), wholesale and retail, and the financial sector, all of which remain key focus sectors in line with our CIB strategy.

Market showed strong growth in net trading income year-on-year of 21% driven by gains in forex volumes and trading activities. This shows the clear benefit of our drive to gain more primary wallet share from new and existing clients in the RBB and CIB segments as well as efforts to diversify Markets income streams, specifically in terms of providing risk management products to the Botswana market. Whilst the latter offering is targeted predominantly at CIB clients, we did see some uptake in the Commercial business segment as well.

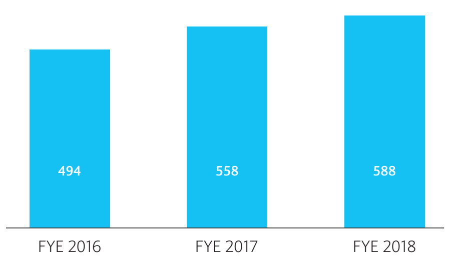
Corporate loans grew 9% which was closely matched by a corresponding growth in liabilities of 10%. This was used to leverage a growth in fees and commissions of 11% in line with our strategy to continue to extend balance sheet to grow fee income.

## Financial highlights

| | | |
|---|---|---|
| Profit before Tax up | Net fee and commission income increased | Net trading income increased |
| 5% | 6% | 24% |
| Solid balance sheet growth | Cost to income ratio at | Strong return on equity |
| 12% | 55% | 23% |

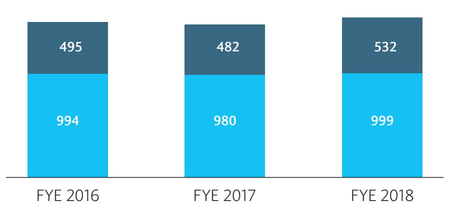
**Declared a final dividend of P190 million subject to regulatory approval**

## Profit before tax (P'million)



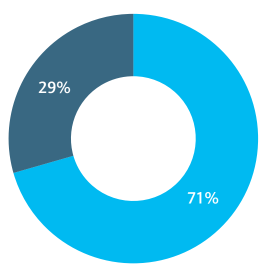

Profit before tax (P'million)

## Net interest income and non-interest income (P'million)



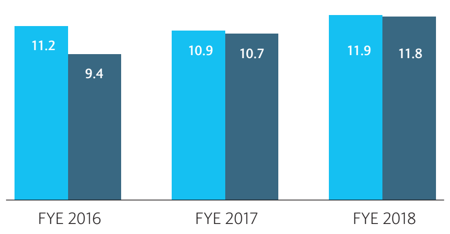

Net interest income
Non-interest income

## Revenue by segment FY2018




Retail and Business Banking
Corporate and Investment Banking

## Customer assets and liabilities (P'billion)




Customer deposits
Customer Loans

FY - Full year ended

## Consolidated statement of comprehensive income for the year ended 31 December 2018

| | 2018 P'000 | 2017 P'000 | % Change |
|---|---|---|---|
| Effective interest income | 1 213 506 | 1 143 765 | 6 |
| Effective interest expense | (214 242) | (164 234) | (30) |
| **Net interest income** | 999 264 | 979 531 | 2 |
| Fee and commission income | 401 581 | 372 066 | 8 |
| Fee and commission expense | (40 167) | (30 727) | 31 |
| **Net fee and commission income** | 361 414 | 341 339 | 6 |
| Net trading income | 166 508 | 134 512 | 24 |
| Other income | 3 646 | 6 475 | (44) |
| **Total income** | 1 530 832 | 1 461 857 | 5 |
| Expected Credit Losses/Impairment losses | (93 728) | (145 099) | (35) |
| **Net operating income** | 1 437 104 | 1 316 758 | 9 |
| Staff costs | (418 754) | (397 135) | 5 |
| Infrastructure costs | (107 976) | (125 092) | 14 |
| Administration and general expenses | (322 450) | (236 401) | 36 |
| **Operating expenses** | (849 180) | (758 628) | 12 |
| Profit before tax | 587 924 | 558 130 | 5 |
| Taxation | (133 380) | (126 029) | 6 |
| **Profit for the year** | 454 544 | 432 101 | 5 |
| **Other comprehensive income (OCI)** | | | |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | |
| **Available-for-sale financial assets** | | | |
| Net gain on available-for-sale financial assets during the year | - | 899 | n/a |
| Deferred Tax | - | 76 | n/a |
| | - | 975 | n/a |
| Movement in financial assets at fair value through OCI | | | |
| Fair value losses | (603) | - | n/a |
| Deferred tax | 133 | - | n/a |
| | (470) | - | n/a |
| **Total other comprehensive (loss)/gain for the year, net of tax** | (470) | 975 | (148) |
| **Total comprehensive income for the year, net of tax** | 454 074 | 433 076 | 5 |
| Earnings per share | | | |
| Basic and diluted (thebe per share) | 53.34 | 50.71 | 5 |

## Consolidated statement of financial position as at 31 December 2018

| | 2018 P'000 | 2017 P'000 | % Change |
|---|---|---|---|
| **Assets** | | | |
| Cash | 476 107 | 407 947 | 17 |
| Balances at central bank | 543 710 | 459 133 | 18 |
| Trading portfolio assets | 513 | 114 | 350 |
| Derivative financial instruments | 19 058 | 9 446 | 102 |
| Financial assets at fair value through OCI | 1 901 953 | - | n/a |
| Available-for-sale investments | - | 1 307 304 | n/a |
| Loans and advances to banks | 1 053 266 | 1 286 005 | (18) |
| Due from related parties | 811 422 | 639 887 | 27 |
| Loans and advances to customers | 11 834 679 | 10 720 556 | 10 |
| Other receivables | 186 166 | 145 960 | 28 |
| Property, plant and equipment | 133 137 | 141 769 | (6) |
| Non- current assets held for sale | 149 | - | n/a |
| Intangible assets | 1 138 | 863 | 32 |
| Deferred tax assets | 63 614 | 39 703 | 60 |
| **Total assets** | 17 024 912 | 15 158 687 | 12 |
| **Equity and liabilities** | | | |
| **Liabilities** | | | |
| Deposits from banks | 357 972 | 517 916 | (31) |
| Due to related parties | 1 525 543 | 925 337 | 65 |
| Customer deposits | 11 854 620 | 10 980 544 | 8 |
| Derivative financial instruments | 12 328 | 13 348 | (8) |
| Debt securities in issue | 537 667 | 202 385 | 166 |
| Subordinated debt | 358 356 | 254 456 | 41 |
| Provisions | 48 710 | 33 077 | 47 |
| Other payables | 333 409 | 258 269 | 29 |
| Current tax payable | 2 415 | 20 737 | (88) |
| **Total liabilities** | 15 031 020 | 13 206 069 | 14 |
| **Shareholders' equity** | | | |
| Stated capital | 17 108 | 17 108 | - |
| General risk reserves | 118 347 | 107 206 | 10 |
| Fair value reserves | (740) | - | n/a |
| Available-for-sale investments revaluation reserve | - | (270) | n/a |
| Share-based payment reserve | 3 148 | 6 104 | (48) |
| Share capital reserve | 2 060 | 2 060 | - |
| Retained income | 1 853 969 | 1 820 410 | 2 |
| **Total equity attributable to equity holders** | 1 993 892 | 1 952 618 | 2 |
| **Total equity and liabilities** | 17 024 912 | 15 158 687 | 12 |

## Condensed consolidated statement of changes in equity for the year ended 31 December 2018

| | Stated capital P'000 | General risk reserves P'000 | Fair value reserves P'000 | Share-based payment reserve P'000 | Available-for-sale investments revaluation reserve P'000 | Retained income P'000 | Share capital reserve P'000 | Total equity attributable to equity holders P'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | 17 108 | 93 760 | - | 5 382 | (1 245) | 1 626 760 | 2 060 | 1 743 825 |
| Profit for the year | - | - | - | - | - | 432 101 | - | 432 101 |
| Other comprehensive income for the year | - | - | - | - | 975 | - | - | 975 |
| **Total comprehensive income for the year** | - | - | - | - | 975 | 432 101 | - | 433 076 |
| Dividends paid | - | - | - | - | - | (225 005) | - | (225 005) |
| Recognition of share-based payments | - | - | - | 722 | - | - | - | 722 |
| Transfer from retained earnings | - | 13 446 | - | - | - | (13 446) | - | - |
| **Balance at 31 December 2017** | 17 108 | 107 206 | - | 6 104 | (270) | 1 820 410 | 2 060 | 1 952 618 |
| **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) |
| Transfers to retained earnings | - | 11 141 | - | - | - | (11 141) | - | - |
| **Balance at 31 December 2018** | 17 108 | 118 347 | (740) | 3 148 | - | 1 853 969 | 2 060 | 1 993 892 |

However, as noted at mid-year, a combination of tight liquidity conditions and a short-term investment view in the local currency market resulted in wholesale yields testing new highs as competitor banks sought to maintain capital adequacy and grow their lending books. This reduced margins on deposits as well as increased the cost of funding in the local market. Administrative and operating costs remain well-controlled but expected losses increased substantially with the bulk of this growth accounted for by a large single name impairment.

**Retail and Business Banking (RBB)**

The RBB business demonstrated its robustness and resilience by registering a noteworthy performance despite challenging operating conditions. RBB Profit before tax increased by 65% year on year driven by both revenue growth and favourable impairment performance.

**Retail Banking**
Retail banking made significant progress in delivering on our key strategic priorities of growing our customer base, increasing the contribution of fee income to total income and increasing usage of our digital channels.

In order to bring round the clock convenience to group savers, internet banking services were extended to Motshelo groups.

The mobile App was revamped to give it a fresh look and feel with better user experience.
User security on the App was enhanced with the addition of Fingerprint identification on both Android and iOS devices.

The bank acknowledges the importance of the physical branch network as part of our delivery strategy. To that end, we relocated Kanye branch to a new and more spacious premises in order to provide better service to our clients in the area.

**Business Banking**
Business Banking has again delivered solid growth on both Balance Sheet and Income statement.

The business continues to drive its Relationship Banking model, and remains focused on enhanced product development and improving client service. In the past year, the business launched Purchase Order finance solution, Internet Banking for SME's and kick-started the Enterprise Supply Chain Development (ESD) value proposition for start-up and small businesses where capacity building is important.

The business continues with its new strategy and is expected to perform at further increased levels in the future.

**Citizenship**

Barclays Bank of Botswana remains committed to playing an active role in the development of our communities through the delivery of the Shared Growth strategy which has been the focus of our Citizenship Agenda. In 2018, Barclays launched three initiatives all of which fall under the Education and Skills Development pillar of our Shared Growth strategy. The other two pillars are Financial Inclusion and Enterprise Development.

The highlight of our Citizenship Agenda for 2018 is the re-launch of our Barclays F.G. Mogae Scholarship Fund. Since the inaugural launch 38 Batswana have been provided with scholarships to pursue their Masters Degree with the University of Botswana, Botswana University of Agriculture and Natural Resources, Botswana International University of Science and Technology and Botswana Accountancy College.

Ready to Work, our on-line learning curriculum on employability and entrepreneurship, has made steady progress with emphasis towards identify work place opportunities for Ready to Work graduates. Our partners, Project Concern International and Stepping Stones International have made good progress working with private sector companies to place youth into internships or permanent employment. As at the end of December 216 youth had been placed in either internship or employment opportunities. An additional 519 had been trained and graduated from Ready to Work.

Madi Majwana season 4 was launched early in the year and the radio drama commenced in June, playing on three radio stations. The cast and crew of Madi Majwana also embarked on two road trips, visiting 18 towns and villages and performing for over 7000 people. At the center of season 4 were youth challenges ranging from high unemployment rates, increasing levels of crime, addictions and savings. The drama is geared towards empowering the youth with tools that will assist them navigate the challenges of saving.

Madi Majwana provides a unique platform through which we have been educating whilst entertaining children, youth and adults across Botswana.

The highlight of colleague volunteering is our annual Make a Difference Day campaign. During 2018, over 80% of our employees participated in our Make a Difference Day Campaign visiting 41 schools across Botswana focusing on money skills, entrepreneurship and environmental conservation.

Our annual Day of the African Child campaign focused on reading through which employees visited 10 schools and read to more than 300 pupils across the country to embed the love of reading.

The newly established Enterprise and Supply chain Development (ESD) business unit is making steady progress. The unit has successfully recruited 4 companies to the program that seeks to grow our SME's by providing the necessary financing. The construction of the ESD centre has been completed and opened.

Our ambition to expand our products and services to previously unbanked populations is gaining traction with an increasing number of individuals utilizing our mobile money platforms.

Our pre-paid debit card is currently being utilized by several private companies and non-governmental organizations. The card allows individuals without formal bank accounts to receive their monthly salaries in a safe and convenient manner.

Finally, the Mabogo Dinku program, which is being implemented by the Citizenship Entrepreneurship Development Program is currently benefiting two hundred and sixty-one business groups that have their Motshelo account with Barclays.

**Outlook**

The Bank is optimistic about the future growth prospects of the economy and will therefore continue to invest in cutting edge solutions and superior customer service.

**Dividend**

Notice is hereby given that an final dividend of 22.296 thebe per share for the year ended 31 December 2018 was declared on 14 March 2019, and subject to regulatory approval, will be payable on 17 May 2019 to those shareholders registered at the close of business on 7 May 2019, with an ex-dividend date of 3 May 2019. In accordance with the Republic of Botswana Income Tax (Cap 52:01), as amended, applicable withholding tax will be deducted by the Bank from the gross dividend.

**Oduetse A. Motshidisi**
Chairman

**Reinette van der Merwe**
Managing Director

## Consolidated statement of cashflows for the year ended 31 December 2018

| | 2018 | 2017 |
|---|---|---|
| | P'000 | P'000 |
| **Cash flows from operating activities** | | |
| Cash used in operations | (183 845) | (573 920) |
| Interest received | 1 214 973 | 1 133 545 |
| Interest paid | (220 179) | (152 321) |
| Income taxes paid net of refunds | (133 196) | (94 719) |
| Net (increase) in loans and advances to customers | (1 396 865) | (1 479 454) |
| Increase/(decrease) in deposits due to customers | 883 695 | (250 466) |
| Increase in long term deposits due to other banks | 71 453 | - |
| (Increase)/ decrease in long term loans due to related parties | 59 218 | (78 759) |
| Increase in long term deposits received from related parties | 471 032 | 857 240 |
| (Increase)/decrease in trading portfolio assets | (399) | 105 625 |
| Decrease in statutory reserve with the Central Bank | (46 749) | (28 685) |
| Increase in derivative financial instruments | (10 632) | (6 088) |
| **Net cash generated by/(used in) operating activities** | 708 506 | (568 002) |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | (21 696) | (38 504) |
| Proceeds from disposal of property, plant and equipment | 358 | 43 |
| Payments for intangible assets | (622) | (146) |
| Proceeds from sale of equity securities | - | 8 250 |
| Increase in long term available for sale investments | - | (308 563) |
| Decrease in long term financial instruments held at FVOCI | 154 261 | - |
| **Net cash generated by/ (used in) investing activities** | 132 301 | (338 920) |
| **Cash flows from financing activities** | | |
| Dividends paid to shareholders | (259 935) | (225 005) |
| Issuance of debt securities | 332 910 | - |
| Redemption of debt securities | - | (55 840) |
| Proceeds from subordinated debt | 102 590 | - |
| **Net cash generated by/(used in) financing activities** | 175 565 | (280 845) |
| **Net increase/(decrease) in cash and cash equivalents** | 1 016 372 | (1 187 767) |
| Cash and cash equivalents at the beginning of the year | 2 673 550 | 3 861 317 |
| **Cash and cash equivalents at the end of the year** | 3 689 922 | 2 673 550 |

## Notes to the condensed results of the audited consolidated annual financial statements for the year ended 31 December 2018

**1. Basis of preparation**

The Group's condensed consolidated annual financial results have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS"), interpretations issued by the IFRS Interpretations Committee ("IFRS-IC"), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Botswana Stock Exchange Listings Requirements.

The principal accounting policies applied are set out in the most recent annual financial statements. The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates.

**Accounting policies**
The accounting policies adopted are consitstent with the previous financial year except as follows
The implementation of new International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instruments (IFRS 9) - the Group has applied IFRS 9 on a retrospective basis, with an adjustment to retained earnings and other reserves on 1 January 2018. As permitted by the standard the Group has elected not to restate comparative periods.
- IFRS 15 Revenue from Contracts with Customers (IFRS 15). The Group has elected to adopt IFRS 15 on a cumulative effect module, under which the comparative information has not been restated.

All other amendments to the IFRS effective for the current reporting period have had no impact on the Group's reported results.

**2. Use of judgements and estimates**

Management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of the assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial statements for the year ended 31 December 2017, with the exception of judgements in computing expected credit losses under IFRS 9 as shown in the accounting policies above.

**3. Profit before income tax**

No items of an unusual nature, size or incidence have been charged to operating profit during the review period.

**4. Contingent Liabilities and Commitment**

There has been no significant change in the nature of contingent liabilities and commitments with off-balance sheet risk from those reported in the annual financial statements for the year ended 31December 2018.

| | As at 31 December 2018 | As at 31 December 2017 |
|---|---|---|
| | P'000 | P'000 |
| Undrawn commitments to customers | 2 060 405 | 2 451 804 |
| Letters of credit | 320 739 | 80 005 |
| Performance and bid bonds | 217 022 | 285 322 |
| | 2 598 166 | 2 817 131 |

**5. Capital commitments**

At 31 December 2018 the commitments for capital expenditure under contract amounted to P4.9m (31 December 2017: P3.8m), and the commitments for capital expenditure not under contract amounted to P24.2m (31 December 2017: P26.6m)

**6. Related Party Transactions**

On 1 July 2018, the new Absa brand was launched and Barclays Africal Limited was rebranded to Absa Group Limited. Barclays Bank of Botswana will also change its name at a later date, subject to regulatory approval.

The group has in the year ended 31 December 2018 incurred additionals costs amounting to P 51m as related party transactions. This is a result of the transitional costs necessary for Absa Group Limited separation from Barclays PLC.

**7. Independent auditors report**

Our independent auditors KPMG have audited the consolidated annual financial statements of Barclays Bank of Botswana Limited and their audit report on the consolidated annual financial statements is available for inspection at the Bank's registered office.

5th Floor, Building 4
Prime Plaza
Plot 74358
Central Business District
Gaborone

**8. Events Occurring after reporting date**

A final dividend of 22.296 thebe per share total amounting to P190 m was declared on 14 March 2019, subject to regulatory approval.

There were no other material changes in the affairs of the Bank between the 31 December 2018 and the date of approval of these consolidated annual financial statements.

## Consolidated business segments for the year ended 31 December 2018

| 2018 | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Barclays Plc Transitional costs P'000 | Total P'000 |
|---|---|---|---|---|
| **Net interest income** | 734 946 | 264 317 | - | 999 263 |
| **Net fee and commission income** | 314 634 | 46 780 | - | 361 414 |
| Net trading 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 |
| **Assets** | | | | |
| Trading portfolio assets | - | 513 | - | 513 |
| Derivative financial instruments | - | 19 058 | - | 19 058 |
| Financial assets held at 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 deposits | 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 |

## Consolidated business segments for the year ended 31 December 2017

| 2017 | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Consolidated P'000 |
|---|---|---|---|
| **Net interest income** | 726 493 | 253 038 | 979 531 |
| **Net fee and commission income** | 299 033 | 42 306 | 341 339 |
| Net trading and other income | 31 206 | 109 781 | 140 987 |
| **Total income** | 1 056 732 | 405 125 | 1 461 857 |
| Credit impairment charge and other provisions | (139 373) | (5 726) | (145 099) |
| **Net operating income** | 917 359 | 399 399 | 1 316 758 |
| Administrative expenses | (639 544) | (119 084) | (758 628) |
| **Operating expenses** | (639 544) | (119 084) | (758 628) |
| **Profit before tax** | 277 815 | 280 315 | 558 130 |
| Taxation | (64 360) | (61 669) | (126 029) |
| **Profit for the year** | 213 455 | 218 646 | 432 101 |
| **Assets** | | | |
| Trading portfolio assets | - | 114 | 114 |
| Derivative financial instruments | - | 9 446 | 9 446 |
| Available for sale investments | 1 307 304 | - | 1 307 304 |
| Loans and advances to customers | 7 198 116 | 3 522 440 | 10 720 556 |
| **Liabilities** | | | |
| Customer deposits | 4 924 836 | 6 037 708 | 10 962 544 |
| Derivative financial instruments | 5 007 | 8 341 | 13 348 |
| Debt securities in issue | 202 385 | - | 202 385 |
| Subordinated debt | 254 456 | - | 254 456 |

## Segment reporting for the year ended 31 December 2018

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 business are managed and reported to the Chief Operation Decision Maker (CODM).

**Business segments**
**The Bank comprises the following main business segments:**

- **Corporate and Investment Banking (CIB)**
  This segment offers corporate and investment banking solutions. The business models centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. Markets and Sales have been aggregated into CIB.
- **Retail and Business Banking (RBB)**
  This segment provides a comprehensive range of commercial banking products and services to medium, small businesses and retail customers. Retail, Business Banking, Head Office and Treasury have been aggregated into the RBB segment.
- **Barclays Plc separation costs**
  The Barclays Plc separation costs have been shown separately to differentiate between the normal business activities and the impact of separation. For further detail please see normalised vs IFRS view section of this publication.

**Segment results**
The measurement of segment results is in line with the basis of information presented to the Chief Operating Decision Maker (CODM) for internal management reporting purposes.

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

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

## IFRS 9 Transition note

**Classification and measurement of financial assets**

The following table shows the original classification in accordance with IAS39 and the new measurement categories under IFRS 9 together with the impact of changes in measurement, for the Group's financial assets as at 1 January 2018.

| | IAS 39 carrying amount as at 31 December 2017 | Re-measurement - due to adoption of IFRS 9 impairment model | IFRS 9 carrying amount as at 1 January 2018 | IFRS 9 measurement categories | | |
|---|---|---|---|---|---|---|
| | | | | Amortised cost | Designated at FVTPL | FVOCI |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Financial Assets -IAS 39 classification | | | | | | |
| Classification and measurement of financial assets (continued) | | | | | | |
| Cash at Amortised Cost | 407 947 | - | 407 947 | 407 947 | - | - |
| Balances with central bank at Amortised Cost | 459 133 | (4) | 459 129 | 459 129 | - | - |
| Trading portfolio as Held for trading | 114 | - | 114 | - | 114 | - |
| Derivative financials assets as held for trading | 9 446 | - | 9 446 | - | 9 446 | - |
| Investment securities as Available-for-sale | 1 307 304 | (33) | 1 307 271 | - | - | 1 307 271 |
| Loans and advances to banks at Amortised Cost | 1 286 005 | (6) | 1 285 999 | 1 285 999 | - | - |
| Loans and advances to customers at Amortised Cost | 10 720 556 | (190 730) | 10 529 826 | 10 529 826 | - | - |
| Loans and advances to related party companies at Amortised Cost | 639 887 | - | 639 887 | 639 887 | - | - |
| Other receivables at amortised cost | 144 789 | - | 144 789 | 144 789 | - | - |
| | 14 975 181 | (190 773) | 14 784 408 | 13 467 577 | 9 560 | 1 307 271 |

The impact of the above IFRS 9 restatement was taken in retained earnings net of tax. At time of publishing the half year results the impact of adopting of IFRS 9 was assessed as P129 million net of tax, a subsequent review of the model has resulted in an increase in the allowance for expected credit losses at 1 January 2018. This results in the total impact of adopting IFRS 9 being P150 million (net of tax) decrease in retained earnings, as reported on the statement of changes in equity.

*FVTPL: Fair value through profit or loss

| | IAS 39 impairment allowance/ provision as at 31 Decembe 2017 | Re-measurement of loss allowance | Expected credit losses as at 1 January 2018 |
|---|---|---|---|
| | | P'000 | P'000 |
| **Reconciliation of loss allowances** | | | |
| **IAS 39 measurement categories** | | | |
| Balances with central bank | - | (4) | (4) |
| Loans and advances to banks | - | (6) | (6) |
| Loans and advances to customers | (517 896) | (190 730) | (708 626) |
| Investment Securities | - | (33) | (33) |
| **Total on statement of financial position** | (517 896) | (190 773) | (708 669) |
| Financial guarantees | | (240) | (240) |
| Letters of credit | | (12) | (12) |
| Loan commitments | | (1 763) | (1 763) |
| **Total off statement of financial position** | | (2 015) | (2 015) |

## 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 June 2020. As a consequence of the foregoing, the Group incurred certain costs from the 2018 financial year 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 a Transitional Services Agreement (TSA) with Absa Group Limited. The agreements defines the nature and terms of the costs. The separation costs will form part of the operating expenditure until the separation process is complete.

The following statements show a reconciliation of the IFRS view and the normalised view. The normalised view is essentially a term to give the market a view of what the performance of the business would be when we exclude the once off transitional costs referred to above. Therefore the statements show the 2018 financial year normalised (excluding separation costs) as compared to the 2017 financial year (when the separation effects had not yet been in place).

### Normalised view

**key highlights**

Normalised profit up

**14%**

Normalised cost to income ratio

**52%**

Strong normalised return on equity

**24%**

Transitional cost spend of P51 million during the year ended

Normalised increase in operating expense of 5% year-on-year

## Normalised view vs IFRS view consolidated statement of comprehensive income for the year ended 31 December 2018

| | 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 | IFRS View, year ended 31 December 2017 P'000 | Change in normalised results vs prior year % |
|---|---|---|---|---|---|
| Effective Interest income | 1 213 506 | - | 1 213 506 | 1 143 765 | 6 |
| Effective Interest expense | (214 242) | - | (214 242) | (164 234) | 30 |
| **Net interest income** | 999 264 | - | 999 264 | 979 531 | 2 |
| Fee and commission income | 401 581 | - | 401 581 | 372 066 | 8 |
| Fee and commission expense | (40 167) | - | (40 167) | (30 727) | 31 |
| **Net fee and commission income** | 361 414 | - | 361 414 | 341 339 | 6 |
| Net trading income | 166 508 | - | 166 508 | 134 512 | 24 |
| Other income | 3 646 | - | 3 646 | 6 475 | (44) |
| **Total income** | 1 530 832 | - | 1 530 832 | 1 461 857 | 5 |
| Expected credit losses on loans and advances/ Impairment losses | (93 728) | - | (93 728) | (145 099) | (35) |
| **Net operating income** | 1 437 104 | - | 1 437 104 | 1 316 758 | 9 |
| Staff costs | (418 754) | | (418 754) | (397 135) | 5 |
| Infrastructure costs | (107 976) | | (107 976) | (125 092) | (14) |
| Administration and general expenses | (322 450) | (50 557) | (271 893) | (236 401) | 15 |
| **Operating expenses** | (849 180) | (50 557) | (798 623) | (758 628) | 5 |
| Profit before tax | 587 924 | (50 557) | 638 481 | 558 130 | 14 |
| Taxation | (133 380) | 11 122 | (144 502) | (126 029) | 15 |
| **Profit for the year** | 454 544 | (39 435) | 493 979 | 432 101 | 14 |
| **Other comprehensive income** | | | | | |
| **Total OCI for the year, net of tax** | (470) | - | (470) | 975 | (148) |
| **Total comprehensive incomes for the year, net of tax** | 454 074 | (39 435) | 493 509 | 433 076 | 14 |
| **Earnings per share** | | | | | |
| **Basic and diluted (thebe per share)** | 53.34 | (4.63) | 57.91 | 50.71 | 14 |

## Normalised view vs IFRS view consolidated statement of financial position as at 31 December 2018

| | IFRS view year ended 31 December 2018 P'000 | Barclays Plc separation costs as at 31 December 2018 P'000 | Normalised view as at 31 December 2018 P'000 | IFRS view as at 31 December 2017 P'000 | Change in normalised position vs prior year % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 476 107 | - | 476 107 | 407 947 | 17 |
| Balances at the Central Bank | 543 710 | - | 543 710 | 459 133 | 18 |
| Trading portfolio assets | 513 | - | 513 | 114 | 350 |
| Derivative financial instruments | 19 058 | - | 19 058 | 9 446 | 102 |
| Financial Assets at fair value through OCI | 1 901 953 | - | 1 901 953 | - | n/a |
| Available-for-sale investments | - | - | | 1 307 304 | n/a |
| Loans and advances to banks | 1 053 266 | - | 1 053 266 | 1 286 005 | (18) |
| Due from related parties | 811 422 | (6 588) | 818 010 | 639 887 | 28 |
| Loans and advances to customers | 11 834 679 | - | 11 834 679 | 10 720 556 | 10 |
| Other receivables | 186 166 | 77 | 186 089 | 145 960 | 27 |
| Property and equipment | 133 137 | - | 133 137 | 141 769 | (6) |
| Non-current assets held for sale | 149 | - | 149 | - | n/a |
| Intangible assets | 1 138 | - | 1 138 | 863 | 32 |
| Deferred tax assets | 63 614 | - | 63 614 | 39 703 | 60 |
| **Total assets** | 17 024 912 | (6 511) | 17 031 423 | 15 158 687 | 12 |
| **Equity and liabilities** | | | | | |
| **Liabilities** | | | | | |
| Deposits from banks | 357 972 | - | 357 972 | 517 916 | (31) |
| Due to related parties | 1 525 543 | - | 1 525 543 | 925 337 | 65 |
| Customer deposits | 11 854 620 | - | 11 854 620 | 10 980 544 | 8 |
| Derivative financial instruments | 12 328 | - | 12 328 | 13 348 | (8) |
| Provisions | 48 710 | - | 48 710 | 33 077 | (47) |
| Other payables | 333 409 | 44 046 | 289 363 | 258 269 | 12 |
| Current tax payables | 2 415 | (11 122) | 13 537 | 20 737 | (35) |
| Debt securities in issue | 537 667 | - | 537 667 | 202 385 | 166 |
| Subordinated debt | 358 356 | - | 358 356 | 254 456 | 41 |
| **Total liabilities** | 15 031 020 | 32 924 | 14 998 096 | 13 206 069 | 14 |
| **Shareholders' equity** | | | | | |
| Stated capital | 17 108 | - | 17 108 | 17 108 | - |
| General risk reserves | 118 347 | - | 118 347 | 107 206 | 10 |
| Fair value reserve | (740) | - | (740) | (270) | 174 |
| Share-based payment reserve | 3 148 | - | 3 148 | 6 104 | (48) |
| Share capital reserve | 2 060 | - | 2 060 | 2 060 | - |
| Retained income | 1 853 969 | (39 435) | 1 893 404 | 1 820 410 | 4 |
| **Total equity attributable to equity holders** | 1 993 892 | (39 435) | 2 033 327 | 1 952 618 | 4 |
| **Total equity and liabilities** | 17 024 912 | (6 511) | 17 031 423 | 15 158 687 | 12 |