Barclays Bank of Botswana Limited

2018 Annual Report

Part of the Absa family (absa)

BARCLAYS

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Barclays Bank of Botswana Limited Annual Report 2018

Annual Financial Statements

Our Goal To be the best financial services institution focused on exceptional customer service in our chosen sectors

Our Purpose Bringing your possibilities to life

Our Values

- **Respect**
  We respect and value those we work with, and the contribution that they make
- **Integrity**
  We act fairly, ethically and openly in all we do
- **Service**
  We put our clients and customers at the centre of what we do
- **Excellence**
  We use our energy, skills and resources to deliver the best sustainable results
- **Stewardship**
  We are passionate about leaving things better than we found them

Barclays Bank is a leading, financial services provider that has been operating in Botswana since 1950. Our listing on the Botswana Stock Exchange demonstrates our commitment to this country and its people.

Barclays Bank of Botswana has 3 business units:

1 Retail and Business Banking

We offer Retail Banking services such as transactional banking solutions, savings and investments, foreign exchange and lending amongst others. Similar services are also offered to our Business Banking clients in the small to medium enterprises and commercial sectors.

2 Corporate and Investment Banking

Our Corporate and Investment Banking services clients in large corporations and companies, such as multinationals and public sector. The tailor made solutions we offer include asset financing, cash and liquidity management and trade finance.

3 Treasury

In addition to asset and liability management, capital, funding and liquidity management for the Bank, our Treasury unit offers foreign exchange services to our clients.

Best Investment Bank Botswana:
EMEA Finance African Banking Awards 2018

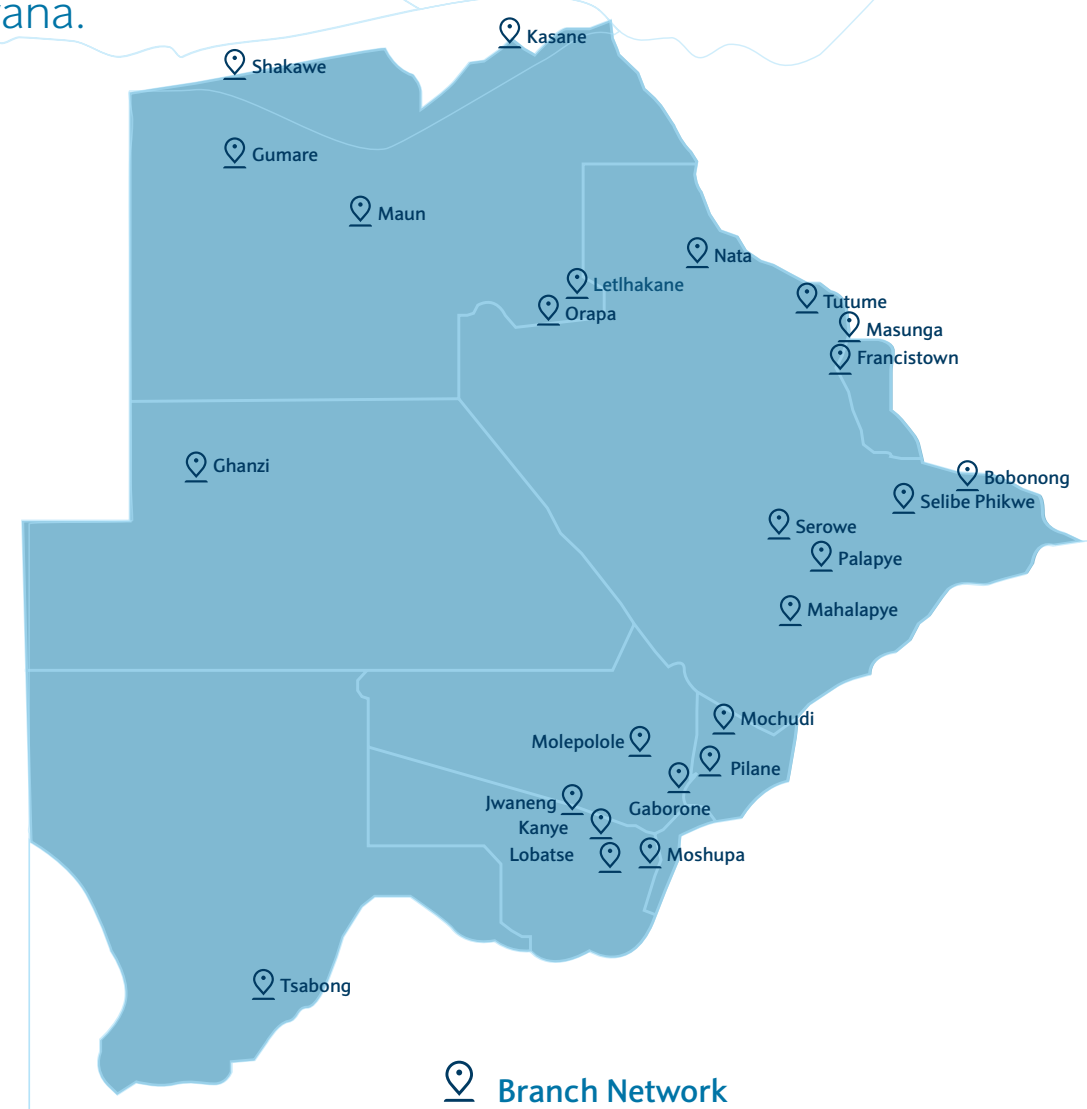
We are a Pan African Bank that Africa can be proud of.

We will maintain our customer-centric approach and capitalise on our competitive strengths to reinforce our position as Botswana's leading financial services provider.

Barclays at a Glance

Where we operate

We have the largest branch network across Botswana.



113 ATMS
across the country

Geographic coverage

32 Branches

Airport Junction
Plot 70665, Unit 63,
Airport Junction Mall
Gaborone

Blue Jacket Prestige
Plot 494/5,
Blue Jacket Street
Francistown

Bobonong
Plot 430, Bobonong Mall
Bobonong

Broadhurst
Plot 4748, Kubu Road
Gaborone

Carbo Prestige
Plot 54518, Riverwalk Mall
Gaborone

Francistown
Plot 494/5,
Blue Jacket Street
Francistown

Galo Prestige
Plot 1471/2, Galo Mall
Francistown

Game City
Shop No. F2/F11A,
Game City Mall
Gaborone

Ghanzi
Plot 29, Spar Mall
Ghanzi

Gaborone Industrial
Plot 17952/3, Lithuli Road
Gaborone

Gaborone Mall
Plot 1103, Main Mall
Gaborone

Gumare
Plot 76, Delta Shopping
Complex
Gumare

Jwaneng
Plot 5477, Choppies Mall
Jwaneng

Kanye
Plot 89, Mall Tribal
Kanye

Kasane
Plot 2208, Shop 8,Spar
Mall
Kasane

Letlhakane
Plot 3577, Millenium Tower
Building
Letlhakane

Lobatse
Plot 4649, Jacaranda Street
Hillside Mall
Lobatse

Mahalapye
Shop no 9B, Moko Mall
Mahalapye

Masunga
Lot 1107, Masunga
Complex
Masunga

Maun
Old Mall Tsheko Tsheko Rd
Maun

Molepolole
Plot 39/ unit 33,
Mafenyatlala Mall
Molepolole

Moshupa
Lot 1016, Kgosing Ward
Moshupa

Nata
Northgate Shopping Mall,
Plot 9, Kachikau Ward
Nata

Orapa
Plot 498, Sabie Street
Orapa

Palapye
Plot 47, Lotsane Ward
Palapye

Personal Prestige
Plot 1188, Main Mall,
Debswana House
Gaborone

Phikwe
Plot 2579, Main Mall
Selibe Phikwe

Pilane
Pilane crossing Mall,
Plot 439
Pilane

Serowe
Plots 40/5, Old Mall
Serowe

Shakawe
Temporarily Closed

Tsabong
Plot 545, Tsabong Mall
Tsabong

Tutume
Itachi Complex
Tutume

Chairman's Statement

Oduetse A. Motshidisi
Chairman of the Board

Dear Shareholder,

Reviewing the 2018 results of Barclays Bank of Botswana Limited gave me a sense of deep satisfaction and pride. In an environment characterised by economic uncertainty and increasingly stiff competition, as well as the significant changes taking place within our organisation, our Bank performed admirably.

We are also encouraged by the resilience of our people and systems in the face of these challenges; the confidence of our major shareholder in our abilities; and the generally positive market response to the change on the name of our parent company, now renamed Absa Group Limited (Absa Group).

The upward trajectory of our financial performance augurs well for the realisation of our business strategy – to create a future-fit and people-centric bank that will deliver sustainable value to all our stakeholders, while having a lasting and beneficial impact on the communities in which we operate and our country as a whole.

Economic overview

Botswana achieved impressive real GDP growth in 2018 of 4.5%, a satisfactory and welcome improvement on 2017's 2.9%. This rise was mainly supported by the recovery in the mining sector, which saw its growth turn around from 2017's contraction of -11.1% to 7.4% in 2018. In addition, the relocation of the Diamond Trading Company from London to Gaborone continues to have a positive impact on the trade, hospitalities and restaurants sectors, including the wholesale sub-sector – an important market for the Bank.

Looking ahead, we expect that significant public and private sector investment into infrastructure and the relatively expansionary fiscal policy will drive growth in 2019 and beyond. However, there are downside risks to these favourable forecasts. These include the on-going global trade uncertainties that have potential to negatively impact diamond sales and the severe El niño weather patterns that are likely to affect agricultural production.

Governance

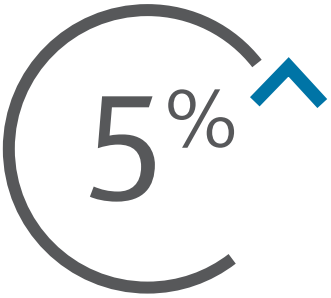
The Bank is unconditionally committed to the maintenance of sound governance principles and practice. In line with this, we appointed two additional Independent Non-Executive Directors, Kgotlayarona Ramaphane and Mohamed Osman, to the Board of Directors. Both these appointments took effect in August 2018, and increased our total number of Independent Non-Executive Directors to seven.

Their appointments were in line with our Board's strategy of strengthening its composition with experienced, highly talented individuals with a wide range of skills, expertise and energy needed to move the business forward.

Return on equity remains strong

Our return on equity remains strong at 23%

Earning per share



Our earnings per share increased by 5% year-on-year.

We are confident that with their wealth of experience and passion for the financial service sector, our Board members will continue to provide invaluable service to the Bank and inspire the ongoing delivery of our strategy, while delivering on their mandate.

Results

The Bank's 2018 financial results are testimony to the resilience and dedication of our people and management. Notwithstanding the challenging operating environment, the business responded commendably with growth in profitability, discipline in containing costs and improved collections.

This latter achievement positively impacted credit impairments, an indication of the success of the Bank's strategic approach to appropriate lending.

The Bank continues to deliver a solid performance, with strong liquidity and capital adequacy levels positioning it well for future growth.

Barclays Bank rebranding

The Bank's transformation journey involves more than the adoption of our parent name, Absa, by June 2020. It is on track to transition into a future-fit and digitally-led organisation – ready to harness technology in a way that truly puts clients at the centre of all it does.

The separation of operations from Barclays PLC is a large and complex undertaking that is also providing the impetus for a significant strategic and cultural reset of our organisation. The transition is being executed methodically across systems, platforms, policies, procedures and more.

This involves a combination of standard lift-and-drop solutions as well as noteworthy systems refresh, along with some substantial transformation.

Human capital

The Bank's excellent performance in 2018 would not have been possible without the dedication and determination of its people. This is most graphically illustrated by the pleasing improvement in colleague engagement, reflected in a survey of employee perceptions.

While the current performance is encouraging, there is always more that can be done. The Bank is committed to becoming a more diverse and inclusive organisation, one that identifies, nurtures and grows its talent and becomes the employer of choice in Botswana. It is the pride, enthusiasm and skills of a well-trained and confident workforce that will ensure the Bank reclaims its position as the leading financial services provider in the country.

Citizenship

We are aware of our responsibilities to the communities we serve, given the central role we play in the economy. In 2018, the Bank and its employees supported various initiatives that made significant improvements in efforts to uplift our communities. Community outreach development is core to the Bank's ethos and its commitment to being a good and valued corporate citizen.

We are proud of the way in which colleagues continue to offer their services as volunteers at a wide variety of organisations.

I am exceptionally proud of the flagship programme, the Madi Majwana documentary which included highlights of the radio drama's journey since its inception in 2013 and comprised of interviews with people from different parts of Botswana sharing their personal experiences with money. It is clear how, through this programme, we have been able to provide a unique platform to both educate and entertain children, youth and adults across Botswana about the importance of money management and personal responsibility.

The Bank also repositioned its investment in education to align with the government's road map to refocus from being a resource-based to knowledge-based economy. It pleases me that the Barclays F.G. Mogae Scholarship Fund thus far has enabled 38 Batswana to pursue their Master's degrees with local institutions.

Looking ahead

In 2019, the Bank will continue with its strategy to identify and grow revenue opportunities, supported by a passionate, customer-obsessed workforce.

Its stated goal – to connect our clients to products and services that bring their 'possibilities to life' – will play a key role in helping to shape the Botswana of the future.

Thank you

Thank you to our shareholders, valued customers, management and colleagues of Barclays Bank, as well as the government, Absa Group Limited and all other stakeholders. Collectively, we have made the Bank what it is today.

We are also grateful to Keabetswe Pheko-Moshagane, our newly appointed Managing Director, for assuming the role. Keabetswe has worked very closely with Reinette van der Merwe over the past years and the Board is confident that she will provide continuity to the leadership and delivery of the Bank's strategy.

On behalf of the Board, Management and the employees of Barclays Bank, I wish to thank Reinette for everything she has done for the Bank over the years. Her guidance and enthusiasm has been inspirational and we wish her well in her future endeavours.

I would like to thank my fellow Board members for their tremendous support in realising the vision of the Bank.

We still have more work to do to reach our ultimate goal of being the undisputed leading financial services provider in our market. We must also continue to make good progress on improving returns to our shareholders and delivering superior service to our customers.

Last but by no means least, on behalf of the Board, I extend special thanks to each of the 1 200 people who work for Barclays Bank across our branch network around the country. I have been enormously impressed by their effort, energies and ability. The results reflected in this annual report are a testament to their hard work and dedication.

Oduetse A. Motshidisi
Chairman of the Board

Managing Director's Report

Reinette van der Merwe
Managing Director

The 2018 financial results are a clear reflection of our commitment to deliver shareholder value while focusing on our strategy that has people – our customers and colleagues – at its core.

Introduction

The 2018 financial results are a clear reflection of our commitment to deliver shareholder value while focusing on our strategy that has people – our customers and colleagues – at its core.

We continue to invest in technology, service channels and our branch network to deepen existing relationships and acquire new clients in our chosen sectors. Along with cross-selling and other revenue diversification initiatives, we achieved a 10% increase in non-interest income and a 5% increase in total income in the year.

Our strong product development capabilities facilitated a swift response to improvement in the investment environment. Furthermore, our extensive branch network and market knowledge reinforced our position as a leading financial services provider that Botswana can be proud of.

We are putting customers first in everything that we do and there is no doubt that we will continue to be laser-focused on attaining the leading position in the market. We will ensure we inspire customers with unique experiences. We will continue to engage with all stakeholders on our innovative products as we transition to the adoption of our parent name, Absa.

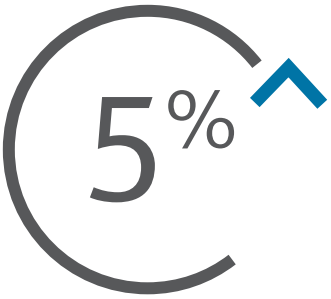
Economic outlook

Botswana's economic growth was significantly stronger in 2018 (4.5% vs. 2.9% in 2017) driven by the recovery of the mining sector. In 2019, we expect consumer-dependent sectors such as retail and hospitality to remain well supported in the wake of a continued accommodative fiscal policy. This is good news for the Bank.

However, growth may be subdued in 2019, falling to 4.2% according to government forecasts as global demand for diamonds is likely to be challenged by ongoing trade disputes between the US and China, the largest consumers of diamonds.

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.

Strong profit growth

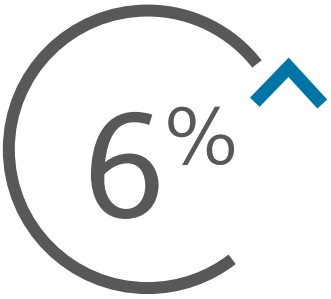


Our Profit before tax increased by 5% year-on-year to

P588 million

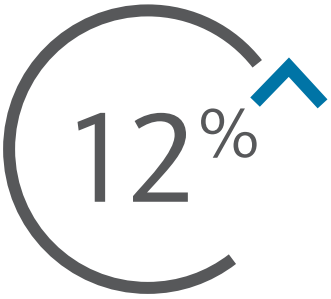
FY2017: P558 million

Net fee and commission income



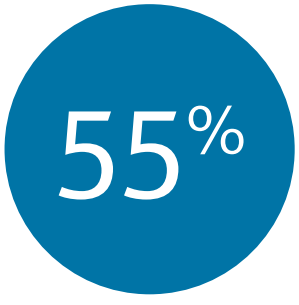
This is in line with our focus on driving innovation through investment and enhancement of our digital channels.

Solid balance sheet growth



The Bank registered a solid balance sheet growth of 12% in comparison to the previous year ended as we continue to execute on our strategy.

Cost to income ratio

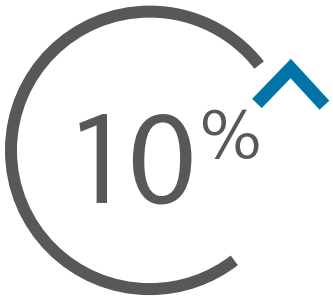


Our cost to income ratio was 55% for the year ended 2018. Removing the effect of Barclays PLC separation costs, the normalised cost to income ratio was stable at 52% with no change year-on-year on a normalised view.

Decreased credit impairments

This performance is attributable to our enhanced collections capability and conservative credit extension. This is especially to high risk sectors, particularly in the Retail segment. The losses have been computed in accordance with IFRS9, which came into effect on 1 January 2018.

Customer loans growth

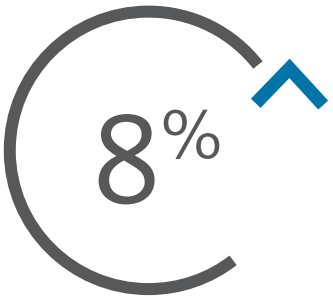


Our customer loans increased by 10% to

P11.8 billion

FY2017: P10.7 billion

Customer deposits growth



Customer deposits increased by 8% to

P11.9 billion

FY2017: P11 billion

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. Overall, 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 price increases, which have been in negative territory since April 2018, could rise due to volatile weather conditions. The downside risks to inflation are the slower increases in global oil prices. Nevertheless, we believe the Bank of Botswana will keep the policy rate unchanged in 2019.

Business review

The Bank achieved profit before tax of P638 million for the year ended 31 December 2018 on a normalised basis, representing a growth of 14%, year-on-year.

Our operating costs remained well contained which led the business to achieve a cost to income ratio of 52% on a normalised basis.

Our normalised return on equity remained solid at 24%, underpinned by our growth, which is further evidence of the momentum we are building.

Our performance has been resilient, enabling us to comfortably ensure a sustained positive direction.

Retail and Business Banking (RBB)

Retail and Business Banking (RBB) serves both retail and business customers. Service to our retail customers is through our key propositions – Premier, Prestige and Personal – while Business clients are serviced through Small Medium Enterprise (SME) and Commercial propositions.

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

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 a 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 new and more spacious premises in order to provide better service to our clients in that area.

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 a 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.

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 the leadership change. Sectors that performed well in 2018 - the diamond and resource sector (on the back of a global economic recovery), wholesale and retail, and the financial sector – are all key focus sectors for the Bank in line with our CIB strategy.

Our markets business 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 market 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 saw 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 the balance sheet to grow fee income.

Citizenship

Our Shared Growth strategy has been the focus of our Citizenship Agenda and remains central to the success of our business.

The highlight of our Citizenship Agenda for 2018 was the re-launch of our Barclays F.G. Mogae Scholarship Fund. Since its inaugural launch, 38 Batswana have been provided with scholarships to pursue their Master's degrees with reputable local universities.

Ready to Work, our on-line learning curriculum on employability and entrepreneurship, made steady progress with an emphasis on identifying workplace opportunities for Ready to Work graduates. Our partners, Project Concern International and Stepping Stones International, continued to work with private sector companies to place youth into internships or permanent employment. By the end of December 2018, 216 youth had been placed in either internship or employment opportunities. An additional 519 youth had been trained and graduated from the Ready to Work programme.

The fourth season of Madi Majwana was launched early in the year and the radio drama commenced in June, playing on three radio stations. The drama is geared towards empowering the youth with tools that will assist them to navigate the challenges of saving while providing a unique platform through which we have been educating and entertaining children, youth and adults across Botswana. At the centre of Season 4 were youth challenges ranging from high unemployment rates and increasing levels of crime to addictions and savings.

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

Finally, our ambition to expand our products and services to previously unbanked customers is gaining traction with an increasing number of individuals utilising our mobile money platforms. Through our investment in our community, we are confident that we will continue to make the positive impact we envisaged.

Colleagues

We at Barclays Bank, have a strong and proud culture. We understand our role as well as our purpose and that we exist to serve our customers.

In 2018, we embarked on preparing for the exciting transition to the new Absa brand and supported employees in adapting to this change. We also rebranded the Human Resources department to the People Function with a view to remaining very close to the employee agenda and aligned to our new identity.

We have a responsibility to nurture and preserve those aspects of our culture that serve us well. Our continued investment in our talent management proposition led to our strong performance and is a clear affirmation that our employees are our greatest assets.

Furthermore, we continued to expose our employees to various platforms including experience on short-term assignments to our markets across Africa. In 2018, ten of our colleagues underwent short term assignments in South Africa and other Absa Group entities across the continent.

Looking ahead

We have made a good start in 2019 towards achieving our goals. We are confident that in a rapidly changing economic and regulatory environment, our strategic priorities will enable us to uphold service excellence and drive the sustainable growth of our business.

We will maintain our customer-obsessed approach and capitalise on our competitive strengths to reinforce our position as Botswana's leading financial services provider.

We at Barclays Bank, have a strong and proud culture.

We understand our role as well as our purpose and that we exist to serve our customers.

Growth is at the centre of everything we do and to achieve this, we remain focused on driving the business momentum and addressing the opportunities we see in the Business Banking and CIB portfolios.

We will also continue to focus on:

- Investing in our people and ensuring that the Bank remains the employer of choice.
- Entrenching our customer value propositions through harnessing technology to develop innovative products and services in line with our customer needs.
- Continuous investment in technology to improve availability and reliability of our systems.
- Continuing to be customer-obsessed and delighting our customers by attaining top performance across our customer experience measures. We will improve our customer service through the use of trained, multi-skilled colleagues who can meet, or even exceed, customer expectations.

At a group level, Absa Group started a separation journey from Barclays Plc in 2017, a process expected to be completed by June 2020. This has resulted in the Group and the Bank incurring separation costs in the 2018 financial year – the costs that are necessary to ensure that the separation process is a seamless one. These costs form part of the operating expenditure of the Bank.

The Bank has obtained approval from the regulator to report two views of its financial statements. From the 2018 financial year end, the Bank will report a Statutory View (IFRS view), and a Normalised View giving a view of the underlying performance of the business. The Normalised view excludes the impact of costs incurred by the Bank in terms of a Transitional Services Agreement as well as costs relating to investments required to achieve separation, typically in relation to Technology Platforms and rebranding, of which there were none in 2018. Our holding company, Absa Group, will provide capital to help to mitigate the capital and cash flow impact of the costs relating to separation investments over time.

Conclusion

The banking environment continues to be competitive in the face of modest growth in the sector. However, we continue to explore opportunities for growth whilst driving balance sheet efficiency and enabling greater utilisation of our electronic channels. The high adoption rate of our channels proves that our strategy is working and we are confident about this approach going forward. The end of our five-year strategy opens a new chapter with more possibilities. Our tried and tested strategy gives us the assurance that we will continue to be a resilient business that is relevant for the future.

By the end of 2017, Barclays PLC had reduced its shareholding in Absa Group Limited from 62.3% to 14.9%. This means that although Barclays PLC remains a committed partner and shareholder, we cannot legally use the name Barclays in the future. It was therefore important for us to choose a name that already has strong equity in Africa and internationally under which to unite all our operations. Absa was the chosen name.

The spectacular event of 11 July 2018, when Barclays Africa Group Limited officially changed its name to Absa Group Limited, heralded the biggest transaction that the continent has ever seen. The name change also signalled the start of a new era for the Group as a standalone African banking group with deep roots on the continent, and more than 100 years of experience in Africa's banking sector.

For us in Botswana, our transition provides an ideal opportunity to present our Bank as a modern, fast-thinking and relevant organisation that is truly an African bank for the people of Africa. We will continue to engage all stakeholders on our journey to ultimately changing our brand from Barclays Bank of Botswana Limited to Absa Bank Botswana Limited.

Looking ahead, it is clear that in future, most of our competition will come from the non-banking sector, a change that is driven by the desire of consumers for greater convenience and the ability of technology to deliver on this. The future of banking, we believe, therefore lies in more partnerships with other businesses. We are ready for this.

As I conclude this, my final report as Managing Director of Barclays Bank of Botswana, I would like to thank our Chairman, Mr. Oduetse A. Motshidisi, the Board, Management and employees of the Bank for their focus and delivery to our customers and clients. I thank the Board for the unwavering support during my tenure as the Managing Director and I wish my successor, Keabetswe Pheko-Moshagane, well in her future role. I leave knowing that the Bank is in excellent hands.

Finally, I would also like to thank all our customers and shareholders for their continued support for a truly African bank that is passionate and ready to bring new possibilities in banking to life.

Reinette van der Merwe
Managing Director

Country Management Committee

Reinette van der Merwe, Managing Director

Reinette has over 20 years' experience in the banking industry. She joined Barclays Bank of Botswana as Managing Director in 2013. Prior to that, she was Chief Internal Audit Executive for Barclays Africa, responsible for internal auditors across Africa. She joined Absa in 2007 and has held several key roles over the years, including Head of Audit Retail and Commercial, Chief Internal Auditor, and Chief of Staff at Absa Private Bank.

Reinette has held key positions in a number of South African institutions, including the University of Pretoria where she was a member of the Internal Audit Board. She was also a non-executive member of the Human Sciences Research Council Audit Committee in 2014.

She also previously worked with the University of Pretoria, Gordon Institute of Business Science School in South Africa and Erasmus University in Amsterdam on a Master of Philosophy for Chief Internal Auditors.

She is a Chartered Accountant with a Master of Commerce in Business Management. She is also a qualified Certified Financial Planner. Reinette has completed several leadership training programmes, including the Advanced Management and Leadership programme at Said Business School at Oxford University in England.

Mumba Kalifungwa, Finance Director

Mumba was appointed Finance Director of Barclays Bank of Botswana in August 2015. He has over 20 years' post qualifying experience in banking, auditing, taxation and financial management. He joined Barclays Bank of Botswana from Barclays Bank Zambia, where he held the position of Chief Financial Officer.

He previously served as Chairman of the Board Audit Committee of the Zambia Institute of Mass Communication.

He also previously served as a Board member on the Africa Board of the Association of International Certified Professional Accountants (AICPA).

Mumba holds a Master of Business Administration from Herriot Watt University of 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).

Brighton Banda, Consumer Banking Director

Brighton joined Barclays Bank of Botswana as Consumer Banking Director in 2014. Prior to assuming this role, he was Regional Head of Retail Lending from 2012. He has over 20 years' experience in banking in various countries where he held senior management roles in product, risk and operations.

He has extensive knowledge of African markets, having worked in four other countries, namely: Zimbabwe, South Africa, Kenya and Nigeria.

He holds an Economics Honours degree from the University of Zimbabwe.

Tumelo Mokowe,
People Function Director

Tumelo has over 10 years' experience in banking, having joined Barclays Bank of Botswana in 2007. He has held various positions within the People Function including Training, Governance and Employee Relations, Head of Human Resources Operations and Employee Relations before his appointment as People Function Director.

He has a Bachelor's Degree in Social Sciences - Public Administration and Political Science from the University of Botswana.

Tumelo has completed several leadership programmes, including a Management Development Programme from the University of Stellenbosch and a Basic Certificate in Labour Law from University of Cape Town.

Keabetswe Pheko- Moshagane,
Chief Operating Officer

Keabetswe joined Barclays Bank of Botswana in 2010 as Head of Core Banking Applications.

She held the position of Head of Technology, overseeing the execution of bank projects, programmes and initiatives aimed at ensuring the business operates in a stable environment. Prior to joining the Bank, she worked in South Africa, where she consulted for various companies. She has over 10 years' experience in the banking and telecommunications industries.

Keabetswe has a Bachelor of Administration in Information Technology degree, specialising in IT Management and Business Applications, from Tshwane University of Technology; and has completed several leadership training programmes including the Management Development Programme by the University of Stellenbosch, and a Chief Operating Officer Excellence Programme. She is currently studying towards her Master's in Business Administration.

Kabo Molomo,
Chief Risk Officer

Kabo was appointed as Barclays Bank of Botswana's Chief Risk Officer in March 2018. He has over 15 years' 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's in Business Administration from the University of Botswana. He is a Fellow member of the Association of Certified Chartered Accountants (ACCA) and of the Botswana Institute of Chartered Accountants (BICA).

Mavric Webbstock, Corporate and Investment Banking Director

Mavric joined Barclays Bank of Botswana as the Corporate and Investment Banking Director in March 2018 and has over 16 years' experience in wholesale banking ranging from listed and mid-corporates, to the public sector and Business Banking.

He has held several leadership roles within Absa Group, including: Provincial Head of Acquisition in Business Banking, Provincial Head of Investments, Provincial Head of Wholesale, Retail and Franchise and Provincial Head of Agri-Business. Before joining Absa, Mavric was Head of Corporate Banking for Nedbank in South Africa.

A qualified Chemical Engineer, Mavric holds a BSc in Engineering from the University of Natal and a Masters in Business Administration from the University of Cape Town. He completed the Gordon Institute of Business Science Global Executive Development Programme at the University of Pretoria and also holds an ACI Dealing Certificate from the Financial Markets Association.

Leroy Klein, Treasurer

Leroy joined Barclays Bank of Botswana in 2008 as a Treasury Analyst and was appointed to the position of Country Treasurer in October 2017. He has 10 years' experience in banking, holding middle and senior management roles within Treasury. Prior to joining the Bank, he was a Senior Auditor at KPMG Botswana.

He is a Fellow of the Association of Certified Chartered Accountants (ACCA) and is a member of the Botswana Institute of Chartered Accountants (BICA).

Titose Musa, Head of Compliance

Titose was appointed Head of Compliance at Barclays Bank of Botswana in August 2013. She has over 20 years' experience in banking, with extensive experience in Organisational Strategic Alignment, Risk Management, and Performance and Financial Management Change, as well as People Management. Prior to joining Barclays Bank of Botswana, 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 holds Bachelor of Arts in Humanities from the University of Botswana and a Master of Science in Strategic Management from the University of Derby.

Titose has completed several leadership programmes, including the Barclays Leadership Development Programme.

Dr. Kealeboga N. Bojosi,
Head of Legal and Secretariat

Kealeboga joined Barclays Bank of Botswana as a Legal Advisor in 2012 and was appointed Head of Legal in 2015. Between 2000 and 2006, he was in private practice, specialising in commercial and civil litigation, corporate and labour law. During this period, he also taught Banking Law, Company Law and Contract Law at the University of Botswana. Prior to joining the Bank, he spent six years in the United Kingdom, where he was a lecturer in Commercial Law at a London University and also practised as an International Lawyer (Finance) at an International Commercial Law firm.

He was admitted as a Solicitor of the Supreme Court of England and Wales in 2009. He holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University.

Spencer Moreri,
Acting Head of Marketing and Corporate Relations

Spencer joined Barclays Bank of Botswana in 2015 as Public and Media Relations Manager and was appointed Acting Head of Marketing and Corporate Relations in September 2018*. He has over 4 years' banking experience. He brought to the role a wealth of experience in providing oversight and effective leadership to multi-faceted projects in high technology environments, having held several senior roles in marketing and communications in both public and private sectors. Prior to joining the Bank, he held the position of Marketing and Communications Manager at Botswana Power Corporation.

Spencer holds a Bachelor of Arts Degree in Multimedia from Royal Melbourne University of Technology (RMIT), Melbourne, Australia. He has completed several leadership programmes including the Senior Management Development Programme with Stellenbosch University.

* Spencer Moreri was appointed Acting Head of Marketing and Corporate Relations following Duduetsang Molloy's resignation from the Bank in September 2018.

Finance Director's Report

Mumba Kalifungwa
Finance Director

I am pleased to report that, once again, the Bank delivered strong results in the 2018 financial year.

Our performance continues to be characterised by strong momentum in our key business segments, all of which achieved positive results.

Overview

The Bank's results underscore our resilience as a business and reaffirm our confidence that we will continue to capitalise on growth opportunities in our market. Despite some headwinds, our progress reaffirmed our position as a leading financial services provider in our market with focus on exceptional customer service and bringing possibilities to life.

Within a competitive and well-regulated banking environment, we continue to maintain a well-capitalised, liquid and sound business, driving growth through the provision of a range of products and channels to give our customers a positive and memorable experience.

At a group level, Absa Group started a separation journey from Barclays PLC in 2017, a process expected to be completed by June 2020. This has resulted in the Group and the Bank incurring separation costs in the 2018 financial year - costs that are necessary to ensure that the separation process is a seamless one. These costs form part of our operating expenditure until the separation process is complete.

The Bank has obtained approval from the regulator to report two views of its annual financial statements. From the 2018 financial year end, the Bank will report a Statutory View (IFRS view) that includes the one- off separation costs, and a Normalised View that excludes the impact of separation costs, giving a view of the underlying performance of the business.

Statement of comprehensive income

For the year ended 31 December 2018, we experienced a steady growth in income across all segments in the review period relative to the previous year. This contributed positively to the achievement of a strong profit before tax of P638 million excluding the effects of the separation costs.

This represented a 14% growth in normalised profit year-on-year. On a statutory basis (including separation costs), we achieved a profit before tax of P588 million, representing a year-on-year profitability growth of 5%.

Overall, our 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 fees and commission income. We continued to drive momentum across all our key segments to ameliorate the effects of compressed margins.

On a gross basis, interest income was up by 6% year-on-year, despite the interest rate cut of 50 basis points in the last quarter of 2017. However, an increase in the cost of funding, driven by market conditions, muted the net interest income growth. Despite this, our net interest income still increased, albeit marginally, by 2% year-on-year.

Net fee and commission income rose by a satisfactory 6% year-on-year on the back of our focus on driving innovation through investment and enhancement of our digital channels.

Meanwhile, our net trading income increased by a resounding 24% year-on-year, largely as a result of an increase in forex sales volumes and our continued focus on client acquisition and penetration.

Our credit expected losses/impairments charge decreased by 35% year-on-year. This excellent performance can be attributed to our enhanced collections capability and prudent credit extension to high risk sectors, especially in the Retail segment.

Effective 1 January 2018, a new accounting standard IFRS 9 replaced IAS 39 Financial Instruments: Recognition and measurement. To this end, IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information. This replaced the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss was already incurred; and measures the loss on the most probable outcome.

The day 1 impact arising from the adoption of this change was taken as an adjustment to our retained earnings as permitted by the standard. The total impact amounted to an after-tax amount of P149 million.

The expected credit losses for the year have been computed in accordance with IFRS9.

Operating costs were well contained with the business achieving a cost-to-income ratio of 52% after removing the effect of the separation costs. The normalised cost-to-income ratio remains within our strategic target of the lower 50s. Normalised costs grew by 5% year-on-year in line with inflation and continued investment in technology.

On a statutory basis, we achieved a cost-to-income ratio of 55.5%. This remains favourable when measured against the banking average sector cost to income ratio of 56%. Operating costs (including transitional costs) increased year-on-year by 12% largely as a result of increased technology spend as we embarked on the separation journey from Barclays PLC. On a normalised basis the cost growth translated to an annual increase of 5.2%.

Our return on equity remains solid at 24% on a normalised basis and compares favourably against the banking industry average of 19.7%.

Statement of financial position

Our balance sheet continues to remain resilient, prudently positioned, with strong liquidity and capital levels, and sound provisioning for expected credit losses.

As at 31 December 2018, the Bank registered a solid balance sheet growth of 12% from the previous year.

Balance sheet growth was influenced by customer loans which increased by P1.1billion, representing an 10% year-on-year growth to P11.8 billion. This growth was fairly distributed across the segments in line with our strategy, and continues to be focused around prudent lending in our chosen business segments.

Customer deposits increased by P874 million, representing an 8% year-on-year growth, largely due to our continued customer focus and penetration across all our targeted market segments.

We continue to strive to deliver world class customer service and products to existing and potential customers, with a view to providing access to finance and a multiple suite of payment solutions.

Capital

During the year, we raised over P200 million in Senior and Subordinated debt notes, which demonstrate our commitment to optimising our balance sheet and the resultant funding sources.

Our focus in the short and medium term is to optimise our balance sheet, whilst focusing on driving revenue generating opportunities.

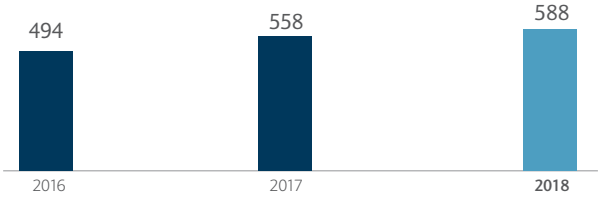
Our balance sheet position remains solid at P17 billion, with strong liquidity and capital adequacy levels. Our regulatory capital position stood at P2.2 billion, representing a ratio of 17.6% (after taking into consideration the final dividend) against the regulatory limit of 15%; and liquid assets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

Dividend

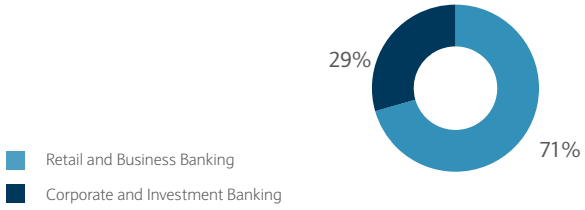
A final dividend was declared of 22.296 thebe per share for the year ended 31 December 2018. This brings the total dividend declared for the year 2018 to P270 million which is line with our commitment to sustainably deliver returns to our shareholders and meet our capital requirements.

Key figures	2014	2015	2016	2017	2018 (statutory)
Earnings per share (thebe per share)	39.40	30.60	45.68	50.71	53.34
Dividend per share declared from the respective year end profits (thebe)	23.50	19.40	29.30	32.90	31.68
Revenue (P'million)	1,277	1,286	1,489	1,462	1,531
Fee income to total income (%)	23	21	22	25	26
Cost-to-income ratio (%)	55	55	49	52	55
Return on equity (RoE) (%)	23	17	22	22	23
Loans and advances to customers (P'million)	8,133	9,783	9,376	10,721	11,835
Customer deposits (P'million)	8,964	11,051	11,219	10,981	11,855

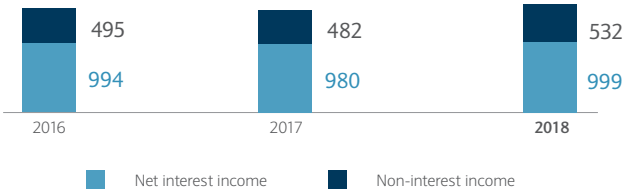
Profit before tax (P'million)



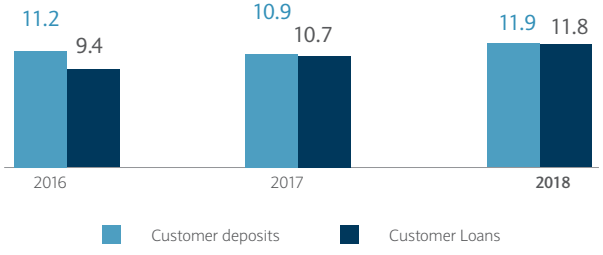
Revenue by segment FY2018



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



Customer assets and liabilities (P'billion)



Corporate and Investment Banking

Overview

With GDP growth exceeding 4%, the local market performed well during the 2018 financial year despite fairly cautious government spending following 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.

An updated analysis of the major sectors driving the local economy showed clearly that our CIB focus sectors remain relevant. These include mining and energy, consumer (including wholesale and retail), financial institutions (banks, insurance, pension funds, asset managers and insurance), commercial property, tourism and hospitality, telecommunications and technology and the public sector. We will continue to focus on these sectors going into 2019 in line with the significant growth experienced in 2018 that enabled us to carry a strong asset and liability pipeline into the new financial year.

Our customer focus continues to be on banking our clients' value chains, covering all aspects from employee schemes and personal banking needs to supplier development and financing. This in addition to meeting our clients' holistic banking needs from collections and payments to financing, trade, investments, foreign exchange and risk management. We call it banking the ecosystem.

Corporate assets grew 9.1%, closely matched by a corresponding growth in liabilities of 9.7%. This enabled our growth in fees and commissions of 10.6% in line with our strategy to continue to extend balance sheet to grow fee income. Our transactional banking volumes grew year-on-year as a result of this strategic initiative and we experienced progress in terms of new primary-banked clients.

However, it should be noted that 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 banks sought to maintain capital adequacy while growing their lending books. This reduced margins on deposits and increased the cost of funding in the local market. This, combined with margin compression as a result of the rate cut in late 2017, led to net interest income growth of only 4.5%.

Our Markets business showed strong growth year-on-year of 19.3% driven by gains in both forex volumes and trading activities. This demonstrates 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 our 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 saw some uptake in the Commercial business segment as well. We entered 2019 with exciting growth opportunities for us to add value to our clients in terms of managing their financial risks.

On an overall basis, administrative and operating costs remain well-controlled. A significant impairment on our CIB asset book was taken during the course of 2018 which resulted in our profit margin being impacted. We nevertheless remain cautiously optimistic of this matter being resolved during the course of 2019.

Awards and achievements

We were delighted to be named as Best Investment Bank in Botswana at the EMEA Finance African Banking Awards 2018. This clearly demonstrates our position as a market leader and a major contributor to growing the Botswana economy in partnership with our CIB clients.

At group level, Absa Group received the Global Finance Award for Best Mergers and Acquisitions Bank in Africa.

Looking ahead

With a positive growth outlook for 2019, we are optimistic about our financial performance in the new financial year. We remain focused on delivering value to our existing and potential customers as well as new entrants to the market. We will continue to focus on generating and implementing value-added solutions within our target sectors to enable our clients to realise their growth ambitions.

As a member of the Absa Group, we continue as a truly Pan-African bank, and in line with past successes, we will continue to deliver regional solutions to our corporate clients on both an inbound and outbound basis. With Botswana's continued stability and reputation as a desirable investment destination and growing attractiveness as a regional hub for corporates, we are well positioned for growth in 2019 and beyond.

Retail and Business Banking

Retail and Business Banking (RBB) serves both individual and business customers. Service to our Retail customers is through our key propositions: Premier, Prestige and Personal, while Business clients are serviced through SME and Commercial propositions.

The RBB business demonstrated its robustness and resilience by registering a noteworthy performance despite challenging operating conditions. Profit before tax increased by 71% year-on-year driven by both revenue and an improved impairment performance.

Retail Banking

Overview

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 registration and usage of our digital channels. Customers grew by 4.1% year on year accompanied by a commensurate increase in average product holding. Mobile banking registration and usage increased by 30% and 16 % respectively.

New Product Launches

Dynamic Currency Conversion
This was introduced to Barclays Bank merchant partners. The solution enables merchants to charge cardholders in their preferred currencies based on the home country of the card. This solution has successfully been rolled out to most of our Merchants in the Tourism sector.

Dragon Pass
It was launched to give worldwide airport lounge access to our Premier and Prestige customers. Dragon Pass provides access to over 850 lounges across 115 countries.

Retrenchment Insurance Cover
This was extended to vehicle loans, mortgages and credit cards thereby providing our customers with better protection.

Upgraded Point of Sale (POS)
Wifi enabled touch screen POS terminals with smart SIM cards that roam on the strongest network were rolled out to improve connectivity and faster processing of card payments.

Serala Savings Account
As part of encouraging the savings culture amongst Batswana, this product was introduced to complement the existing value proposition for our schemes clients.

Target Save Account
This allows customers to make monthly deposits towards their savings goal over a specific period.

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, and better user experience. User security on the App was enhanced with the addition of fingerprint identification on both Android and iOS devices.

Branch network

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

Looking ahead

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.

Business Banking

Overview

Business Banking has again delivered solid growth on both its balance sheet and profitability. Customer assets increased by 20% while liabilities increased by 13%.

Profit-before-tax growth of 29% year-on-year was propelled by a combination of revenue growth, as well as efficient cost and impairment management.

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.

Looking ahead

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

Treasury and Balance Sheet Management

Overview

The financial performance of the Bank in 2018 was underpinned by a resilient balance sheet, a robust capital position, sound funding and liquidity position, with an emphasis on delivering an effective funding profile to support its overall strategic objectives. Overall market conditions with regards to liquidity and funding were stable with the cost of funding reverted to normalised levels. Treasury continued to work towards optimisation opportunities during the year with a key emphasis on optimising the funding profile.

Capital adequacy position

The Bank maintained a strong capital position throughout the year, ending at 17.7% (2017: 19.4%). Capital requirements have been assessed on a forward-looking basis, with levels and composition of capital determined by taking into account the expected profitability, sustainable dividend outlook, balance sheet growth mix as well as regulatory and accounting changes. We successfully raised our Tier 2 capital funding during the year through the issuance of a bonds of P102.5 million at competitive market pricing. This was in support of the Bank's medium- to long-term strategic objectives. It was met with robust demand from the market, thus allowing for optimal pricing.

Total capital adequacy ratio (CAR) was strong at 17.7% above regulatory requirement at year end, despite a 21% growth year-on-year in total risk weighted assets (RWA). The CAR position was driven by a higher profitability and increased RWAs in line with the Bank's growth strategy.

Liquidity and funding position

Treasury's objective is to optimise the Bank's funding profile within structural and regulatory requirements to ensure efficient and sustainable operations, whilst taking consideration of the liquidity risk across various client-facing segments.

The Bank successfully raised senior debt term funding in 2018 through the issuance of P97.5 million five-year bond through our note programme. This was to support the strategic focus of improving our funding profile and reduce the reliance on short-term funding.

We closed the year with a strong funding and liquidity position as the liquid asset ratio (LAR) of 16.04% (2017: 15.5%) was well above the regulatory 10% requirement and the internal target.

Customer deposits increased 8% year-on-year, providing a significant portion of the Bank's funding and also accounted for 81% of total deposits. Our liabilities continued to be dominated by customer liabilities, which are considered stable behaviourally and whose profile reflects the diversification of our book.

Looking ahead

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

The year ahead is expected to be characterised by a low interest environment and dynamic liquidity challenges. Treasury will continue to look for opportunities to improve the funding profile within a reasonable cost range and drive optimisation within the Treasury investment portfolio.

Risk Review

Overview

The focus areas for Risk Management in 2018 were:

- Leveraging data and analytics
- Upgrading of credit risk management systems
- Digital transformation to allow efficient customer service
- Adoption of IFRS9 relating to accounting for impairment of financial instruments

As the greatest asset we have as a bank is our people, we continued to invest in our people and processes as a proactive measure to align to the ever evolving environment we operate in, as well as to position ourselves as the preferred bank of the future. Our level of engagement with and understanding of other Group entities across the continent increased as we strived to benchmark and enhance our operating environments. This led to an upgrade of our core credit risk management system for our corporate clients, which enabled us to operate with greater speed and efficiency.

The Bank successfully adopted and implemented IFRS9 in 2018 and we underwent a remodel and alignment of our existing policies within IFRS9 guidelines. The Bank had progressively been maintaining parallel runs in preparation of IFRS9 adoption; this had been one of our key success factors for implementation by 1 January 2018.

There were concerted efforts to ensure that we introduce a form of digitalisation in the Bank through leveraging our data and analytical platforms and aligning them to our world class Group systems. Our biggest win was being able to fully implement our data-led collections strategy. We ensured that we refined these using statistical techniques in line with Group and other African markets.

We continued to improve the quality of new relationships that the Bank established in 2018, thus leading to an overall improvement in the quality of our portfolio. This, combined with an enhanced sanctioning environment and a key focus on growing in low risk segments to safeguard against general distress in the market, resulted in positive results in the overall Bank performance.

Growth in our credit portfolios was generally aligned to government's aspirations and development plans to embark on economic diversification beyond diamonds. We continued to increase our appetite to other sectors such as Agriculture and Manufacturing.

Beyond 2018

Our existence as a bank continues to be challenged by non-banking institutions which operate in the FinTech (Financial Technology) environments. Banks across the globe continue to be challenged by small and large FinTechs that continue to develop solutions that use insight and digital technology to improve customer experience across multiple product lines.

The Bank continues to work with appropriate technology partners and develop our own in-house platforms geared towards retaining a competitive edge. We remain committed to continued investment in our core capabilities and advancing our technological capabilities to allow efficient customer service. There are ongoing developments, including the implementation of a programme that will continually develop our people with the skills they need to serve customers better in a digitally disrupted environment.

The Bank continued to build a dynamic Enterprise-wide Risk Management Framework (ERMF) which aligns to and enhances the existing ERMF while continuing our drive to leverage data and analytics. Our commitment to this is underscored by the Bank's continued implementation of Risk Data Aggregation and Risk Reporting (RDARR) principles.

The Bank continued to build a dynamic Enterprise-wide Risk Management Framework which aligns to and enhances the existing framework while continuing our drive to leverage data and analytics.

People Function Review

The year 2018 was fulfilling from a People perspective as we prepared to support our employees through the transition to the new Absa brand.

We also rebranded the Human Resources department to People Function with a view to remaining close to the employee agenda and aligning it to our new identity.

Talent, succession and learning

The Bank continued to invest significantly in its talent management proposition. Talent management is handled through a holistic talent development value chain and touches on attraction, acquisition, onboarding, development, deployment and retention of staff.

As part of our Talent strategy, we have made a deliberate decision to drive development and succession internally, leading to successful tapping of internal talent as opposed to external acquisition. We continue to develop our talent by exposing them to markets across Africa. In 2018, 10 of our people underwent short term assignments in South Africa and with other Absa Group entities across the continent.

In terms of the Bank's succession planning and to further enhance our pipeline, we have continued to recruit young talent at graduate level. Through our employability programme, we were able to engage 9 graduate interns and 10 graduate trainees. In addition, we identified 7 graduate trainees that will be joining us in early 2019.

The Bank's learning agenda continues to be robust and in 2018 we had a significant number of employees successfully completing various learning programmes on technical, leadership and behavioural skills.

Employee and wellness

Employee engagement and wellness remain a critical aspect of our People strategy. An important factor in successfully delivering this mandate was the roll-out of internal employee campaigns geared towards building a healthy employee environment. To this end, the Bank launched an Employee Wellness Programme (EWP) provided by iCas Botswana. As part of this Programme, our people are entitled to several benefits including a 24-hour telephonic counselling service as well as face-to-face counselling when needed. The counselling covers personal, family, work-life and health-related concerns. In addition, as part of the EWP launch, we hosted a Spring Wellness Day across the country and

reaffirmed our commitment to supporting our colleagues in maintaining good health and wellness.

Employee engagement

The Bank remains committed to growing its partnership and strengthening its relations with Botswana Bank Employees Union (BOBEU). The partnership has resulted in the parties successfully concluding salary negotiations and engaging collaboratively on other colleague matters.

The Bank is committed to building employee engagement throughout the organisation and embedding engagement in our culture. As part of this commitment, we carried out a survey in 2018 to measure our employee levels of engagement. The survey results showed a positive movement from the previous year. Management will continue partnering with employees in 2019 to further improve engagement and continue working towards building a healthy working environment.

Reward

Reward, which is aimed at securing an effective workforce, remains a critical component of our People strategy.

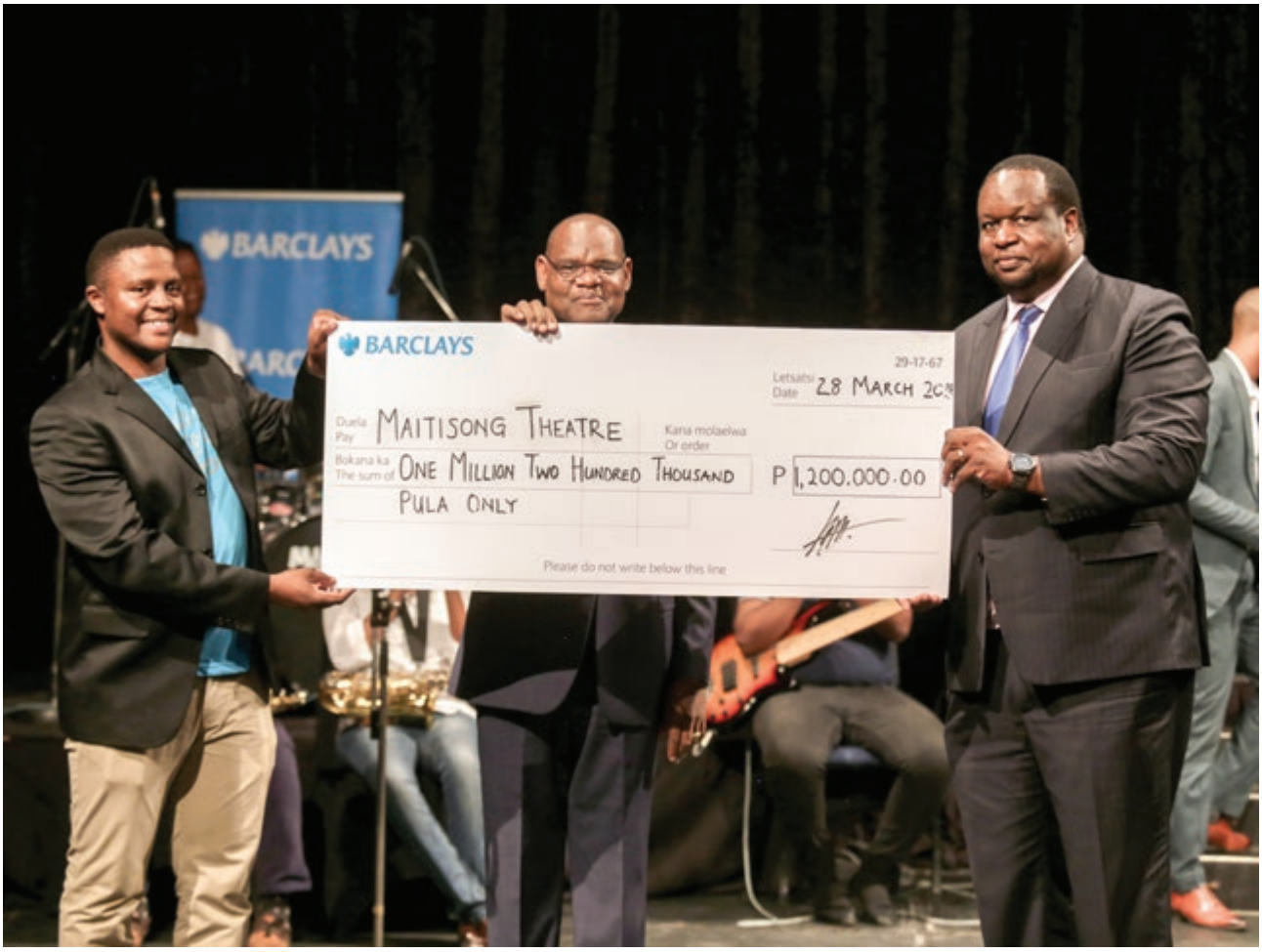
We embarked on a review of the Recognition programme. This resulted in a revamped and more encompassing programme that will support the recognition of the new ideal behaviours and performance levels required during this transition period and beyond. This will help in the development of the new culture being envisioned for the new identity. The launch of the programme is scheduled for mid-2019.

In addition, a review of all employee policies began in 2018 to align them to changes in the market.

Separation programme

The goal of the separation programme is to effectively separate the support of the HR function from Barclays PLC to leverage opportunities to transform it into an enhanced employee experience. This will support the Bank's strategy to become a scalable, digitally-led business. The programme began in 2018 and all workstreams - including a new HR System, Culture, Values and Performance Management - are expected to go live in 2019.

Citizenship Report



We remain committed to playing an active role in the development of the communities in which we operate. The focus of our Citizenship Agenda during 2018 has been on the delivery of our Shared Growth strategy. Citizenship remains central to the success of our business.

Education and skills development

In 2018, Barclays launched 3 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 has been the re-launch of our Barclays F.G. Mogae Scholarship Fund. Since the re-launch, 38 Batswana have been provided with scholarships to pursue their Masters degrees with the University of Botswana (UB), the Botswana University of Agriculture and Natural Resources (BUAN), the Botswana International University of Science and Technology (BIUST), and Botswana Accountancy College (BAC).

Ready to Work, our online learning curriculum for employability and entrepreneurship, has made excellent progress. The focus in 2018 was to identify workplace opportunities for Ready to Work graduates. Our partners, Project Concern International and Stepping Stones International, have succesfully developed partnership with private sector companies to place youth into internships or permanent employment.

By the end of December 2018, 216 youth had been placed in either internship or employment opportunities. Another 519 young people have been trained and graduated from Ready to Work.

Madi Majwana

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

Season 4 of the Madi Majwana radio drama was launched early in the year and broadcasts commenced in June on 3 radio stations. The cast and crew of Madi Majwana also embarked on two roadshows, visiting 18 towns and villages, and reaching an audience of over 7 000 people. The main focus of Season 4 was youth and their challenges, including high unemployment rates, increasing levels of crime, substance abuse and the challenges of saving. The drama endeavoured to empower the youth with tools to assist them in navigating the major challenges they face every day.

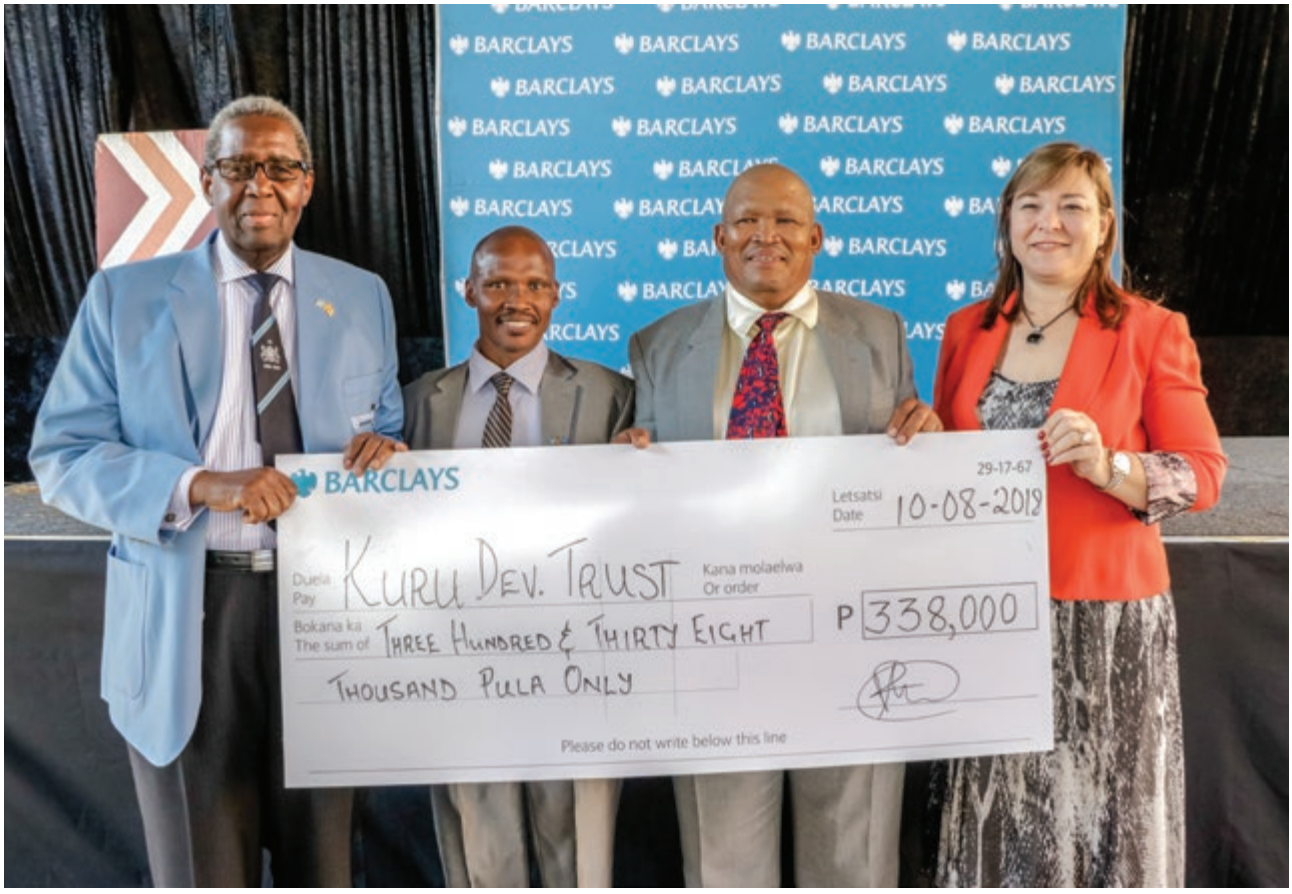
A Madi Majwana documentary was launched at the end of the season and showed highlights of the radio drama's journey since its inception in 2013. The documentary included interviews with various people from different parts of Botswana sharing their personal experiences with money.

Performances were held in the villages of Nata, Kachikau, Kang, Makalamabedi, Francistown, Kasane and Maun.

Colleague volunteering

The contribution of our colleagues remains critical to the success of our Citizenship programme and they went out in great numbers to build and support the communities in which they are working.

We had 2 major colleague volunteering campaigns during the year: Make a Difference Day and Day of the African Child.



Our annual Make a Difference Day campaign is a highlight of our colleague volunteering efforts. It is undertaken during October and November each year. During 2018, over 80% of our colleagues participated in this campaign, visiting 41 schools across Botswana to teach various skills and spend time with our children and youth. The focus was on money skills, entrepreneurship and environmental conservation.

Our annual Day of the African Child campaign in June focused on reading and our colleagues visited various schools across the country to read to children and embed a love of reading. We visited 10 schools and read to over 300 children.

Enterprise development

Our newly established Enterprise and Supply Chain Development (ESD) business unit is making steady progress. The unit has successfully recruited four companies to the programme that seeks to grow our SME by providing the financing they require.

The construction of the ESD centre has been completed and opened.

Financial inclusion

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

Our pre-paid debit card is currently being utilised by several private companies and Non-Governmental Organisations (NGOs). The card allows individuals without formal bank accounts to receive their monthly salaries in a safe and convenient manner.

The Mabogo Dinku programme, which is being implemented by the Citizenship Entrepreneurship Development Programme, is currently benefitting 261 business groups that have a Motshelo account with Barclays of Botswana.

Other

The Kuru Dance Festival, which celebrated its 20th anniversary in 2018, took place on 24 and 25 August 2018. The Festival was a resounding success with a higher number of guests attending year-on-year. The Festival hosted 16 dance groups, including a traditional Zulu dance troupe from South Africa.

The dance festival is a result of Kuru Development Trust's continued efforts to uplift the Khoi San community.

It takes place annually at the sight of the full moon, giving festival-goers an opportunity to enjoy it in all its glory as it illuminates the sky with its beauty, its bounty, and indeed much more, according to Khoi San folklore.

The healing dance was the highlight of the festival. It captivated the audience as it revealed the mystery and beauty of the San culture.

Board of Directors

Oduetse A. Motshidisi,
Chairman of Board of Directors

Oduetse joined the Board in 2016, and was appointed Board Chairman in 2017. He has 30 years' 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 Bank of Botswana, including heading the Foreign Exchange Reserves Management.

He has served on a number of Boards, including those of the Motor Vehicle Accident Fund, the Botswana Stock Exchange 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 from the University of Wisconsin-Madison in the United States of America.

Lawrence Maika,
Independent Non-Executive Director

Lawrence joined the Board in 2005 and is Chairman of the Audit Committee. He is the Managing Director of Nsenya (Pty) Ltd. Lawrence has served on a number of Boards including Botswana Meat Commission, Sefalana Holdings Company Limited, Botswana Housing Corporation, Bank of Botswana and Botswana Savings Bank.

A Certified Chartered Accountant, Lawrence is a Fellow of the Botswana Institute of Chartered Accountants (BICA) and also a Fellow of the Association of Chartered Certified Accountants (FCCA).

Ambassador Alfred Dube,
Independent Non-Executive Director

Alfred joined the Board in 2009 and is the Chairman of the People Function, Remunerations and Nominations Committee. He is a Foreign Policy Specialist and his diplomatic career spans over 40 years'. He has held appointments as Botswana's Ambassador to different missions around the world, including the United Nations.

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

Kenneth Molosi,
Independent Non-Executive Director

Kenneth joined the Board in 2009. He is the Chief Executive Officer of EOH Consulting, a leading management consultancy in Botswana. He has over 20 years' experience in ICT deployment and business development having led consultancies in both the public and private sectors. He has published several leadership articles on technology, strategy and talent management.

He holds a Master's Degree of Science in Information Systems from Pace University in the United States of America and a Bachelor of Business Administration from Brock University in Canada. Kenneth currently sits on the Advisory Board of the University of Stellenbosch Executive Development Programmes and is a member of Palladium's Execution Premium Community (XPC).

Tobias Mynhardt,
Independent Non-Executive Director

Tobias joined the Board in 2016 and is the Chairman of the Risk Committee. He has been in the investment industry since 1998. 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.

He holds a Master's Degree in Economics and a Postgraduate Diploma in Economics from the London School of Economics, a Bachelor of Commerce - Honours Degree in Economics from the University of Cape Town and Bachelor of Commerce Degree in Economics and Accounting from Stellenbosch University in South Africa.

Kgotlayarona Ramaphane,
Independent Non-Executive Director

Kgotlayarona joined the Board in 2018. He has over 30 years' experience in Project and Business Management in Public Enterprises, of which seven was as the CEO of the Public Enterprises Evaluation and Privatisation Agency (PEEPA). He also served as Head-Performance Monitoring of PEEPA, where his responsibility was to advise Government 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. He has also served as a Board Member of Botswana Privatisation Assets Holding.

He holds a Master's of Business Administration (MBA) from Stirling University 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,
Independent Non-Executive Director

Mohamed joined the Board in 2018. 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), where he currently serves as a Member of both the BICA Technical Committee and BICA Advisory Committee to the Botswana Stock Exchange. He has over 13 years' experience in the provision of audit services and has worked as a Senior Manager at leading audit firms including Ernst & Young Birmingham, and KPMG Birmingham and Botswana. Mohamed is also an Audit Committee member for the University of Botswana.

He has a Master's 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.

Corporate Governance

The Bank is committed to business integrity and professionalism in all its activities. As part of this commitment, the Bank's Board of Directors ('the Board') supports the highest standards of corporate governance and the development of best practices. The Bank has therefore adhered to the Bank of Botswana guidelines on the appointment of Directors and Senior Officials.

As a listed entity, the Bank also adheres to and has adopted the principles of the Botswana Stock Exchange ('BSE') Listings Requirements and the BSE Code of Best Practice on Corporate Governance ('the Code'). The Code details the principles that all listed entities are to adhere to in terms of Board composition and balance, the role of the Managing Director and Board Chairman as well as the appraisal of the Board and Chairman. A checklist of the Bank's adherence to the Code is set out on pages 50 - 56 of this report. The Bank is working towards compliance with the Principles of King IV and is governed by the Absa Group Governance Framework which has been established with King IV principles and practices in mind.

The Bank is governed by the Absa Group's Policy on Legal Entities and Directors, which is a governance framework designed to ensure that governance arrangements suitable for the purpose and risk of each subsidiary are in place.

In accordance with the requirements of the Banking Act, as well as recommended international best practice, the Board also ensures that management identifies measures and monitors a variety of risks through various control mechanisms. Further, the Board and management is supported by the Bank's Enterprise Risk Management Framework ('ERMF') to embed a strong risk culture by setting out clear risk management practices and requirements. The ERMF identifies the Bank's principal risks and the governance over mitigating the identified risks. .

The Board

Primary Role

The main role of the Board is to provide effective and ethical leadership and it must act in a way that is considered in good faith to promote the success of the Bank for the benefit of its stakeholders.

The Board does this by:

- 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 the performance of management
- Providing challenges, counsel and support to management
- Receiving reports from management on matters pertaining to the Board and Board committees' agendas, including governance, internal control, assurance, risk, capital management, business performance, resourcing, technology and other enablers, and challenging action taken by management
- Testing, challenging and implementing the controls, processes and policies that enable risk to be assessed and managed

Objectives

The main objectives of the Board are to:

- 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 Absa Group and, where necessary, recommend adjustments for the Bank to keep up with local market considerations
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management
- Establish and embed the Absa Group corporate management model and behaviours, which underpin the achievement of Absa Group's objectives
- Agree proposals that fall within the discretion of the Board
- Execute other important control functions
- Enhance the Barclays Bank brand and promote it externally

Board composition

The size and composition of the Board is set out by the Bank's Constitution, which specifies that the number of Directors shall not be more than 15 and not less than four (4), as well as relevant Bank of Botswana requirements and all applicable regulations to ensure that there is a right balance in the number of Non-Executive Directors (NEDs) and Executive Directors (EDs).

Board meetings

The Board has at least four (4) scheduled meetings a year and each Director is expected to attend all meetings. In practice, the Board meets more frequently than four (4) times per year in line with the demands of the business. In 2018, the Board held total of 7 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's 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 Board Charter and the Committee Terms of Reference of each Board Committee. However, they do not form part of the quorum of any meeting.

2018 Attendance

Director	Board	Audit Committee	Risk Committee	People Function, Remunerations and Nominations Committee
Oduetse A. Motshidisi	7/7	-	-	-
Lawrence Maika	7/7	4/4	-	-
Alfred Dube	4/7	-	3/4	3/4
Kenneth Molosi	6/7	4/4	-	3/4
Tobias Mynhardt	7/7	2/4	4/4	-
Reinette van der Merwe	5/5	4/4	4/4	4/4
Mumba Kalifungwa	5/5	4/4	4/4	-
Mohamed Osman	4/4	1/1	-	-
Kgotlayarona Ramaphane	4/4	-	1/1	1/1

Each Non-Executive Director is paid an annual allowance for membership of the Board and each Board Committee. These allowances are payable quarterly and are approved by shareholders at every Annual General Meeting (AGM) held each year. A schedule of fees and allowances paid to all Directors in 2018 is set out on note 53 on page 171 of this Annual Report.

Directors' remuneration

Director	Board	Audit	Risk	People Function and Remuneration	Executive Remuneration	Total
Odutse A. Motshidisi	577 500					577 500
Lawrence Maika	184 800	127 600				312 400
Alfred Dube	184 800		37 400	74 800		297 000
Kenneth Molosi	184 800	63 800		37 400		286 000
Tobias Mynhardt	184 800	47 850	74 800			307 450
Kgotla Ramaphane	46 200		9 350	9 350		64 900
Mohamed Osman	46 200	15 950				62 150
Reinette van de Merwe*					7 116 570	7 116 570
Mumba Kalifungwa*					3 695 180	3 695 180

***Key management remuneration is disclosed in note 53 page 171 of this report.*

Board fees per annum are as follows:	P
Board Chairman	577 500
Board Members	184 800
Audit Committee Chairman	127 600
Audit Committee Member	63 000
Risk Committee Chairman	74 800
Risk Committee Member	37 400
People Function Remuneration and Nominations Chairman	74 800
People Function and Remuneration Member	37 400

Board effectiveness review

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

Skills

The NEDs are individuals with a diverse range of industry and professional skills, knowledge and experience, who are not involved in the day-to-day management of the Bank. The Bank maintains a Board skills matrix, to continually review and assess its skills, expertise and knowledge requirements to enable it to effectively discharge its mandate. The skills matrix is tabled for review and approval by the Bank's Board at every quarterly meeting.

Board changes

The Bank's Board has been led by Mr Oduetse Andrew Motshidisi since July 2017 and as at 31 December 2018, the Board comprised seven (7) NEDs and two (2) EDs. Effective August 8, 2018, Mohamed Osman and Kgotlayarona Ramaphane were appointed to the Board as independent Non-Executive Directors, increasing the overall number of Board members to nine (9). Brief biographical details of the Directors are set out on page 38 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 the Bank's Committee Terms of Reference. These are reviewed and approved by the Board annually. Good corporate governance practice is an important ingredient in creating and sustaining shareholder value and ensuring that behaviour is ethical, legal, transparent and to the benefit of all the Bank's stakeholders. The Bank, therefore, has significant responsibilities to its customers and 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 and sets out the following key matters:

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

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

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

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

Board Committees

Audit Committee

The Board appoints a minimum of three (3) members, who are Directors without any executive responsibility, to the Audit Committee, which meets at least four times (4) a year. In line with corporate governance best practice, a NED other than the Chairman of the Board has been appointed to chair the Committee; Lawrence Maika accordingly holds this position.

The Audit Committee 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 Chief Internal Auditor reports to the Audit Committee and is responsible for development and maintenance of the Quality Assurance and Improvement Programme (QAIP) as required by the Standards for the Professional Practice of Internal Auditing.

The external and internal auditors have free access to the Chairman of the Committee. In particular, QAIP monitors key financial controls, accounting systems and shareholder reporting. It also assesses the management of key financial risks.

Risk Committee

The Board Risk Committee comprises three (3) Non-Executive Board members. The Managing Director, Finance Director and the Chief Risk Officer are mandatory attendees of the Committee, which is chaired by Tobias Mynhardt. The main objective of the Committee is to ensure that the Bank maintains a sound risk management framework and appropriate policies that enable the Bank's ability to achieve its strategic objectives. The Committee further considers and recommends annually to the Board the Bank's risk appetite, and also monitors the levels of risk tolerance and appetite as approved by the Board.

People Function, Remunerations and Nominations Committee

The People Function Remunerations and Nominations Committee is made up of three (3) members. The Managing Director and the People Function Director are mandatory attendees of the meetings as representatives of the Bank's Executive. This Committee meets at least three (3) times a year, and its main purpose is to provide oversight over the recruitment, staffing, and succession as well as performance and compensation of executive management and the review of various incentive proposals. The Committee is also tasked with reviewing the level of competency and skill at Executive and Board level, 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. The mandate of the Committee does not extend to day-to-day management activities.

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. NEDs challenge, 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:

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

Membership of the CMC comprises the following:

- Managing Director (as Chairman)
- Finance Director
- Treasurer
- Chief Risk Officer
- Retail Director
- Chief Operating Officer
- Head of Corporate and Investment Banking
- Head of Compliance
- Head of Marketing and Corporate Relations
- People Function Director
- 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 risks and controls. The ALCO meets at least once a month. It undertakes to maximise the value generated from actively managing the Bank's balance sheet and its financial risks within agreed risk parameters. Therefore, it is primarily focused on forecasting and scenario modelling.

The objectives of the Country ALCO is to manage:

- 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
- Compliance with all internal and regulatory limits and ratios for the above activities

Membership of the Country ALCO comprises the following:

- Managing Director
- Treasurer (Chairman)
- Head of Balance Sheet Management (Alternate Chairman) (Secretary)
- Finance Director
- Head of Corporate and Investment Banking
- Retail Director/Head of Business Banking
- Chief Risk Officer

Executive Risk Committee (ERC)

The main purpose of the Committee is to provide independent oversight over the Bank wide risk profile in accordance with the Bank's strategy and applicable regulations. The Committee further reviews and challenges risk practices and the effectiveness of the control environment over all the principal risks as required by the Bank's Enterprise Risk Management Framework (ERMF) and recommends risk appetite to the Board for approval.

The duties and responsibilities of this management committee are to:

- Oversee management of the Bank's risk profile
- Monitor risk appetite performance against the Bank`s plan
- Monitor capital demand against the Bank`s plan
- Provide oversight over the effectiveness of the control environment by assessing the implementation and embedment of frameworks, policies and controls in compliance with regulatory requirements
- Monitor and take action where required in relation to changes in the internal and external risk environment
- Review and approve impairment levels and other related impairment adjustments
- Oversee risk event management through review of key indicators, risk test scenarios, specific risk issues, themes and concentration
- Escalate any matters to the Board risk committee and Absa Group ERC, where the committee deems this appropriate

Membership of the Executive Risk Committee includes the following:

- Chief Risk Officer (Chairman)
- Managing Director (Alternate Chairman)
- Finance Director
- Head of Legal
- Retail Director
- Head of Corporate and Investment Banking
- Head of Marketing and Corporate Relations
- Treasurer
- Chief Operating Officer
- Head of Operational Risk
- Head of Compliance
- Corporate Credit Director
- Retail Credit Director
- People Function Director
- Cheif Internal Auditor

The internal auditors attend the meetings to provide an independent challenge to the members of the committee.

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
- Review and recommend proposed placements onto the CMC

Membership of the Remunerations and Promotions Committee includes the following:

- Managing Director (Chairman)
- Finance Director
- People Function Director

Operations Committee (OPCO)

The duties and responsibilities of this management committee are to:

- 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
- Review business continuity management

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

Membership of the Operations Committee comprises the following:

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

Brand and Reputation Committee (B&RC)

The duties and responsibilities of the Committee are to:

- Protect and enhance the brand and reputation of Barclays
- Support the Bank as a leader in the field of corporate social responsibility (CSR)
- Ensure that the Bank treats customers fairly, in accordance with its Treating Customers Fairly principles
- Confirm the brand and reputational risks in the business together with the adequacy of mitigating actions, and escalate these as appropriate to the Absa Brand and Reputation Committee
- 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
- Approve community projects for implementation

Membership of the Brand and Reputation Committee includes the following:

- Managing Director (Chairman)
- Finance Director
- Chief Operating Officer
- Head of Legal
- Head of Corporate and Investment Banking
- Head of Marketing and Corporate Relations
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Retail Director
- Treasurer
- Head of Client Coverage
- People Function Director

Risk and Control Forum (RCF)

The overall purpose of the Risk and Control Forum is to provide first line of defence oversight and challenge of the control environment, and take primary accountability for risk identification, ownership, management and control, including embedding a supportive risk culture.

The duties and responsibilities of the RCF are to:

- Facilitate the delivery of risk and control priorities through monthly updates, reviews and resolutions
- Deliver proactive management and governance of the country risk and control environment
- Ensure adherence to the Bank's risk and control frameworks
- Deliver a consistent approach to the management and control of the key risk framework across country, including the consideration of risk appetite against approved budgets
- Review new products and ensure effective risk management and control pre- and post-launch of the new products
- Escalate any high/medium risk issues/concerns to the relevant governance committees, such as the Country CMC or ORCC

Botswana Stock Exchange Code of Best Practice on Corporate Governance Checklist

Full Compliance

Partial Compliance

Not Compliant

Principle	Code Principles	Status
	Section A : The Company	
Principles A.1	**Directors** **The Board** **Every company listed on the Domestic Board should be headed by an effective Board, which should lead and control the company.**	
A.1.1	The Board should meet regularly and Board meetings should be held at least once in every quarter of a financial year	
A.1.2	The Board should have a formal schedule of matters specifically reserved to it for decision including inter-alia: Review/Formulate and monitor implementation of a sound business strategy. Ensure that the CEO and Management Team are competent and adopt an effective CEO and Senior Management succession strategy. Secure effective information, control and audit systems. Ensure compliance with legal/ethical standards. Ensure prevention and management of risks. Fulfil such other Board functions as are vital, given the scale, nature and complexity of the business concerned.	
A.1.3	There should be a procedure agreed by the Board for Directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.	
A.1.4	All Directors should have access to the advice and services of the Board Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the Board Secretary should be a matter for the Board as a whole.	
A.1.5	All Directors should bring an independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct.	
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the company, in order to ensure that the duties and responsibilities owed by him/her to the company are satisfactorily discharged.	
A.1.7	Every Director should receive appropriate induction on the first occasion that he or she is appointed to Board of a listed company and subsequently as necessary. Training curricula should encompass both general aspects of Directorship as well as matters specific to the particular industry/company concerned.	

Principle	Code Principles	Status
Principle A.2	**Chairman and CEO[1]** **There are two key tasks at the top of every company listed on the Domestic Board – the running of the Board and the executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.**	
A.2.1	The posts of Chairman and Chief Executive Officer should not vest in one person. The Chairman and Chief Executive Officer should be identified in the Annual Report.	
A.2.2	The Chairman of the Board should preferably be an Independent Non-Executive Director.	
Principle A.3	**Chairman's Role** **The Chairman's role in preserving Good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions**	
A.3.1	The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that: The effective participation of both executive and Non-Executive Directors is secured. All Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the company. The balance of power in the Board is maintained The sense or decision of Directors on issues under consideration is ascertained. The Board is in complete control of the company's affairs and alert to its obligations to all shareholders and other stakeholders.	
Principle A.4	**Board Balance** **It is preferable for the Board to have a balance of executive and Non-Executive Directors (including Independent Non-Executives) such that no individual or small group of individuals can dominate the Board's decision taking**	
A.4.1.	For a Director to be deemed "independent" the Board must affirmatively determine that the Director has no material relationship with the listed company (directly or as a partner, shareholder, or officer of an organisation that has a relationship with the company).	
A.4.2.	The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. Non-Executive Directors should comprise not less than one-third of the Board.	
A.4.3	The majority of Non-Executive Directors should be independent of Management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment. Non-Executive Directors considered by the Board to be 'independent' in this sense should be identified in the Annual Report.	

1 In the case of Barclays Bank of Botswana Limited, CEO will refer to the Bank's Managing Director.

Principle	Code Principles	Status
Principle A.5	**Appointments to the Board** **There should be a formal and transparent procedure for the appointment of new Directors to the Board.**	
A.5.1	A nomination committee should be established to make recommendations to the Board on all new Board appointments. A majority of the members of this committee should be Non-Executive Directors and the Chairman should be a non-executive Director. The Chairman and members of the Nomination Committee should be identified in the Annual Report.	
A.5.2	The Nomination Committee or in the absence of a Nomination Committee, the Board as whole should annually assess Board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the company. The findings of such assessment should be taken into account when new Board appointments are considered and when incumbent Directors come up for re-election.	
A.5.3	Upon the appointment of a new Director to the Board, the company should forthwith disclose to shareholders: A brief resume of such Director The nature of his/her expertise The names and registered addresses of Directorships or memberships in Board committees.	
Principle A.6	**Appraisal of Board Performance** **Boards should periodically appraise their own performance in order to ensure that prime Board responsibilities are satisfactorily discharged.**	
Principle A.7	**Appraisal of Chief Executive Officer** **The Board should be required, at least on an annual basis, to assess the performance of the Chief Executive Officer.**	
A.7.1	At the commencement of every fiscal year, the Board, in consultation with the Chief Executive Officer, should set reasonable financial and non-financial targets, in line with the short, medium and long term objectives of the company, that are to be met by the Chief Executive Officer during the course of the year.	
A.7.2	The performance of the Chief Executive Officer should be evaluated by the Board at the end of each fiscal year in order to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.	

Principle	Code Principles	Status
	Section B: Directors Remuneration	
Principle B.1	**Remuneration Procedure** **Companies should establish a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.**	
B.1.1	To avoid potential conflicts of interest, Boards of Directors should set up Remuneration Committees of Independent Non-Executive Directors to make recommendations to the Board, within agreed terms of reference, on the company's framework of executive remuneration and its cost; and to determine on their behalf specific remuneration packages for each of the Executive Directors, including pension rights and any compensation payments.	
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors who are independent of Management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment	
B.1.3	The members of the Remuneration Committee should be listed each year in the Board's Remuneration Report to shareholders	
B.1.4	The Board as a whole, or where required by the Articles of Association, the shareholders, should determine the remuneration of the Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association[2]. Where permitted by the Articles, the Board may however delegate this responsibility to a small sub-committee, which might include the Chief Executive Officer.	
B.1.5	Remuneration Committees should consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of other Executive Directors and should have access to professional advice inside and outside the company	
Principle B.2	**Share Options / Director Transactions** **Notwithstanding Listing Rule 10.7 (d)[3] no discounts should be offered to employees on share options.**	
B.2.1.	Executive share options should not be offered at a discount (i.e. less than prevailing market price at the time the share option price is determined)	
Principle B.3	**Disclosure of Remuneration** **The company's Annual Report should contain a statement of remuneration policy and details of remuneration of the Board as a whole.**	
B.3.1	The total of the Executive Directors' and the total of the Non-Executive Directors' remuneration and not the individual remuneration to be disclosed.	

2 *The Bank changed from Articles of Association to Constitution*
3 *Botswana Stock Exchange (BSE) Listings Requirements*

Principle	Code Principles	Status
B.3.2	Remuneration should include bonus payment and share option schemes. For this purpose the value of share options should be the difference between the market price and the exercise price on the day such option is exercised.	
	Section C : Relations with Stakeholders	
Principle C.1	**Constructive use of the AGM** **Boards should use the AGM to communicate with investors and encourage their participation.**	
C.1.1	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	
C.1.2	Companies should consider conducting meetings on the basis of a poll in relation to special business, or where contentious issues are under consideration, in order to ensure that all votes of shareholders (whether in person, by proxy or representation) at company meetings are taken into account. The results of all decisions taken at the company meetings should be publicly disseminated, in the most appropriate form, immediately on conclusion of the meeting to ensure that all shareholders (particularly those who were not in attendance or were unable to attend) are promptly informed or at least have ready access to that information.	
C.1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	
C.1.4	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	
Principle C.2.	**Major Transactions** **In terms of a circular issued in terms of Listing Rule 9.31 Directors should also disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the company's net asset base or in the case of a company with subsidiaries, the consolidated group net asset base**	
	Section D: Accountability and Audit	
Principle D.1	**Financial Reporting** **The Board should present a balanced and understandable assessment of the company's position and prospects**	
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.	

Principle	Code Principles	Status
D.1.2	The Directors Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that: The company has not engaged in any activities, which contravene laws and regulations. The Directors have declared all material interests in contracts involving the company and refrained from voting on matters in which they were materially interested. The company has made all endeavours to ensure the equitable treatment of shareholders. The business is a going concern, with supporting assumption or qualification as necessary. They have conducted a review of the internal controls which should cover financial, operational and compliance controls and risk management.	
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation of financial statements, together with a statement by the auditors about their reporting responsibilities.	
D.1.4	The Annual Report should contain a Management Report, discussing, among other issues: Industry structure and development. Opportunities and threats. Risks and concerns. Internal Control Systems and their adequacy. Financial performance. Material developments in Human Resources/Industrial relations. Prospects for the future.	
D.1.5	In the event that the net assets of the company falls below one third of the company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the company to notify shareholders of the position and of remedial action being taken.	
Principle D2	**Internal Control** **The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.**	
D.2.1	The Directors should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.	
D.2.2	Companies, which do not have an internal audit function, should from time to time review the need for one.	

Principle	Code Principles	Status
Principle D.3	**Audit Committee and Auditors** **The Board should establish formal and transparent arrangements for considering how they should apply the financial, reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.**	
D.3.1	The Board should establish an audit committee of at least three Directors, all non-executive, with written terms of reference which deal clearly with its authority and duties. The members of the committee, a majority of whom should be Independent Non-Executive Directors, should be named in the report and accounts.	
D.3.2	The duties of the audit committee should include keeping under review the scope and results of the audit and its effectiveness and the independence and objectivity of the auditors.	
D.3.3	The audit committee should draw up a recommendation to the Board for consideration and acceptance by the shareholders for the appointment of the external auditors.	
D.3.4	The audit committee should ensure that the independence of auditors are maintained and that any consultancy or any work contracted with the auditing firm will not have a material impact on the auditor's independence.	
D.3.5	The audit committee should set principles for recommending to the Board rotation and remuneration of auditors.	
Principle D.4	**Corporate Governance** **Directors should disclose in the company's Annual Report the extent to which the company has adhered to the Code of Best Practice on Corporate Governance, and where there has been no compliance with the Code, to give reasons.**	

Barclays Bank of Botswana Limited

Annual Financial Statements

For the year ended 31 December 2018

Directors' responsibilities and approval

for the year ended 31 December 2018

The directors are responsible for overseeing the preparation, integrity and objectivity of the consolidated and separate annual financial statements (together referred to as the "annual financial statements") that fairly present the state of the affairs of Barclays Bank of Botswana Limited ("the Company") and its subsidiary Barclays Insurance Services (Proprietary) Limited (together referred to as '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 and employees 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 outsourced from Absa Group Limited Internal Audit, which 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 fair judgements and estimates on a consistent basis. The annual financial statements have been prepared in accordance with the provisions of the Companies Act of Botswana (Companies Act, 2003); the Botswana 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 62 to 65 of this report.

The directors' report on pages 60 to 61 and annual financial statements which appears on pages 66 to 177 were approved by the board of directors on 14 March 2019 and are signed on its behalf by

Oduetse A. Motshidisi
Chairman of the Board

Reinette van der Merwe
Managing Director

Lawrence Maika
Chairman of the Board Audit Committee

Corporate governance statement
as at 31 December 2018

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

The Board of the Group adopted the Absa Group Limited 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 year under review.

Board of directors

The board consists of:
7 Independent 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 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 consolidated into the Absa Group Limited financial results which address sustainability at a group level.

Managing stakeholder relationships

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

Fundamental and affected transactions

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

Information Technology governance

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

Compliance

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

Directors' report
for the year ended 31 December 2018

Company registration number	1732
Country of incorporation and domicile	Botswana
Nature of business and principal activities	Barclays Bank of Botswana Limited (the "Group") 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 Barclays Insurance Services (Pty) Ltd (together referred to as 'the "Group''). Barclays Insurance Services (Pty) Ltd is an insurance agent which earns its fees from referral of life and non-Life insurance products. The separated financial annual statements comprise the Barclays Bank of Botswana Limited (referred to as "the Company").
Directors	**Oduetse A. Motshidisi** (Independent non-executive - Chairman) **Lawrence Maika** (Independent non-executive) **Kenneth Molosi** (Independent non-executive) **Alfred Dube** (Independent non-executive) **Tobias Mynhardt** (Independent non-executive) **Mohamed Osman** (Independent non-executive appointed 8 August 2018) **Kgotla Ramaphane** (Independent non-executive appointed 8 August 2018) **Reinette van der Merwe** (Executive - Managing Director) **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

Directors' report (continued)
for the year ended 31 December 2018

Review of financial result

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	
	2018	2017	2018	2017
Key performance indicators	**P'000**	**P'000**	**P'000**	**P'000**
Profit for the year	**454 544**	432 101	**447 372**	427 659
Total comprehensive income	**454 074**	433 076	**446 902**	428 634
Taxation	**(133 380)**	(126 029)	**(131 352)**	(123 996)
Dividends declared and paid	**259 935**	225 005	**259 935**	225 005
Net assets	**1 993 892**	1 952 618	**1 975 978**	1 941 876

Authorised and issued share capital

There were no changes to the stated capital for the year under review. The stated capital is disclosed in note 40.

Property, plant and equipment

Details of changes in property, plant and equipment during the year are reflected in note 26.

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.

Independent auditor's report

for the year ended 31 December 2018

To the Shareholders of Barclays Bank of Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of Barclays Bank of Botswana Limited (the "Group and Company"), set out on pages 66 to 175, which comprise the statements of financial position as at 31 December 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the summary of accounting policies and notes to the financial statements.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of Barclays Bank of Botswana Limited as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers

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

Refer to the following notes in the consolidated and separate financial statements:

- Note 2.16 – Significant accounting policies - Expected credit losses of financial assets
- Note 3 – Judgements and estimates - Expected credit losses of financial assets
- Note 24 – Loans and advances to customers
- Note 50.7 – Credit risk

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Key audit matter	How the matter was addressed in our audit
The Group's gross loans and advances amount to BWP12.39billion as at 31 December 2018 (2017:BWP11.2billion) and impairment allowance for the year amount to BWP557million at 31 December 2018 (2017:BWP518million). On 1 January 2018 the group adopted IFRS 9: Financial Instruments ("IFRS 9") which measures impairment using an expected credit loss ("ECL") model. The application of the new standard requires management to exercise significant judgements in the determination of expected credit losses, including those relating to loans and advances to customers. Management applies significant judgment in the determination of estimated future cash flows, probabilities of default and forward looking economic expectations. 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. The impairment provision is considered separately on an individual (specific) and unidentified (collective) impairment basis. **Retail portfolio (Collective impairment basis)** A significant portion of the retail impairment is calculated on a collective basis. In calculating the impairment provision on a collective basis, statistical models are used. The following inputs to these models require significant management judgement: - the probability of default (PD); - the exposure at default (EAD); - the loss given default (LGD); and - the effective interest rates. **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 - Estimate the timing of the future cash flows.	Our procedures included the following: • We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation. • We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of IFRS 9: Financial Instruments. • We evaluated the adequacy of the financial statement disclosures, including disclosures of: - key assumptions, judgments and sensitivities; - the classification of loans and advances to customers on the date of initial application of IFRS 9; and - the impact of the transition to IFRS 9 on the opening balances relating to loans and advances to customers and retained earnings. Where credit losses were calculated on a modelled basis we performed the following audit procedures, in conjunction with the our credit risk specialists: • Critically assessed the ECL models developed by management. This included using our credit risk specialists in our assessment of key judgements and assumptions applied in the calculation of individual and portfolio provisions. Our credit risk specialists re-performed model calculations to confirm the risk parameter inputs. • 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. • Challenged the parameters and significant assumptions applied in the calculation models and reviewed the staging methodology. • Assessed the appropriateness of management's additional adjustments in light of recent economic events and circumstances and other factors that might not yet be fully reflected in the modelled results by independently assessing the reasonability of the assumptions and judgements made by management. **Retail portfolio (Portfolio impairment basis)** Where impairments had been made on a portfolio basis, our 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 valuation of credit losses for a sample of loans and advances that had been incurred, including 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 raised, 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.

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Independent auditor's report (continued)
for the year ended 31 December 2018

Other Information
The directors are responsible for the other information. The other information comprises the Directors' responsibilities and approval, the Corporate Governance statement, the Directors' report, Shareholders information, and the Value added statement which we obtained prior to the date of this report. Other information does not include the consolidated and separate annual financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements
The directors are responsible for the preparation of the consolidated and separate financial statements which give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's 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 and Separate Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

We also:
- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's 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 and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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Independent auditor's report (continued)
for the year ended 31 December 2018

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

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

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

KPMG
Certified Auditors
Practicing member: AG Devlin 19960060
21 April 2019
Gaborone

Statements of comprehensive income

for the year ended 31 December 2018

	Notes	Consolidated 2018 P'000	Consolidated 2017 P'000	Company 2018 P'000	Company 2017 P'000
Effective interest income	7	**1 213 506**	1 143 765	**1 213 506**	1 143 765
Effective interest expense	8	**(214 242)**	(164 234)	**(214 242)**	(164 234)
Net interest income		**999 264**	979 531	**999 264**	979 531
Fee and commission income	9	**401 581**	372 066	**356 763**	329 843
Fee and commission expense	9	**(40 167)**	(30 727)	**(40 167)**	(30 727)
Net fee and commission income		**361 414**	341 339	**316 596**	299 116
Net trading income	10	**166 508**	134 512	**166 508**	134 512
Other income	11	**3 646**	6 475	**3 646**	6 475
Total income		**1 530 832**	1 461 857	**1 486 014**	1 419 634
Expected Credit Losses/Impairment losses	12	**(93 728)**	(145 099)	**(93 728)**	(145 099)
Net operating income		**1 437 104**	1 316 758	**1 392 286**	1 274 535
Staff costs	13	**(418 754)**	(397 135)	**(415 550)**	(394 187)
Infrastructure costs	14	**(107 976)**	(125 092)	**(107 976)**	(125 092)
Administration and general expenses	15	**(322 450)**	(236 401)	**(290 036)**	(203 601)
Operating expenses		**(849 180)**	(758 628)	**(813 562)**	(722 880)
Profit before tax		**587 924**	558 130	**578 724**	551 655
Taxation	16	**(133 380)**	(126 029)	**(131 352)**	(123 996)
Profit for the year		**454 544**	432 101	**447 372**	427 659
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	**-**	899
Deferred Tax		**-**	76	**-**	76
		-	975	**-**	975
Movement in Financial Assets at Fair Value through OCI					
Fair value losses	21	(603)	-	**(603)**	-
Deferred tax		**133**	-	**133**	-
		(470)	-	**(470)**	-
Total other comprehensive (loss)/gain for the year, net of tax		**(470)**	975	**(470)**	975
Total comprehensive income for the year, net of tax		**454 074**	433 076	**446 902**	428 634
Earnings per share	17				
Basic and diluted (thebe per share)		**53.34**	50.71	**52.44**	50.19

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

Statements of financial position

As at 31 December 2018

	Notes	Consolidated 2018 P'000	Consolidated 2017 P'000	Company 2018 P'000	Company 2017 P'000
Assets					
Cash	30	**476 107**	407 947	**476 107**	407 947
Balances at central bank	18	**543 710**	459 133	**543 710**	459 133
Trading portfolio assets	19	**513**	114	**513**	114
Derivative financial instruments	20	**19 058**	9 446	**19 058**	9 446
Financial assets at fair value through OCI	21	**1 901 953**	-	**1 901 953**	-
Available-for-sale investments	22	**-**	1 307 304	**-**	1 307 304
Loans and advances to banks	23	**1 053 266**	1 286 005	**1 053 266**	1 286 005
Due from related parties	55	**811 422**	639 887	**811 422**	639 887
Loans and advances to customers	24	**11 834 679**	10 720 556	**11 834 679**	10 720 556
Other receivables	28	**186 166**	145 960	**186 138**	145 960
Property, plant and equipment	26	**133 137**	141 769	**133 137**	141 769
Non- current assets held for sale	6	**149**	-	**149**	-
Intangible assets	27	**1 138**	863	**1 138**	863
Deferred tax assets	32	**63 614**	39 703	**60 088**	35 849
Total assets		**17 024 912**	**15 158 687**	**17 021 358**	**15 154 833**
Equity and liabilities					
Liabilities					
Deposits from banks	36	**357 972**	517 916	**357 972**	517 916
Due to related parties	55	**1 525 543**	925 337	**1 556 637**	945 382
Customer deposits	37	**11 854 620**	10 980 544	**11 853 654**	10 978 348
Derivative financial instruments	20	**12 328**	13 348	**12 328**	13 348
Debt securities in issue	38	**537 667**	202 385	**537 667**	202 385
Subordinated debt	39	**358 356**	254 456	**358 356**	254 456
Provisions	33	**48 710**	33 077	**32 683**	15 559
Other payables	34	**333 409**	258 269	**328 750**	259 811
Current tax payable	43	**2 415**	20 737	**7 333**	25 752
Total liabilities		**15 031 020**	13 206 069	**15 045 380**	13 212 956
Shareholders' equity					
Stated capital	40	**17 108**	17 108	**17 108**	17 108
General risk reserves	41	**118 347**	107 206	**118 347**	107 206
Fair value reserves		**(740)**	-	**(740)**	-
Available-for-sale investments revaluation reserve		**-**	(270)	**-**	(270)
Share-based payment reserve		**3 148**	6 104	**3 148**	6 104
Share capital reserve	41	**2 060**	2 060	**2 060**	2 060
Retained income		**1 853 969**	1 820 410	**1 836 055**	1 809 668
Total equity attributable to equity holders		**1 993 892**	1 952 618	**1 975 978**	1 941 876
Total equity and liabilities		**17 024 912**	15 158 687	**17 021 358**	15 154 833

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

Statements of changes in equity

for the year ended 31 December 2018

Consolidated

	Stated capital P'000	General risk 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**
Note	40		54				

	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 2018	**17 108**	**107 206**	**-**	**6 104**	**(270)**	**1 820 410**	**2 060**	**1 952 618**
Increase/(decrease) resulting from adoption of IFRS 9 (note 4)	-	-	(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**
Note	40	41	54					

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

Statements of changes in equity

for the year ended 31 December 2018

Company

	Stated capital P'000	General risk 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)**	**1 620 460**	**2 060**	**1 737 525**
Profit for the year	-	-	-	-	427 659	-	427 659
Other comprehensive income for the year	-	-	-	975	-	-	975
Total comprehensive income for the year	**-**	**-**	**-**	**975**	**427 659**	**-**	**428 634**
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)**	**1 809 668**	**2 060**	**1 941 876**
Note	40		54				

	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 2018	**17 108**	**107 206**	**-**	**6 104**	**(270)**	**1 809 668**	**2 060**	**1 941 876**
Increase/(decrease) resulting from adoption of IFRS 9 (note 4)	-	-	(270)	-	270	(149 909)	-	(149 909)
Profit for the year	-	-	-	-	-	447 372	-	447 372
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	40	41	54					

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

Statements of cash flows

for the year ended 31 December 2018

	Notes	Consolidated 2018 P'000	Consolidated 2017 P'000	Company 2018 P'000	Company 2017 P'000
Cash flows from operating activities					
Cash used in operations	42	**(183 845)**	(573 920)	**(186 399)**	(573 863)
Interest received	47	**1 214 973**	1 133 545	**1 214 973**	1 133 545
Interest paid	46	**(220 179)**	(152 321)	**(220 179)**	(152 321)
Income taxes paid net of refunds	43	**(133 196)**	(94 719)	**(131 872)**	(92 580)
Net (increase) in loans and advances to customers		**(1 396 865)**	(1 479 454)	**(1 396 865)**	(1 479 454)
Increase/(decrease) in deposits due to customers		**883 695**	(250 466)	**884 925**	(252 662)
Increase in long term deposits due to other banks		**71 453**	-	**71 453**	-
(Increase)/ decrease in long term loans due to related parties		**59 218**	(78 759)	**59 218**	(78 759)
Increase in long term deposits received from related parties		**471 032**	857 240	**471 032**	857 240
(Increase)/decrease in trading portfolio assets		**(399)**	105 625	**(399)**	105 625
Decrease in statutory reserve with the Central Bank		**(46 749)**	(28 685)	**(46 749)**	(28 685)
Increase in derivative financial instruments		**(10 632)**	(6 088)	**(10 632)**	(6 088)
Net cash generated by operating activities		**708 506**	(568 002)	**708 506**	(568 002)
Cash flows from investing activities					
Payments for property, plant and equipment	26	**(21 696)**	(38 504)	**(21 696)**	(38 504)
Proceeds from disposal of property, plant and equipment	44	**358**	43	**358**	43
Payments for intangible assets	27	**(622)**	(146)	**(622)**	(146)
Proceeds from sale of equity securities		**-**	8 250	**-**	8 250
Increase in long term available for sale investments		**-**	(308 563)	**-**	(308 563)
Decrease in long term financial instruments held at FVOCI		**154 261**	-	**154 261**	-
Net cash generated/ (used in) by investing activities		**132 301**	(338 920)	**132 301**	(338 920)
Cash flows from financing activities					
Dividends paid to shareholders	45	**(259 935)**	(225 005)	**(259 935)**	(225 005)
Issuance of debt securities		**332 910**	-	**332 910**	-
Redemption of debt securities		**-**	(55 840)	**-**	(55 840)
Proceeds from subordinated debt		**102 590**	-	**102 590**	-
Net cash generated by/(used in) financing activities		**175 565**	(280 845)	**175 565**	(280 845)
Net increase/(decrease) in cash and cash equivalents		**1 016 372**	(1 187 767)	**1 016 372**	(1 187 767)
Cash and cash equivalents at the beginning of the year		**2 673 550**	3 861 317	**2 673 550**	3 861 317
Cash and cash equivalents at the end of the year	48	**3 689 922**	2 673 550	**3 689 922**	2 673 550

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

Summary of accounting policies
for the year ended 31 December 2018

1. Statement of compliance

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

The annual financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the board of directors on 14 March 2019.

2. Significant accounting policies

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

2.1 Adoption of new and revised accounting standards

During the current year, the 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 2018. Significant changes have been made to certain accounting policies, owing to the adoption of IFRS 9: Financial Instruments. Where there have been changes in accounting policies, those applied in 2017 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 value amounts, as explained in the accounting policies below, the financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

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

The financial statements are presented in thousands of Pula (P'000), the presentation currency of the 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 Barclays Bank Botswana Limited and Barclays 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:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements which 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 which 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

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

2.4 Business combinations (continued)

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 (2018), IAS 39 Financial Instruments: Recognition and Measurement (2017), or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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.

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 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 which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost, available-for-sale debt investments (2017) and debt instruments at fair value through other comprehensive income (2018), 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.

2. Significant accounting policies (continued)

2.7 Revenue recognition (continued)

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

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

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.

Net trading income
In accordance with IFRS 9 and previously IAS 39, trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables. Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under "net trading income" together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

2.8 Leasing

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.

As lessor
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
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.

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

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 services.

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.

2.10 Share-based payments

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

Employee services settled in equity instruments

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

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

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

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

In terms of the rules of the share based payment schemes currently in effect within the Group (explained further in note 30), 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 overthe 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.

2. Significant accounting policies (continued)

2.10 Share-based payments (continued)

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 sum of the tax currently payable and deferred tax.

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

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

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

Current and deferred taxation
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. See note 32.

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

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

Non-recoverable VAT on operating expenditure is included in the 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.

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 equipmentis determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

2.13 Intangible assets (continued)

Intangible assets acquired separately (continued)

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 tangible and intangible 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, contingent liabilities and commitments

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.

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

2.16 Financial instruments

IFRS 9 Financial Instruments (IFRS 9) has been adopted by the Group on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Group has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39. The following section sets out the accounting policies that were applied in the 2017 reporting period , together with those that are applied under IFRS 9 (2018). Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as changes in the impairment scope and methodology.

Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period.

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

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

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

Initial recognition of financial assets and finacial liabilities
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.

Classification and measurement of financial instruments (2018)
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 non- equity 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.

Classification and measurement of financial instruments (2018)

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, government bonds 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.

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Debt Instruments (continued):

- 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 through profit or loss. Gains and losses on these instruments are recognised in gains and losses from banking and trading activities 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 gains and losses from investment activities in profit or loss.

Equity instruments:
IFRS 9 Financial 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
Most financial liabilities are held at amortised cost. 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. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

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.

Expected credit losses (ECL) on financial assets (2018)
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. Credit losses are the present value of the difference between:

- All contractual cash flows that are due to the entity in accordance with the contract ; and
- All the cash flows that the entity expects to receive.

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

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

IFRS 9 requires entities to recognise 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 (hereafter referred to as 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 (hereafter referred to as lifetime ECL). In determining the forecast credit losses over the duration of an exposure, recoveries expected to be received post the designated point of write-off are excluded.

Interest is calculated on stage 1 and stage 2 assets based on the gross carrying amount of the asset, whilst interest income on stage 3 assets is calculated based on the net carrying value (that is, net of the credit allowance).

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Expected credit losses (ECL) on financial assets (2018) (continued)

The stage allocation is required to be performed as follows:

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.

Expected credit loss calculation
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); probability of default (PD) and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- 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 up until the designated point of write off. These losses are discounted to the reporting date at the effective interest rate or in the case of financial guarantee contracts or loan commitments for which the EIR cannot be determined, a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.. 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. Within the Group, 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.

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Expected credit losses (ECL) on financial assets (2018) (continued)

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.

Classification and measurement of financial instruments (2017)

Financial assets and financial liabilities

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade or settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities are either measured at amortised cost or classified as at fair value through profit or loss, which may occur when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial assets are measured as at FVTPL when they are either held for trading or designated as at FVTPL

A financial instrument is classified as held for trading if:

- it is a financial asset that has been acquired principally for the purpose of selling it in the near term, or it is a financial liability that has been acquired principally for the purpose of repurchasing it in the near term ;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial instrument other than one that is held for trading may be designated as at Fair Value Through Profit and Loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at Fair Value Through Profit and Loss.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as Available For Sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

AFS financial assets include both debt and equity instruments and are stated at fair value at the end of each reporting period.

Subsequent changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

2. Significant accounting policies (continued)

Classification and measurement of financial instruments (2017) (continued)

Available-for-sale (AFS) financial assets (continued)
AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities
Most financial liabilities are held at amortised cost. 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.

Impairment of financial assets (2017)

Amortised cost instruments
Impairment on financial assets measured at amortised cost is recognised in accordance with IAS 39, the Group assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in profit or loss. An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Group's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Available-for-sale debt instruments
Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. This may be reversed through the profit or loss, if there is evidence that the circumstances of the issuer have improved.

Available-for-sale equity instruments
Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

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.

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Derecognition of financial instruments (continued)

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

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

2.16.1 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.

2.16.2 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, interest rate swaps and cross currency swaps.

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

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

2.16.3 Hedge accounting

Upon the adoption of IFRS 9, the Group continues to apply IAS 39 hedge accounting, although it has implemented the amended IFRS 7 Financial Instruments: Disclosures (IFRS 7) hedge accounting disclosure requirements. The accounting policies below are therefore applicable to both the 2017 and 2018 reporting periods.

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 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.

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.3 Hedge accounting (continued)

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.

2.16.4 Offsetting

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

2.17 Cash and cash equivalents

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

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.

The measurement of segment results is in line with the basis of information presented to the chief operating decision maker 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 chief operating decision maker. Therefore segmental disclosures relating to these have not been provided.

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

The segment analysis for the year is detailed on note 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 (2018), 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.

Under IAS 39 (2017), provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities, if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

Summary of accounting policies (continued)

for the year ended 31 December 2018

2. Significant accounting policies (continued)

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:

- Under IFRS 9 (2018) 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.
- Under IAS 39 (2017) at the higher of the initial measurement, less amortisation of the cumulative fee income recognised within profit or loss, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

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 financial assets and financial liabilities
- Basis for provision for commission refund
- 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 IAS 39 (2017) and under IFRS 9 (2018).

Approach to impairment of credit exposures (2018)

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 3. Judgements and estimates (continued)

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Approach to impairment of credit exposures (2018) (continued)

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.

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

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

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

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information, as well as quality assessments on strength of support. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:
  - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macro economic environment at the reporting date; and
  - an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Approach to impairment of credit exposures (2018) (continued)

- 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:
- 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).

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Approach to impairment of credit exposures (2018) (continued)

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:
- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:
- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

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

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

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

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

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

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Approach to impairment of credit exposures (2018) (continued)

Useful lives and residual values of intangible assets, and property, plant and equipment

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

	Useful lives Years
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.

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.

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, 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 54.2 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 3.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3. Judgements and estimates (continued)

Share-based payments (continued)

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.

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

3. Judgements and estimates (continued)

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.

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 are determined using actuarial valuations.

The actuarial valuations involve 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 will impact 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

4 IFRS 9 transition note

4.1 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.

Consolidated

	IAS 39 carrying amount as at 31 December 2017 P'000	Re-measurement - due to adoption of IFRS 9 impairment model P'000	IFRS 9 carrying amount as at 1 January 2018 P'000	IFRS 9 measurement categories: Amortised cost P'000	Designated at FVTPL P'000	FVOCI P'000
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.
FVOCI – Fair value through other comprehensive income
FVTPL – Fair value through profit and loss

4 IFRS 9 transition note (continued)

4.1 Classification and measurement of financial assets (continued)

Company

	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
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.
FVOCI – Fair value through other comprehensive income
FVTPL – Fair value through profit and loss

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

4 IFRS 9 transition note (continued)

4.1 Classification and measurement of financial assets (continued)

Adoption of IFRS 9 did not result in a change in the measurement categories nor the carrying values of the financial liabilities of the Group.

Consolidated

	IAS 39 impairment allowance/ provision as at 31 December 2017	Re-measurement of loss allowance	Expected credit losses as at 1 January 2018
	P'000	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)**

4 IFRS 9 transition note (continued)

4.1 Classification and measurement of financial assets (continued)

Company

	IAS 39 impairment allowance/ provision as at 31 December 2017	Re-measurement of loss allowance	Expected credit losses as at 1 January 2018
	P'000	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)**

5 Normalised view vs IFRS view

Absa Group Limited started a separation journey at a Group level from Barclays PLC in the past year, a process expected to be completed by June 2020. 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

5 Normalised view vs IFRS view (continued)

Consolidated

Statements 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

5 Normalised view vs IFRS view (continued)

Company

Statements 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

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

5 Normalised view vs IFRS view (continued)

Consolidated

Statements 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 2017 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

5 Normalised view vs IFRS view (continued)

Company

Statements of financial position (continued)	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 2017 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

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

	Consolidated		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
6. Non-current assets held for sale				
Ghanzi branch	-	-	-	-
Mochudi branch	5	-	5	-
Mahalapye branch	-	-	-	-
Kanye branch	144	-	144	-
	149	-	149	-

The Group is in the process of selling its interest in Ghanzi Mall. The Group has concluded a sale agreement on 21 December 2018 to sell its interest at P10 million.

The Mahalapye, Kanye and Mochudi branches have been relocated to new locations. The Group is in the process of selling the old buildings as they are no longer required for use by the Group. The carrying cost of the buildings is lower than the net realisable value. The buildings were assessed to have not incurred impairment at the end of the year.

7. Effective interest income				
Balances with central banks	32 692	29 812	32 692	29 812
Loans and advances to banks	5 928	567	5 928	567
Loans to related parties	32 076	15 342	32 076	15 342
Loans and advances to customers	1 142 810	1 098 044	1 142 810	1 098 044
Total interest income	1 213 506	1 143 765	1 213 506	1 143 765
8. Effective interest expense				
Deposits from banks	(9 899)	(129)	(9 899)	(129)
Customer deposits	(148 268)	(130 018)	(148 268)	(130 018)
Debt securities in issue	(15 091)	(14 070)	(15 091)	(14 070)
Subordinated debt	(12 251)	(10 232)	(12 251)	(10 232)
Loans from related parties	(28 733)	(9 785)	(28 733)	(9 785)
Total interest expense	(214 242)	(164 234)	(214 242)	(164 234)
9. Net fee and commission income				
Fee and commission income				
Risk related services	81 545	82 375	36 727	40 152
Non risk related services	320 036	289 691	320 036	289 691
Fee and commission income	401 581	372 066	356 763	329 843
Fee and commission expense				
Inter-bank transaction fees	(40 167)	(30 727)	(40 167)	(30 727)
Fee and commission expense	(40 167)	(30 727)	(40 167)	(30 727)

Risk related services include insurance commissions, arrangement fees and other none banking product incomes. None risk related services include banking products related fees as monthly charges, card fee charge, visa fees, maintenance charges and premier bank fees.

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
10. Net trading income				
Trading income exchange gain/(loss)	**1 904**	(7 693)	**1 904**	(7 693)
Net movement from financial assets designated at fair value	**46**	(1 274)	**46**	(1 274)
Treasury sales activities	**131 060**	113 600	**131 060**	113 600
Market making activities	**33 498**	29 895	**33 498**	29 895
Fair value hedge	**-**	(16)	**-**	(16)
Net trading income	**166 508**	134 512	**166 508**	134 512
11. Other income				
Rental income	**3 288**	2 800	**3 288**	2 800
Sundry income	**-**	376	**-**	376
Gain on disposal of property and equipment	**358**	43	**358**	43
Gain on disposal of equity securities	**-**	3 256	**-**	3 256
Total other income	**3 646**	6 475	**3 646**	6 475
12. Expected credit/ impairment losses on loans and advances				
Stage 3 expected losses	**(222 400)**	-	**(222 400)**	-
Stage 2 expected losses	**5 322**	-	**5 322**	-
Stage 1 expected losses	**96 609**	-	**96 609**	-
Expected credit losses raised during the reporting year	**(120 469)**	-	**(120 469)**	-
Identified	**-**	(163 454)	**-**	(163 454)
Unidentified	**-**	(4 032)	**-**	(4 032)
Impairment losses raised during the reporting year	**-**	(167 486)	**-**	(167 486)
Recoveries of loans and advances previously written off	**26 741**	22 387	**26 741**	22 387
Statement of comprehensive income charge	**(93 728)**	**(145 099)**	**(93 728)**	**(145 099)**
		-		
13. Staff costs				
Salaries and current service costs	**(315 995)**	(298 577)	**(312 791)**	(296 360)
Allowances	**(35 443)**	(31 641)	**(35 443)**	(31 280)
Pension cost-defined contribution plan contributions	**(37 342)**	(35 416)	**(37 342)**	(35 416)
Staff medical costs	**(17 891)**	(16 563)	**(17 891)**	(16 463)
Training costs	**(9 028)**	(4 650)	**(9 028)**	(4 650)
Staff welfare	**(6 400)**	(7 699)	**(6 400)**	(7 699)
Leave pay	**2 076**	(1 555)	**2 076**	(1 555)
Cash-settled share based payments	**(1 687)**	(312)	**(1 687)**	(312)
Equity-settled share based payments	**2 956**	(722)	**2 956**	(722)
Total staff cost	**(418 754)**	(397 135)	**(415 550)**	(394 187)
Average number of employees during period	**1 156**	1 165	**1 156**	1 165

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
14. Infrastructure costs				
Property costs	**(12 535)**	(13 857)	**(12 535)**	(13 857)
Equipment costs	**(18 004)**	(20 014)	**(18 004)**	(20 014)
Depreciation of property, plant and equipment	**(30 284)**	(34 340)	**(30 284)**	(34 340)
Operating lease rentals	**(43 028)**	(50 927)	**(43 028)**	(50 927)
Amortisation of intangible assets	**(221)**	(1 559)	**(221)**	(1 559)
Software licensing and other information technology	**(3 904)**	(4 395)	**(3 904)**	(4 395)
Total infrastructure costs	**(107 976)**	(125 092)	**(107 976)**	(125 092)
15. Administrative and general expenses				
Auditors' remuneration:				
Audit related services	**(4 913)**	(5 120)	**(4 913)**	(5 120)
	(4 913)	(5 120)	**(4 913)**	(5 120)
Consultancy, legal and professional fees	**(36 164)**	(35 353)	**(36 164)**	(35 353)
Marketing, advertising and sponsorship	**(28 874)**	(17 594)	**(28 874)**	(17 594)
Travel and accommodation	**(8 642)**	(6 269)	**(8 642)**	(6 269)
Cash transport	**(19 271)**	(19 374)	**(19 271)**	(19 374)
Directors fees	**(1 924)**	(1 690)	**(1 924)**	(1 690)
Donations	**(3 595)**	(346)	**(3 595)**	(346)
Stationary and postage	**(15 216)**	(17 186)	**(15 216)**	(17 186)
Telephone	**(14 183)**	(14 537)	**(14 183)**	(14 537)
	(127 869)	(112 349)	**(127 869)**	(112 349)
Administrative and management fees charged by related parties (note 55)	**(72 512)**	(56 483)	**(72 512)**	(56 483)
Transitional service costs - recharges by related parties	**(39 683)**	-	**(39 683)**	-
Transitional service costs - other	**(10 874)**	-	**(10 874)**	-
Other costs - general	**(66 599)**	(62 449)	**(34 185)**	(29 649)
	(189 668)	(118 932)	**(157 254)**	(86 132)
Total administrative and general expenses	**(322 450)**	(236 401)	**(290 036)**	(203 601)

	Consolidated 2018	2017	Company 2018	2017
	P'000	P'000	P'000	P'000
16. Taxation				
16.1 Income tax recognised in profit or loss				
Current tax				
Normal tax - current year	**(114 875)**	(120 207)	**(113 453)**	(118 764)
Prior year under provision	**-**	(2 905)	**278**	(2 905)
	(114 875)	(123 112)	**(113 175)**	(121 669)
Deferred tax				
Deferred tax recognised in the current year	**(18 505)**	(2 917)	**(18 177)**	(1 737)
	(18 505)	(2 917)	**(18 177)**	(1 737)
Total income tax recognised in the current year	**(133 380)**	(126 029)	**(131 352)**	(123 996)

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

Reconciliation between operating profit and tax expense				
Profit for the year	**587 924**	558 130	**578 724**	551 655
Income tax expense calculated at 22% (2017: 22%)	**129 344**	122 789	**127 319**	121 364
Effect of expenses that are not deductible in determining taxable profit	**3 643**	771	**3 643**	771
Other	**393**	(436)	**668**	(1 044)
Prior year under provision	**-**	2 905	**(278)**	2 905
Income tax expense recognised in profit or loss	**133 380**	126 029	**131 352**	123 996
Effective tax rate	**22.7%**	22.6%	**22.7%**	22.4%

17. Earnings per share

	Thebe	Thebe	Thebe	Thebe
Basic and diluted earnings per share	**53.34**	50.71	**52.43**	50.19
	Thebe	Thebe	**Thebe**	Thebe
Basic and diluted earnings attributable to ordinary shareholders	**454 544**	432 101	**446 902**	427 659
	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 and diluted earnings per share are 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 2018 (31 December 2017: Nil).

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

	Consolidated 2018	Consolidated 2017	Company 2018	Company 2017
	P'000	P'000	P'000	P'000
18. Balances at central bank				
Statutory reserve	**505 084**	458 335	**505 084**	458 335
Current account	**38 864**	798	**38 864**	798
Total	**543 948**	459 133	**543 948**	459 133
Expected credit losses	**(238)**	-	**(238)**	-
Carrying value	**543 710**	459 133	**543 710**	459 133

The minimum statutory reserve with the Bank of Botswana (Central Bank) is calculated at 5% (2017: 5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Group and is non-interest bearing.

The carrying value of the cash approximates its fair value.

19. Trading portfolio assets				
Debt securities and other eligible bills	**513**	114	**513**	114
	513	114	**513**	114

	Notional Contract Amount P'000	Assets P'000	Liabilities P'000
20. Derivative financial instruments			
Consolidated and Company			
2018			
Foreign exchange derivatives			
Forward foreign exchange	**1 340 641**	**7 094**	**705**
Currency swap	**562 767**	**11 964**	**11 623**
Foreign exchange derivatives	**1 903 408**	**19 058**	**12 328**
Total derivatives	**1 903 408**	**19 058**	**12 328**
2017			
Foreign exchange derivatives			
Forward foreign exchange	10 969	3 050	8 341
Currency swap	8 154	6 396	-
Foreign exchange derivatives	**19 123**	**9 446**	**8 341**
Interest rate derivatives			
Forward rate agreements	55 260	-	5 007
Interest rate derivatives	**55 260**	**-**	**5 007**
Total derivatives	**74 383**	**9 446**	**13 348**

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
21. Financial assets at fair value through other comprehensive income				
Bank of Botswana certificates				
Less than 1 month	1 449 222	-	1 449 222	-
1-3 months	299 510	-	299 510	-
Total	1 748 732	-	1 748 732	-
Treasury bonds				
1- 5 years	153 141	-	153 141	-
Total	153 141	-	153 141	-
Debt securities	80	-	80	-
Bank of Botswana certificates and bonds	1 901 953	-	1 901 953	-
Balance at beginning of the year	-	-	-	-
Transfer from Available for sale investments	1 307 224	-	1 307 224	-
Fair value adjustments	603	-	603	-
Net movement during the year	594 126	-	594 126	-
Balance at end of the year	1 901 953	-	1 901 953	-

Financial assets at fair value through other comprehensive income comprise Bank of Botswana (Central Bank) Certificates and Government bonds. Bank of Botswana certificates amounting to P405 million (2017: 400 million) have been pledged as collateral for the use of the secured intraday trading facilities with Bank of Botswana.

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

22. Available for sale investments				
Bank of Botswana certificates				
Less than 1 month	-	799 289	-	799 289
1-3 months	-	199 288	-	199 288
	-	998 577	-	998 577
Treasury bonds				
Less than 1 month	-	83	-	83
3-12 months	-	292 954	-	292 954
1- 5 years	-	15 610	-	15 610
	-	308 647	-	308 647
Bank of Botswana certificates and bonds	-	1 307 224	-	1 307 224
Debt securities	-	80	-	80
	-	80	-	80
Total available for sale investments	-	1 307 304	-	1 307 304
Balance at beginning of the year	-	1 759 499	-	1 759 499
Fair value adjustments	-	899	-	899
Net movement during the year	-	(453 094)	-	(453 094)
Balance at end of the year	-	1 307 304	-	1 307 304

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

22. Available for sale investments (continued)

Available-for-sale investments include Bank of Botswana Certificates and Government bonds. Due to their short maturity periods, their carrying value approximate to their relative fair values.

During the year end 31 December 2017 the group sold its equity securities for P 8,250 million. The equity securities represented the Group's stake in an unquoted property company, Barclays House (Pty) Ltd.

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

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
23. Loans and advances to banks				
Current accounts	**753 307**	677 158	**753 307**	677 158
Fixed term	**300 010**	608 847	**300 010**	608 847
	1 053 317	1 286 005	**1 053 317**	1 286 005
Expected credit losses	**(51)**	-	**(51)**	-
Total carrying amount of loans and advances to banks	**1 053 266**	1 286 005	**1 053 266**	1 286 005

The fixed terms deposits are short term deposits held with local banks. The current accounts are accounts held with foreign banks. The carrying amount of the balance approximates its fair value. These balances are receivable on demand.

	Consolidated and Company	
	2018	2017
24. Loans and advances to customers	P'000	P'000
2018		
Mortgages	**2 096 635**	1 916 268
Personal and term loans	**3 613 177**	3 443 125
Credit cards	**452 814**	418 568
Finance leases (note 29)	**313 193**	215 549
Overdrafts	**679 347**	513 814
Foreign currency loans	**2 019 819**	1 999 052
Scheme loans	**3 216 959**	2 732 076
Gross loans and advances to customers	**12 391 944**	**11 238 452**
Less: Expected credit losses/Impairment losses		
Individually impairments		(467 806)
Unidentified impairments		(50 090)
Stage 3	**(393 552)**	**-**
Stage 2	**(86 562)**	**-**
Stage 1	**(77 151)**	**-**
Expected credit losses/Impairment losses	**(557 265)**	**(517 896)**
Net loans and advances to customers	**11 834 679**	**10 720 556**

24. Loans and advances to customers (continued)

Allowance for impairment losses	Unidentified P'000	Identified P'000	Total P'000
Consolidated and Company			
2017			
Balance at beginning of the year	46 108	510 496	556 604
Impairment losses recognised	8 429	165 382	173 811
Amounts written off during the year as uncollectible	-	(206 047)	(206 047)
Impairment losses reversed	(4 447)	(2 025)	(6 472)
Balance at end of the year	**50 090**	**467 806**	**517 896**

Refer to note 25 for the expected credit losses analysis for 2018.

Gross loans with variable rates are P11, 863 million (2017: P10, 742 million) and fixed rates are P528 million (2017: P496 million).

Maturity analysis	Consolidated and Company 2018 P'000	2017 P'000
Maturing within 1 year	**3 491 914**	3 452 565
Maturing between 1 and 5 years	**3 837 251**	3 550 688
Maturing after 5 years	**5 062 779**	4 235 199
Total gross loans	**12 391 944**	**11 238 452**

Consolidated and Company

	2018			2017		
	Gross P'000	Expected losses P'000	Carrying amount P'000	Gross P'000	Allowance for impairment losses P'000	Carrying amount P'000
Overdrafts	**679 347**	**(6 364)**	**672 983**	513 814	(32 682)	481 132
Mortgages	**2 096 635**	**(46 521)**	**2 050 114**	1 916 268	(46 843)	1 869 425
Term loans	**5 632 996**	**(356 239)**	**5 276 757**	5 442 177	(194 910)	5 247 267
Credit card	**452 814**	**(49 396)**	**403 418**	418 568	(56 473)	362 095
Scheme loans	**3 216 959**	**(89 981)**	**3 126 978**	2 732 076	(179 028)	2 553 048
Finance leases	**313 193**	**(8 764)**	**304 429**	215 549	(7 960)	207 589
Total	**12 391 944**	**(557 265)**	**11 834 679**	**11 238 452**	**(517 896)**	**10 720 556**

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

25. Credit risk reconciliation - expected credit loss allowance

	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
Consolidated and Company							
2018							
Balances with the central bank and investment securities							
Stage 1	37	-	-	-	201	-	238
Total expected credit losses	37	-	-	-	201	-	238
Cash and cash equivalent							
Stage 1	-	-	-	-	-	-	-
Total expected credit losses	-	-	-	-	-	-	-
Loans and advances to banks							
Stage 1	6	-	-	-	45	-	51
Total expected credit losses	6	-	-	-	45	-	51
Loans and advances to customers							
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
Provisions for undrawn facilities and guarantees							
Stage 1	2 015	-	-	-	2 336	-	4 351
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total expected credit losses	2 015	-	-	-	2 336	-	4 351

26. 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	Total P'000
Consolidated and Company						
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 from/(to) assets under construction	**35 078**	**(35 078)**	**-**	**-**	**-**	**-**
Other transfers	**44 537**	**-**	**102**	**(37 295)**	**(7 180)**	**164**
Disposals	**-**	**-**	**(1 095)**	**-**	**-**	**(1 095)**
Transfer to non-current assets held for sale	**-**	**-**	**(218)**	**(752)**	**(906)**	**(1 876)**
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)**
Other transfers	**(48 900)**	**-**	**(124)**	**36 933**	**11 560**	**(530)**
Disposals	**-**	**-**	**1 095**	**-**	**-**	**1 095**
Transfer to non-current assets held for sale	**-**	**-**	**218**	**699**	**809**	**1 726**
Balance at end of the year	**(204 079)**	**-**	**(10 463)**	**(119 842)**	**(38 699)**	**(373 082)**
Cost or valuation - 2017						
Balance at beginning of the year	200 841	29 530	11 968	158 914	47 834	449 087
Additions	-	11 112	-	20 153	7 239	38 504
Disposals	-	-	(261)	-	-	(261)
Balance at end of the year	200 841	40 642	11 707	179 067	55 073	487 330
Accumulated depreciation - 2017						
Balance at beginning of the year	(133 587)	-	(11 495)	(131 087)	(35 313)	(311 482)
Depreciation	(9 114)	-	(271)	(12 938)	(12 017)	(34 340)
Disposals	-	-	261	-	-	261
Balance at end of the year	(142 701)	-	(11 505)	(144 025)	(47 330)	(345 561)
Carrying amount at beginning of year	**58 140**	**40 642**	**202**	**35 042**	**7 743**	**141 769**
Carrying amount at end of year	**81 431**	**12 520**	**1 707**	**26 709**	**10 769**	**133 137**

The other transfers relate to assets classes which required restatement year-on-year to correct the disclosure in line with the asset register.

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

Consolidated and Company

27. Intangible assets

	Internally generated software P'000	Other software P'000	Total P'000
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 - 2018			
Balance at the 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)**
Cost - 2017			
Balance at beginning of the year	61 558	22 406	83 964
Acquisitions	-	146	146
Balance at end of the year	61 558	22 552	84 110
Amortisation - 2017			
Balance at beginning of the year	(60 189)	(21 499)	(81 688)
Amortisation	(1 369)	(190)	(1 559)
Balance at end of the year	(61 558)	(21 689)	(83 247)
Carrying amount at beginning of year	-	863	863
Carrying amount at end of year	**-**	**1 138**	**1 138**

	2018 P'000	2017 P'000
Estimated future aggregated amortisation		
Within one year	**1 138**	863
	1 138	863

28. Other receivables

Prepayments	**1 848**	1 171
Other receivables	**184 318**	144 789
	186 166	145 960
Maturity analysis		
Current	**186 166**	145 960
	186 166	145 960

Consolidated and Company

	2018 P'000	2017 P'000
29. Finance lease receivables		
Current finance lease receivables	**14 026**	10 316
Non-current finance lease receivables	**299 167**	205 233
	313 193	215 549

	Minimum lease payments		Present value of minimum lease payments	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Not later than one year	**14 418**	10 601	**14 026**	10 316
Between one and two years	**70 591**	199 568	**65 481**	172 779
Between two and three years	**105 126**	-	**93 627**	-
Between three and four years	**54 432**	-	**46 131**	-
Between four and five years	**76 683**	-	**62 597**	-
Later than five years	**39 195**	40 621	**31 331**	32 454
	360 445	250 790	**313 193**	215 549
Less: unearned finance income	**(47 252)**	(35 241)	**-**	-
Present value of minimum lease payments receivable	**313 193**	215 549	**313 193**	215 549
Expected Credit Loss	**(8 764)**	(7 960)	**(8 764)**	(7 960)
	304 429	207 589	**304 429**	207 589

The Group enters into leasing arrangements in respect of motor vehicles, machinery and equipment. All of the leases are denominated in local currency (Pula) except for P3,056m contracted in US Dollars (2017: P3,533m). The average term of the finance leases entered into is five years. Under the terms of the lease arrangements, no contingent rentals are receivable.

30. Cash		
Local currency (Pula)	**434 395**	366 455
Foreign currency	**41 712**	41 492
	476 107	407 947

The carrying value of the cash approximates their fair value.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

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	
	2018	2017
Discount rate	5.0%	5.0%
Future pension increases	2.5%	2.5%
Expected return on plan assets	5.0%	5.0%
	P'000	P'000
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Interest on obligation	(5 924)	(6 066)
Interest income on assets	6 083	6 476
Asset ceiling change in net interest	(159)	(410)
	-	-
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial (loss) / gain	(2 032)	38
Return on plan assets	823	(5 474)
Change in asset ceiling other than interest	1 209	5 436
	-	-

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. 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 Group and is treated as a reduction in asset ceiling and is accounted as such. The value as at 31 December 2018 was P2, 1 million (2017: P3, 2 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:

31. Retirement benefit plans (continued)

31.1 Defined benefit plans (continued)

	Consolidated and Company	
	2018	2017
	P'000	P'000
Present value of funded defined benefit obligation	**(121 790)**	(122 842)
Fair value of plan assets	**123 915**	126 017
Surplus	**2 125**	3 175
Limitation on asset recognised (asset ceiling)	**(2 125)**	(3 175)
Net asset arising from defined benefit obligation	**-**	-
Movements in the present value of the defined benefit obligation in the current year were as follows:		
Opening defined benefit obligation	**122 842**	125 676
Interest expense	**5 924**	6 066
Actuarial loss/(gain) - financial assumption	**2 032**	(38)
Benefits paid	**(9 008)**	(8 862)
Closing defined benefit obligation	**121 790**	122 842
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	**126 017**	133 877
Return on plan assets (in excess of interest)	**823**	(5 474)
Interest income	**6 083**	6 476
Benefits paid	**(9 008)**	(8 862)
Closing fair value of plan assets	**123 915**	126 017

Actual return on plan assets

The insurance contract matches the benefit therefore the insurance asset is 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 Group. 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.

The following payments are expected payments by the insurer to the defined benefit plan in future years:

Within the next 12 months (next annual reporting period)		**9 131**	8 725
The average duration of the defined benefit plan obligation at the end of the reporting period is:		**10 years**	11 years
Sensitivity analysis The impact on the results on the defined benefit obligation due to changes in the main assumptions is shown in the table below:			
Increase /(decrease) in discount rate	**1%**	**12 831**	**13 326**
Increase in life expectancy	**1 year**	**4 122**	**4 035**

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

32. Deferred taxation

Deferred tax balances

The net deferred tax asset at the end of the year is as follows:

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
Deferred tax assets	**63 614**	39 703	**60 088**	35 849

Deferred tax assets and liabilities are attributable to the following:

	Balance at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in retained earnings	Balance at 31 December
	P'000	P'000	P'000	P'000	P'000
Consolidated					
2018					
Intangible assets	**(301)**	**311**	**-**	**-**	**10**
Property, plant and equipment	**(1 129)**	**(2 156)**	**-**	**-**	**(3 285)**
Investments held for sale	**(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**
2017					
Intangible assets	(301)	-	-	-	(301)
Property, plant and equipment	3 649	(4 778)	-	-	(1 129)
Available-for-sale financial assets	(761)	(697)	76	-	(1 382)
Receivables	7 035	(2 327)	-	-	4 708
Impairments	24 772	(1 001)	-	-	23 771
Other financial liabilities	8 150	5 886	-	-	14 036
	42 544	(2 917)	76	-	39 703

32. Deferred taxation (continued)

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in other comprehensive income P'000	Recognised in retained earnings P'000	Balance at 31 December P'000
Company					
2018					
Intangible assets	(301)	311	-	-	10
Property, plant and equipment	(1 129)	(2 156)	-	-	(3 285)
Investments held for sale	(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
2017					
Intangible assets	(301)	-	-	-	(301)
Property, plant and equipment	3 649	(4 778)	-	-	(1 129)
Available-for-sale financial assets	(761)	(697)	76	-	(1 382)
Receivables	7 035	(2 327)	-	-	4 708
Impairments	24 772	(1 001)	-	-	23 771
Other financial liabilities	3 706	6 476	-	-	10 182
	38 100	(2 327)	76	-	35 849

33. Provisions

	Sundry Provisions P'000	Fees Refundable P'000	Commission Refundable P'000	Provision for Undrawn Facilities and Guarantees P'000	Total P'000
Consolidated					
Balance at 1 January 2018	5 378	10 181	17 518	-	33 077
IFRS 9 take on adjustment	-	-	-	2 015	2 015
Provisions made during the year	12 773	-	8 932	2 336	24 041
Provisions used during the year	-	-	(10 423)	-	(10 423)
Balance at 31 December 2018	18 151	10 181	16 027	4 351	48 710
Balance at 1 January 2017	11 785	10 181	20 199	-	42 165
Provisions made during the year	2 528	-	9 381	-	11 909
Provisions used during the year	(7 817)	-	(12 062)	-	(19 879)
Provisions reversed during the year	(1 118)	-	-	-	(1 118)
Balance at 31 December 2017	5 378	10 181	17 518	-	33 077

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

33. Provisions (continued)

Sundry provisions comprise of provision for claims against the Group and provision for operational losses

Fees refundable relates to a provision raised as a result of Optional Issuer fees charged to customers in prior years. The Group 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 by 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.

	Sundry Provisions P'000	Fees Refundable P'000	Provision for Undrawn Facilities and Guarantees P'000	Total P'000
Company				
Balance at 1 January 2018	**5 378**	**10 181**	**-**	**15 559**
IFRS 9 take on adjustment	**-**	**-**	**2 015**	**2 015**
Provisions made during the year	**12 773**	**-**	**2 336**	**15 109**
Provisions used during the year	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**18 151**	**10 181**	**4 351**	**32 683**
Balance at 1 January 2017	11 785	10 181	-	21 966
Provisions made during the year	2 528	-	-	2 528
Provisions used during the year	(7 817)	-	-	(7 817)
Provisions reversed during the year	(1 118)	-	-	(1 118)
Balance at 31 December 2017	5 378	10 181	-	15 559

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

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

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.

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.

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
34. Other payables				
Trade payables	**5 957**	28 479	**5 957**	28 479
Accrued expenses	**25 094**	13 924	**21 195**	13 924
Value added taxation	**20 561**	6 084	**19 801**	7 626
Clearing and other liabilities	**201 934**	143 522	**201 934**	143 522
Withholding tax	**30 114**	6 809	**30 114**	6 809
Operating lease adjustment	**13 178**	14 509	**13 178**	14 509
Staff related accruals	**35 917**	44 508	**35 917**	44 508
Cash-settled share based payments	**654**	434	**654**	434
	333 409	258 269	**328 750**	259 811
35. Operating leases				
35.1 Leases as lessee				
Payments recognised as an expense				
Rental payments	**(41 697)**	(48 396)	**(41 697)**	(48 396)
Adjustments arising from straight lining lease contracts	**(1 331)**	(2 531)	**(1 331)**	(2 531)
	(43 028)	(50 927)	**(43 028)**	(50 927)
Operating lease commitments				
Less than one year	**23 541**	24 017	**23 541**	24 017
Between one and five years	**84 268**	97 050	**84 268**	97 050
More than five years	**-**	8 236	**-**	8 236
	107 809	129 303	**107 809**	129 303
Liabilities recognised in respect of operating leases				
Current	**1 488**	2 530	**1 488**	2 530
Non-current	**11 656**	11 979	**11 656**	11 979
	13 144	14 509	**13 144**	14 509

The operating lease commitments comprise a number of separate operating leases in relation to property plant and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years. Under the terms of the lease agreements, there are no contingent rentals payable.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

	Consolidated		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
36. Deposits from banks				
Fixed deposits	**232 955**	386 629	**232 955**	386 629
Current	**125 017**	131 287	**125 017**	131 287
	357 972	517 916	**357 972**	517 916

The fixed terms deposits are short term deposits due to local banks. The current accounts are accounts which are due to foreign banks. The carrying amount of the balance approximates its fair value. These balances are payable on demand.

37. Customer deposits				
Cheque account deposits	3 162 355	3 130 385	3 161 389	3 128 189
Savings and transmission accounts	5 273 075	5 297 676	5 273 075	5 297 676
Fixed deposits	3 419 190	2 552 483	3 419 190	2 552 483
Customer deposits	**11 854 620**	**10 980 544**	**11 853 654**	**10 978 348**
Interest bearing deposits	**8 692 265**	7 872 588	**8 692 265**	7 872 588
Non-interest bearing deposits	**3 162 355**	3 107 956	**3 161 389**	3 105 760
	11 854 620	10 980 544	**11 853 654**	10 978 348
Maturity analysis				
On demand	**8 466 151**	8 455 611	**8 465 185**	8 453 415
Maturing within one year	**2 985 611**	2 103 688	**2 985 611**	2 103 688
Maturing after one year but within five years	**402 858**	421 245	**402 858**	421 245
	11 854 620	10 980 544	**11 853 654**	10 978 348
Category analysis of customer deposits				
Pula	**2 340 939**	1 978 021	**2 339 973**	1 975 825
Foreign currency	**821 416**	1 152 365	**821 416**	1 152 365
Current accounts	**3 162 355**	3 130 386	**3 161 389**	3 128 190
Pula	**4 453 385**	4 161 347	**4 453 385**	4 161 347
Foreign currency	**819 690**	1 136 328	**819 690**	1 136 328
Savings accounts	**5 273 075**	5 297 675	**5 273 075**	5 297 675
Pula	**2 963 830**	2 469 786	**2 963 830**	2 469 786
Foreign currency	**455 360**	82 697	**455 360**	82 697
Term deposits	**3 419 190**	2 552 483	**3 419 190**	2 552 483
	11 854 620	10 980 544	**11 853 654**	10 978 348
Sector analysis of customer deposits				
Private individuals	**4 027 615**	3 785 313	**4 027 615**	3 785 313
Other financial institutions	**2 271 941**	2 215 681	**2 271 941**	2 215 681
Parastatals	**662 037**	607 600	**662 037**	607 600
Business	**4 136 831**	3 537 224	**4 135 865**	3 535 028
Local Government	**718 074**	825 222	**718 074**	825 222
Central Government	**38 122**	9 504	**38 122**	9 504
	11 854 620	10 980 544	**11 853 654**	10 978 348

Consolidated and Company

38. Debt securities in issue

	2018 P'000	2017 P'000
Fixed rate medium term notes	**158 525**	158 457
Floating rate medium term notes	**379 142**	43 928
	537 667	202 385

Floating rate notes

In 2014, the Group established 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 2018 the Group issued new notes amounting to P236 million (2017: None). In 2018 no floating notes matured (2017: P56 million).

Medium term notes

In 2004, the Group established and listed a domestic Medium Term Note Programme on the Botswana Stock Exchange. Under the programme, Group issued notes for such periods and on such terms as agreed with the investors, the notes may be on fixed or floating rates. In 2018 new notes amounting to P200 million were issued in this category, of these P103 million were issued as subordinated debt qualifying for tier 2 capital (see note 39).

Issuance date	Principal (P '000)	Balance (P '000)	Interest Rate %	Interest basis	Redemption date	Stock code
2018						
31 October 2014	43 600	43 889	3.91	Floating	31/10/2019	BBB015
31 October 2014	156 400	158 525	8.00	Fixed	31/10/2019	BBB016
09 March 2018	33 000	33 076	3.83	Floating	11/03/2019	Unlisted
22 June 2018	18 000	18 022	5.5	Floating	22/06/2021	Unlisted
23 July 2018	30 000	30 293	5.1	Floating	23/07/2019	Unlisted
15 August 2018	78 700	79 263	5.5	Floating	16/08/2021	Unlisted
16 August 2018	60 000	60 439	5.8	Floating	16/08/2021	Unlisted
19 October 2018	10 000	10 066	3.25	Floating	21/10/2019	Unlisted
25 October 2018	5 800	5 883	3.25	Floating	25/10/2019	Unlisted
15 November 2018	97 410	98 211	6.25	Floating	14/11/2023	Unlisted
	532 910	**537 667**				
2017						
31 October 2014	43 600	43 928	3.91	Floating	31/10/2019	BBB015
31 October 2014	156 400	158 457	8.00	Fixed	31/10/2019	BBB016
	200 000	**202 385**				

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

Consolidated and Company

	Initial call date	Interest rate	Maturity	2018 P'000	2017 P'000
39. Subordinated debt					
Group					
Subordinated debt from fellow subsidiary in the Absa Group Limited entity, Absa Bank Limited	30/01/2015	4.57%	30/01/2025	**254 788**	254 456
Subordinated debt issued through medium term program	15/11/2018	7.25%	14/11/2028	**103 568**	-
				358 356	**254 456**

In 2015, the Group was issued with a P250 million subordinated debt from its fellow subsidiary in the Absa Group Limited Group of companies, Absa Bank Limited. The debt attracts interest at the six months treasury bill rate plus 3.1%. As at 31 December the interest rate was 4.6% (2017: 4.5%). The interest rate is reviewed semi-annually and interest is paid semi-annually. The debt matures on 30 January 2025.

In 2014, the Group listed a domestic Medium Term Note Programme on the Botswana Stock Exchange for up to P2 billion which comprises of P200 million subordinated debt of various maturities and interest rates to match the tenor of its long term asset book. In November 2018 the Group issued a P 103 million subordinated debt note from various institutional investors managed by Transactional Management Services (Pty) Ltd at an interest rate of 7.25% per annum. The debt matures on 14 November 2028.

40. Stated capital

The total authorised and issued 852,161,250 shares at no par value (2017: 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 (2017: none). There were no changes to authorised share capital during the current year (2017: 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.

852,161,250 shares at no par value (2017: 852,161,250 shares at no par value). All issued shares are fully paid. There were no shares issued during the current year (2017: none)

852 161 250 (2017: 852 161 250) shares of stated capital.	**17 108**	17 108
	17 108	17 108

41. 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

A general risk reserve was created in accordance with the requirements of the Central bank. This reserve represented 1% of the Group's loans and advances net of impairment provision.

41. Reserves (continued)

Retained earnings

The retained earnings comprises of the cumulative total comprehensive income recognised from inception (increased/reduced by any amounts transferred from/to other reserves) and reduced by dividends paid to date.

During the year the Group recognised IFRS 9 adjustments to retained earnings. The effect of these is as seen on the statement of changes in equity on page 68.

Available-for-sale investments revaluation reserve (2017) and fair value reserve (2018)

These reserves comprises the cumulative net change in the fair value of available-for-sale financial assets (2017) and debt instruments at fair value through other comprehensive income (2018) 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 stated capital. 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	
	2018	2017	**2018**	2017
	P'000	P'000	**P'000**	P'000
42. Cash used in operations				
Profit after tax for the year	**454 544**	432 101	**447 372**	427 659
Adjustments for:				
Income tax expense	**133 380**	126 029	**131 352**	123 996
Net interest income	**(999 264)**	(979 531)	**(999 264)**	(979 531)
Gain on disposal of property, plant and equipment	**(358)**	(43)	**(358)**	(43)
Net (gain)/loss arising on financial assets designated as at fair value through profit or loss	**(3 825)**	1 274	**(3 825)**	1 274
Expected credit losses/Impairments losses	**93 728**	145 099	**93 728**	145 099
Depreciation	**30 284**	34 340	**30 284**	34 340
Amortisation	**221**	1 559	**221**	1 559
Net unrealised loss on foreign cash and cash equivalents	**48**	348	**48**	348
Gain on disposal of equity securities	**-**	(3 256)	**-**	(3 256)
Cash used in operations before working capital changes	**(291 242)**	(242 080)	**(300 442)**	(248 555)

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

	Consolidated		Company	
	2018	2017	**2018**	2017
	P'000	P'000	**P'000**	P'000
42. Cash used in operations (continued)				
Changes in working capital				
Increase in trade and other receivables	**(40 206)**	(9 142)	**(40 178)**	(9 142)
Increase in trade and other payables	**75 139**	3 924	**68 939**	8 258
Increase/(decrease) in provisions	**11 282**	(9 088)	**12 773**	(6 407)
Increase/(decrease) in amounts owing to related parties	**61 182**	(317 534)	**72 509**	(318 017)
Total changes in working capital	**107 397**	(331 840)	**114 043**	(325 308)
Cash used in operations	**(183 845)**	(573 920)	**(186 399)**	(573 863)
43. Taxation paid				
Tax (payable)/receivable at the beginning of the year	**(20 737)**	7 656	**(25 752)**	3 337
Current tax expense	**(114 874)**	(123 112)	**(113 453)**	(121 669)
Tax payable at the end of the year	**2 415**	20 737	**7 333**	25 752
Tax paid net of refunds	**(133 196)**	(94 719)	**(131 872)**	(92 580)
44. Proceeds on disposal of property, plant and equipment				
Disposal proceeds	**358**	43	**358**	43
	358	43	**358**	43
45. Dividends paid				
Prior year final year dividend paid during the current year	**(180 000)**	(125 004)	**(180 000)**	(125 004)
Interim dividend paid	**(79 935)**	(100 001)	**(79 935)**	(100 001)
	(259 935)	(225 005)	**(259 935)**	(225 005)

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.

The average dividend per share paid for the year was 31 thebe (2017: 26 thebe) per share.

2017

Prior year final year dividend paid during the current year

A final dividend of 14.669 thebe per share for the year ended 31 December 2016 was declared on 16 March 2017.

Interim dividend paid

A final dividend of 11.735 thebe per share for the period ended 30 June 2017 was declared on 7 September 2017.

	Consolidated and Company	
	2018 P'000	2017 P'000
46. Finance costs paid		
Interest paid	**(220 179)**	(152 321)
	(220 179)	(152 321)
47. Finance income received		
Interest received	**1 214 973**	1 133 545
	1 214 973	1 133 545
48. Cash and cash equivalents		
Balances at central bank (note 18)	**38 626**	798
Cash (note 30)	**476 107**	407 947
Loans and advances to banks (note 23)	**1 053 320**	1 286 005
Deposits from banks (note 36)	**(286 518)**	(517 916)
Bank of Botswana notes (note 21)	**1 747 571**	998 661
Loans and advances to Related parties	**794 494**	558 147
Loans and advances from related parties	**(133 678)**	(60 092)
	3 689 922	2 673 550

The statutory reserve in the balance at Central bank is not available for use in the day-to-day operations of the Group. The balances above consist of balances held on a short term basis.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

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	Total P'000	Outside the Scope of IFRS 9 P'000	Total Assets and Liabilities P'000
49. Financial instruments							
49.1 Categories of financial instruments							
Assets per Statement of Financial Position - 2018							
Cash	-	-	476 107	-	476 107	-	476 107
Balances at central bank	-	-	543 710	-	543 710	-	543 710
Trading portfolio assets	513	-	-	-	513	-	513
Due from related parties	-	-	811 422	-	811 422	-	811 422
Loans and advances to banks	-	-	1 053 266	-	1 053 266	-	1 053 266
Derivative financial instruments	19 058	-	-	-	19 058	-	19 058
Financial assets at fair value through OCI	-	1 901 953	-	-	1 901 953	-	1 901 953
Loans and advances to customers	-	-	11 834 679	-	11 834 679	-	11 834 679
Other receivables	-	-	-	-	-	186 166	186 166
	19 571	1 901 953	14 719 184	-	16 640 708	186 166	16 826 874
Liabilities per Statement of Financial Position - 2018							
Deposits from banks	-	-	-	357 972	357 972	-	357 972
Due to related parties	-	-	-	1 525 543	1 525 543	-	1 525 543
Derivative financial instruments	12 328	-	-	-	12 328	-	12 328
Customer deposits	-	-	-	11 854 620	11 854 620	-	11 854 620
Debt securities in issue	-	-	-	537 667	537 667	-	537 667
Other payables	-	-	-	-	-	333 409	333 409
Subordinated debt	-	-	-	358 356	358 356	-	358 356
	12 328	-	-	14 634 158	14 646 486	333 409	14 979 895

Consolidated	Held for trading P'000	Derivative instruments in designated hedge accounting relationships P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Financial liabilities carried at amortised cost P'000	Total P'000
49. Financial instruments (continued)						
49.1 Categories of financial instruments (continued)						
Assets as per Statement of Financial Position - 2017						
Cash	-	-	407 947	-	-	407 947
Balances at central bank	-	-	459 133	-	-	459 133
Trading portfolio assets	114	-	-	-	-	114
Due from related parties	-	-	639 887	-	-	639 887
Loans and advances to banks	-	-	1 286 005	-	-	1 286 005
Derivative financial instruments	9 446	-	-	-	-	9 446
Available for sale investments	-	-	80	1 307 224	-	1 307 304
Loans and advances to customers	-	-	10 720 556	-	-	10 720 556
Other receivables	-	-	144 789	-	-	144 789
Total	9 560	-	13 658 397	1 307 224	-	14 975 181
Liabilities as per Statement of Financial Position - 2017						
Deposits from banks	-	-	-	-	517 916	517 916
Due to related parties	-	-	-	-	925 337	925 337
Derivative financial instruments	8 341	5 007	-	-	-	13 348
Customer deposits	-	-	-	-	10 980 544	10 980 544
Debt securities in issue	-	-	-	-	202 385	202 385
Other payables	-	-	-	-	185 925	185 925
Subordinated debt	-	-	-	-	254 456	254 456
Total	8 341	5 007	-	-	13 066 563	13 079 911

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

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	Total P'000	Outside the Scope of IFRS 9 P'000	Total Assets and Liabilities P'000
49. Financial instruments (continued)							
49.1 Categories of financial instruments (continued)							
Assets per Statement of Financial Position - 2018							
Cash	-	-	476 107	-	476 107	-	476 107
Balances at central bank	-	-	543 710	-	543 710	-	543 710
Trading portfolio assets	513	-	-	-	513	-	513
Due from related parties	-	-	811 422	-	811 422	-	811 422
Loans and advances to banks	-	-	1 053 266	-	1 053 266	-	1 053 266
Derivative financial instruments	19 058	-	-	-	19 058	-	19 058
Financial assets at fair value through OCI	-	1 901 953	-	-	1 901 953	-	1 901 953
Loans and advances to customers	-	-	11 834 679	-	11 834 679	-	11 834 679
Other receivables	-	-	-	-	-	186 138	186 138
	19 571	1 901 953	14 719 184	-	16 640 708	186 138	16 826 846
Liabilities per Statement of Financial Position - 2018							
Deposits from banks	-	-	-	357 972	357 972	-	357 972
Due to related parties	-	-	-	1 556 637	1 556 637	-	1 556 637
Derivative financial instruments	12 328	-	-	-	12 328	-	12 328
Customer deposits	-	-	-	11 853 654	11 853 654	-	11 853 654
Debt securities in issue	-	-	-	537 667	537 667	-	537 667
Other payables	-	-	-	-	-	328 750	328 750
Subordinated debt	-	-	-	358 356	358 356	-	358 356
	12 328	-	-	14 664 286	14 676 614	328 750	15 005 364

Company	Held for trading P'000	Derivative instruments in designated hedge accounting relationships P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Financial liabilities carried at amortised cost P'000	Total P'000
49. Financial instruments (continued)						
49.1 Categories of financial instruments (continued)						
Assets as per Statement of Financial Position - 2017						
Cash	-	-	407 947	-	-	407 947
Balances at central bank	-	-	459 133	-	-	459 133
Trading portfolio assets	114	-	-	-	-	114
Due from related parties	-	-	639 887	-	-	639 887
Loans and advances to banks	-	-	1 286 005	-	-	1 286 005
Derivative financial instruments	9 446	-	-	-	-	9 446
Available for sale investments	-	-	80	1 307 224	-	1 307 304
Loans and advances to customers	-	-	10 720 556	-	-	10 720 556
Other receivables	-	-	144 789	-	-	144 789
Total	9 560	-	13 658 397	1 307 224	-	14 975 181
Liabilities as per Statement of Financial Position - 2017						
Deposits from banks	-	-	-	-	517 916	517 916
Due to related parties	-	-	-	-	945 382	945 382
Derivative financial instruments	8 341	5 007	-	-	-	13 348
Customer deposits	-	-	-	-	10 978 348	10 978 348
Debt securities in issue	-	-	-	-	202 385	202 385
Other payables	-	-	-	-	185 925	185 925
Subordinated debt	-	-	-	-	254 456	254 456
Total	8 341	5 007	-	-	13 084 412	13 097 760

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management

50.1 Capital risk management

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

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

The Group has complied with all externally imposed capital requirements throughout the period.

The Bank's Tier capital is divided into two tiers:

Tier 1: comprising mainly shareholders' funds, is the highest tier.

Tier 2: includes perpetual, medium and long term subordinated debt, general provisions for bad and doubtful debts as well as property and equipment revaluation reserves.

Both tiers can be used to meet trading and banking activity requirements although Tier 2 capital, included in the risk asset ratio calculation, may not exceed Tier 1 capital. The Bank of Botswana has set the individual minimum ratio requirements for banks in Botswana at 15% which is above the Basel Committee minimum guideline of 8%.

The Group has complied with all externally imposed capital requirements throughout the period.

	Consolidated		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
50. Risk management (continued)				
50.1 Capital risk management (continued)				
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**	107 206	**118 347**	107 206
Retained earnings	**1 853 969**	1 820 410	**1 836 055**	1 809 668
Proposed dividends	**(190 000)**	(180 000)	**(190 000)**	(180 000)
Less: Intangible assets	**(1 138)**	(863)	**(1 138)**	(863)
Total Tier 1 Capital	**1 800 346**	1 765 921	**1 782 432**	1 755 179
Tier 2 Capital				
Subordinated redeemable debt	**352 590**	250 000	**352 590**	250 000
Unencumbered general provisions	**125 034**	50 090	**125 034**	50 090
Total Tier 2 Capital	**477 624**	300 090	**477 624**	300 090
Total regulatory capital	**2 277 970**	**2 066 011**	**2 260 056**	**2 055 269**
Risk weighted assets				
Credit Risk weighted assets	**11 622 923**	9 478 332	**11 622 923**	9 478 332
Market Risk weighted assets	**159 960**	185 638	**159 960**	185 638
Operational Risk weighted assets	**1 138 834**	974 779	**1 138 834**	974 779
Total risk weighted assets	**12 921 717**	10 638 749	**12 921 717**	10 638 749
Capital adequacy ratio	**17.63 %**	19.42%	**17.49 %**	19.32%

Consolidated

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 13.93% at year-end (2017: 16.6%).

Company

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 13.79% at year-end (2017: 16.50%).

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.2 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 Group's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Group's risk profile.
- Review and challenge risk management practices.

50.3 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.

50. Risk management (continued)

50.3 Market risk

Market risk measurement

The techniques used to measure and control market risk include:

- Daily value at risk (DVaR)
- Stress tests
- Stop loss

Daily value at risk (DVar)

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

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

Stress tests

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

Stop loss

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

Analysis of trading market risk exposures

The table below shows the DVaR statistics:

Consolidated and Company

	2018			2017		
	Average P'000	High P'000	Low P'000	Average P'000	High P'000	Low P'000
Interest rate risk	**44**	**112**	**21**	26	29	23
Foreign currency risk	**135**	**699**	**25**	112	414	28
	179	**811**	**46**	138	443	51

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.3 Market risk (continued)

The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) Dvar reported as a whole. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bps) parallel fall or rise in all yield curves worldwide and a 50 bps rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity showing an increase or decrease in profits to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

Consolidated and Company

	100 basis points parallel increase P'000	100 basis points parallel decrease P'000	50 basis points increase after 1 year P'000	50 basis points decrease after 1 year P'000
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)**
2017				
At 31 December	33 035	(33 035)	16 518	(16 518)
Average for the year	33 955	(33 955)	16 978	(16 978)
Maximum for the year	37 698	(37 698)	18 849	(18 849)

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.

50. Risk management (continued)

50.3 Market risk (continued)

Consolidated and Company

	2018			2017		
	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	**1.31%**	**1.7%**	**1.08%**	1.17%	1.40%	1.00%
USD	**0%**	**0.7%**	**0.0%**	0%	0%	0.25%
ZAR	**0%**	**0%**	**0%**	0%	0%	5.95%
Bank of Botswana certificates						
14 day	**1.52%**	**1.59%**	**1.47%**	1.33%	1.47%	0.73%
91 day	**1.54%**	**1.59%**	**1.46%**	1.34%	1.45%	1.00%
Loans and advances:						
Corporate	**7.75%**	**36%**	**4.25%**	7.24%	36%	6.00%
Retail	**11.8%**	**36%**	**7.5%**	13.47%	36%	11.4%
Staff	**4.4%**	**5%**	**0.00%**	4.9%	5%	0.00%
Balances with related parties						
USD	**2.43%**	**3.45%**	**1.35%**	1.45%	2.45%	0.25%
ZAR	**6.82%**	**7.48%**	**6.48%**	7.01%	8.30%	5.95%
Liabilities						
Deposits due to customers:						
Corporate	**0.36%**	**6.90%**	**0.25%**	2.97%	9.5%	0.00%
Retail	**1.1%**	**4.25%**	**0.00%**	1.56%	5%	0.00%
Staff	**1.1%**	**4.25%**	**0.00%**	1.56%	5%	0.00%
Deposits from banks:						
BWP	**2.56%**	**3.00%**	**1.15%**	1.52%	2.25%	1.03%
USD	**0%**	**0%**	**0.28%**	0%	0%	0.28%
Balances with related parties						
USD	**3.27%**	**3.8%**	**3.20%**	2.29%	2.54%	0.28%
Medium term notes	**6.35%**	**8.00%**	**3.91%**	7.04%	7.08%	3.85%
Floating rate notes	**4.69%**	**5.55%**	**3.25%**	4.82%	6.16%	4.01%

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

50. Risk management (continued)

50.4 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.

The Group takes on foreign exchange risk through both the banking and trading books. Foreign Exchange ("FX") exposure to the banking book occurs through the Group granting foreign currency denominated loans and advances, as well as raising funds denominated in foreign currency.

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

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

The Group conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intraday limit is set at US$50million and the overnight limit is US$25 million. These limits were adhered to throughout the year.

Market risk regulatory capital calculations (Trading and Banking Books)

The Group is required to hold adequate capital to cover losses due to exposures to Market Risk. For day to day risk management, the Group 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 Group uses the Standardised Measurement Method. This entails using the prescribed methods to calculate the capital charge for the market risk that the Group is exposed to. The Internal Models Approach (use of DVaR, Stressed Value at Risk SVaR) for regulatory capital calculations is not permitted under current Bank of Botswana regulatory guidelines.

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

50.5 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 Group's non-trading portfolios:

50. Risk management (continued)

50.5 Interest rate risk (continued)

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
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**
Financial assets 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 deposits	6 042 587	1 404 184	880 752	364 743	-	3 162 355	**11 854 620**
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**
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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.5 Interest rate risk (continued)

Consolidated

	Up to 1 month P'00	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'00	Over 5 years P'00	Non-interest bearing P'000	Total P'000
2017							
Assets							
Cash	-	-	-	-	-	407 947	**407 947**
Cash and balances at central banks	-	-	-	-	-	459 133	**459 133**
Trading portfolio assets	114	-	-	-	-	-	**114**
Derivative financial instruments	9 446	-	-	-	-	-	**9 446**
Available for sale investments	998 543	-	271 515	14 000	23 246	-	**1 307 304**
Loans and advances to banks	1 286 005	-	-	-	-	-	**1 286 005**
Due from related parties	464 198	89 960	79 697	-	-	6 032	**639 887**
Loans and advances to customers	10 224 745	37 234	167 555	223 406	67 616	-	**10 720 556**
Other receivables	-	-	-	-	-	144 789	**144 789**
	12 983 051	**127 194**	**518 767**	**237 406**	**90 862**	**1 017 901**	**14 975 181**
Liabilities							
Deposits from Banks	517 916	-	-	-	-	-	**517 916**
Due to related parties	265 836	591 406	-	-	-	68 095	**925 337**
Customer deposits	5 807 994	821 674	843 894	399 026	-	3 107 956	**10 980 544**
Derivative financial instruments	13 348	-	-	-	-	-	**13 348**
Debt securities in issue	2 785	-	43 600	156 000	-	-	**202 385**
Subordinated debt	254 456	-	-	-	-	-	**254 456**
Other payables	-	-	-	-	-	185 925	**185 925**
Provisions	-	-	-	-	-	33 077	**33 077**
	6 862 335	**1 413 080**	**887 494**	**555 026**	**-**	**3 395 053**	**13 112 988**
Interest rate sensitivity gap	**6 120 716**	**(1 285 886)**	**(368 727)**	**(317 620)**	**90 862**	**(2 395 001)**	**1 862 193**

50. Risk management (continued)

50.5 Interest rate risk (continued)

Company

	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
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
Financial assets 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
Liabilities							
Deposits from Banks	357 972	-	-	-	-	-	357 972
Due to related parties	663 041	893 596	-	-	-	-	1 556 637
Customer deposits	6 042 587	1 404 184	880 752	364 743	-	3 161 389	11 853 654
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
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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.5 Interest rate risk (continued)

Company

	Up to 1 month P'00	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'00	Over 5 years P'00	Non-interest bearing P'000	Total P'000
2017							
Assets							
Cash	-	-	-	-	-	407 947	**407 947**
Cash and balances at central banks	-	-	-	-	-	459 133	**459 133**
Trading portfolio assets	114	-	-	-	-	-	**114**
Derivative financial instruments	9 446	-	-	-	-	-	**9 446**
Available for sale investments	998 543	-	271 515	14 000	23 246	-	**1 307 304**
Loans and advances to banks	1 286 005	-	-	-	-	-	**1 286 005**
Due from related parties	464 198	89 960	79 697	-	-	6 032	**639 887**
Loans and advances to customers	10 224 745	37 234	167 555	223 406	67 616	-	**10 720 556**
Other receivables	-	-	-	-	-	144 789	**144 789**
	12 983 051	**127 194**	**518 767**	**237 406**	**90 862**	**1 017 901**	**14 975 181**
Liabilities							
Deposits from Banks	517 916	-	-	-	-	-	517 916
Due to related parties	268 032	591 406	-	-	-	85 944	**945 382**
Customer deposits	5 805 798	821 674	843 894	399 026	-	3 107 956	**10 978 348**
Derivative financial instruments	13 348	-	-	-	-	-	**13 348**
Debt securities in issue	2 785	-	43 600	156 000	-	-	**202 385**
Subordinated debt	254 456	-	-	-	-	-	**254 456**
Other payables	-	-	-	-	-	185 925	**185 925**
Provisions	-	-	-	-	-	33 077	**33 077**
	6 862 335	1 413 080	887 494	555 026	-	3 412 902	**13 130 837**
Interest rate sensitivity gap	**6 120 716**	**(1 285 886)**	**(368 727)**	**(317 620)**	**90 862**	**(2 395 001)**	**1 844 344**

Interest rate swap contracts

The Group used interest rate swaps and foreign exchange contracts to hedge its exposure to changes in exchange rates and interest rates. Hedge instrument counterparty was Barclays PLC. The objective of this hedging relationship was to hedge the risk of movements in the USD Libor index. The Group has issued a fixed rate foreign currency loan to one of its corporate clients and this exposes it to the movements in the USD Libor index. There are other inherent risks that the Group is exposed to as a result of this loan, like foreign exchange rate movements, that are not hedged in this relationship. The hedging instrument was a pay fixed rate receive variable interest rate swap with Barclays PLC.

The Group settled the hedging instrument in the year ended 31 December 2018. The settlement of the hedging instrument in the year resulted in a loss of P497,000.

50. Risk management (continued)

50.5 Interest rate risk (continued)

The following table details the notional principal amounts and terms of interest rate swap contracts outstanding at the end of the previous reporting period.

Consolidated and Company

Fair value hedges		Notional principle value P'000	Fair value P'000
2017			
5 years + Derivative financial asset			5 014
5 years + Derivative financial liability			5 007
Net fair value of interest rate risk	5.22%	55 260	7

50.6 Other risks

Operational risk

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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
- 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.

There was continued transformation of the Operational Risk management capabilities within the Group. The investment in operational risk within the Group 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 Group 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 financial year.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Customer assets consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of customer asset and, where appropriate, credit guarantee insurance cover is purchased.

Unless otherwise disclosed below, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recognised in the financial statements, which is net impairment of losses, represents the Group's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

The Group manages limits and controls concentration of credit risk wherever they are identified. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one client. Such risks are monitored on a revolving basis and when considered necessary.

50.7.1. Enforcement of collateral

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

	Consolidated and Company	
	2018	2017
	P'000	P'000
Nature of assets		
Finance leases – Movable property	**1 057**	-
Residential property	**15 348**	3 975
Balance at the end of the reporting period	**16 045**	**3 975**

50.7.2. Maximum credit risk exposure

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
2018				
Balances at central banks	543 948	543 948	-	-
Loans and advances to banks	1 053 317	1 053 317	-	-
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 IFRS 9 ECL requirements	1 685 075	-	-	-
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	-	-

Consolidated and Company

	2017 P'000
Loans and advances to banks	1 286 005
Loans and advances to customers	11 238 452
Balances at central bank	459 133
Available for sale investments	1 307 304
Trading portfolio assets	114
Balances with related parties	639 887
Derivative financial instruments	9 446
Other receivables	144 789
	15 085 130
Commitments off the statement of financial position (Note 50)	2 820 965
Total maximum credit exposure	**17 906 095**

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk (continued)

50.7.2. Maximum credit risk exposure

Company

	Gross Maximum Exposure	12 months expected credit losses - stage 1	Lifetime expected credit losses - stage 2			Credit impaired - stage 3		
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
2018								
Balances at central banks	543 948	543 948	-	-	-	-	-	-
Loans and advances to banks	1 053 317	1 053 317	-	-	-	-	-	-
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 IFRS 9 ECL requirements	1 685 075	-	-	-	-	-	-	-
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	-	-	-	-	-	-

50. Risk management (continued)

50.7 Credit risk (continued)

Performance

Retail Banking Credit risk

Growth

There is continued overall growth, 6.5%, on advances to customer's year on year. The leading drivers for growth include scheme, mortgages and credit cards. This was driven by deliberate accommodative risk policies that supported business growth.

Portfolio Performance

The performance was driven by strategic decisions to accelerate impairment losses from mining entities which were liquidated in prior years. This resulted in an overall improvement in provisions for the portfolio in the current period. Concerted efforts to enhance collection strategy also led to an improvement in portfolio performance evidenced by a 50 basis points reduction in loan loss rates and an 8% increase in recoveries. The performance of new business bookings is equally favourable which is attributable to the Retail Credit strategy to pursue growth in low risk segments to guard against general distress in market caused by company retrenchments.

Impairment Performance

The impairment charge improved significantly to end with a net benefit of P37 million. This was driven by a contraction of impairment provision raised against exposure of mining entities in previous years as well as improvements in portfolio collections and growth on low risk segments.

Wholesale credit risk

Growth

Growth in the Wholesale portfolio was driven by increased market share in Business Banking. This was attributed to improved proposition to Agri-Business customers. The approach on Corporate and Investment Banking (CIB) has been conservative towards the mining sector during the year post closure of one mining entity.

Management of credit risk

The Credit risk department is responsible for portfolio management and risk concentration issues, sector exposure, product risk and credit grading. The credit risk department is responsible for sanctioning large credit exposures to all customers and counterparties arising from lending, trading activities, derivative instruments and settlement risks.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk (continued)

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.

On-Balance sheet industrial analysis

Consolidated

	Loans and advances to customers P'000	Loans and advances to banks P'000	Due from related parties 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 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**
2017									
Private individuals	7 021 598	-	-	-	-	-	-	-	7 021 598
Mining companies	208 097	-	-	-	-	-	-	-	208 097
Parastatals	202 918	-	-	-	-	-	-	-	202 918
Business	3 475 839	-	-	-	-	-	-	-	3 475 839
Financial institutions	330 000	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	4 176 678
Gross Exposure	**11 238 452**	**1 286 005**	**639 887**	**9 446**	**459 133**	**1 307 304**	**114**	**144 789**	**15 085 130**
Allowance for impairment	(517 896)	-	-	-	-	-	-	-	(517 896)
Net Exposure	10 720 556	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	14 567 234

50. Risk management (continued)

50.7 Credit risk (continued)

On-Balance sheet industrial analysis (continued)

Company

	Loans and advances to customers P'000	Loans and advances to banks P'000	Due from related parties 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 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**	**16 908 293**
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**	**16 350 739**
2017									
Private individuals	7 021 598	-	-	-	-	-	-	-	7 021 598
Mining companies	208 097	-	-	-	-	-	-	-	208 097
Parastatals	202 918	-	-	-	-	-	-	-	202 918
Business	3 475 839	-	-	-	-	-	-	-	3 475 839
Financial institutions	330 000	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	4 176 678
Gross Exposure	**11 238 452**	**1 286 005**	**639 887**	**9 446**	**459 133**	**1 307 304**	**114**	**144 789**	**15 085 130**
Allowance for impairment	(517 896)	-	-	-	-	-	-	-	(517 896)
Net Exposure	10 720 556	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	14 567 234

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk (continued)

On-Balance sheet geographical analysis

Consolidated

	Loans and advances to customers P'000	Loans and advances to banks P'000	Due to related parties 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									
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 losses	(557 265)	(51)	-	-	(238)	-	-	-	(557 554)
Net Exposure	11 861 679	1 053 266	811 422	19 058	543 710	1 901 953	513	186 166	16 350 767
2017									
Botswana	10 959 371	608 595	-	3 000	459 133	1 307 304	114	144 789	13 482 306
South Africa	-	29 306	635 836	6 446	-	-	-	-	671 588
SADC	279 081	150	4 051	-	-	-	-	-	283 282
UK	-	180 857	-	-	-	-	-	-	180 857
Europe	-	259 962	-	-	-	-	-	-	259 962
Other	-	837	-	-	-	-	-	-	837
USA	-	206 298	-	-	-	-	-	-	206 298
Gross Exposure	11 238 452	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	15 085 436
Allowance for impairment	(517 816)	-	-	-	-	-	-	-	(516 816)
Net Exposure	10 720 556	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	14 555 120

50. Risk management (continued)

50.7 Credit risk (continued)

On-Balance sheet geographical analysis

Company

	Loans and advances to customers P'000	Loans and advances to banks P'000	Due to related parties 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									
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 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	16 350 739
2017									
Botswana	10 959 371	608 595	-	3 000	459 133	1 307 304	114	144 789	**13 482 306**
South Africa	-	29 306	635 836	6 446	-	-	-	-	**671 588**
SADC	279 081	150	4 051	-	-	-	-	-	**283 282**
UK	-	180 857	-	-	-	-	-	-	**180 857**
Europe	-	259 962	-	-	-	-	-	-	**259 962**
Other	-	837	-	-	-	-	-	-	**837**
USA	-	206 298	-	-	-	-	-	-	**206 298**
Gross Exposure	11 238 452	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	15 085 130
Allowance for impairment	(517 896)	-	-	-	-	-	-	-	(517 896)
Net Exposure	10 720 556	1 286 005	639 887	9 446	459 133	1 307 304	114	144 789	14 567 234

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk (continued)

Consolidated and Company
Commitments not on the statement of financial position

	2018 P'000	2017 P'000
Off-Balance sheet industrial analysis		
Private individuals	254 636	532 600
Mining companies	370 586	242 275
Parastatals	98 042	80 182
Business	1 777 551	1 800 888
Financial institutions	97 351	165 020
Gross exposure	**2 598 166**	**2 820 965**
Off-Balance sheet geographical analysis		
Botswana	**2 598 166**	**2 820 965**

50.7.4. Loans and advances to customers stratification and analysis

Consolidated and Company	Loans and advances to customers P'000
2017	
Credit exposure	
Neither past due nor individually impaired	10 547 403
Arrears <= 1 instalment	70 507
Arrears > 1 instalment	620 542
Gross accounts receivable	**11 238 452**
Breakdown of arrear receivables	
Arrear <= 2 instalments	47 859
Arrear <= 3 instalments	69 010
Individually impaired	503 673
	620 542
Movement in the impairment provision	
Balance at the beginning of the period	(556 604)
Bad debts written off	206 047
Increase in impairment provision	(173 811)
Impairment no longer required	6 472
Balance at the end of the period	(517 896)
Net carrying amount	**10 720 556**

50. Risk management (continued)

50.7 Credit risk (continued)

50.7.4. Loans and advances to customers stratification and analysis (continued)

Consolidated and Company	Loans and advances to customers P'000
2017	
Risk analysis - up to date accounts	
Strong	6 306 211
Satisfactory	3 911 027
Higher risk	330 165
Total up to date accounts	**10 547 403**

Credit mitigation

The financial effect and forms of collateral and credit enhancements for each class of financial instrument giving rise to credit risk are disclosed in the table to follow. The accounting policy on how the collateral impacts the impairment provisions to be carried against the financial asset balance is described further in the Group's financial statements accounting policies.

The Group off-sets asset and liability amounts in the statement of financial position where the ability and intention to net settle exists and the Group has a legally enforceable right to do so. Amounts disclosed in the maximum exposure category are stated net of these.

The percentage collateral reported is calculated by determining the values of available underlying collateral, limited to the carrying value of the related credit exposure where a loan is possibly over-collateralised, and dividing this value by the maximum exposure, as reported. The percentage reported is calculated independently of other forms of collateral and the assessment of impairment losses on loans and advances.

Collateral and other credit enhancements held

Financial assets that are past due or individually assessed as impaired are at least partially collateralised or subject to other forms of credit enhancement as described above. The effects of such arrangements are taken into account in the calculation of the impairment allowance held against them.

Assets subject to collateralisation and credit enhancement include corporate lending and residential mortgage loans. For most forms of security, the collateral given is valued only on origination or in the course of enforcement actions. In the case of corporate lending security may be in the form of floating charges where the value of the collateral varies with the level of assets, such as inventory and receivables, held by the customer.

Enforcement of collateral

The carrying value of assets held by the Group as at 31st December 2018 as a result of the enforcement of collateral is detailed on note 50.7.1

The Group does not use assets obtained in its operations. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of the Group, the borrower and the borrower's other creditors in accordance with the relevant insolvency regulations.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.7 Credit risk (continued)

50.7.4. Loans and advances to customers stratification and analysis (continued)

Credit mitigation (continued)

Consolidated

2018

Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Total unsecured P'000
On-statement of financial position exposure						
Balances at central bank	543 710	-	-	-	-	543 710
Financial assets as FVOCI	1 901 953	-	-	-	-	1 901 953
Trading portfolio assets	513	-	-	-	-	513
Due from related parties	811 422	-	-	-	-	811 422
Loans and advances to banks	1 053 266	-	-	-	-	1 053 266
Derivative financial assets	19 058	-	-	-	-	19 058
Loans and advances to customers	12 391 944	2 991 466	2 895 996	48 195	140 457	6 315 830
Other receivables	184 318	-	-	-	-	184 318
Total exposures subject to credit risk	**16 906 184**	**2 093 872**	**2 895 996**	**48 195**	**140 457**	**10 830 070**

2017

On-statement of financial position exposure						
Balances at Central bank	459 133	-	-	-	-	459 133
Available-for-sale investments	1 307 304	-	-	-	-	1 307 304
Trading portfolio assets	114	-	-	-	-	114
Due from related parties	639 887	-	-	-	-	639 887
Loans and advances to banks	1 286 005	-	-	-	-	1 286 005
Derivative financial assets	9 446	-	-	-	-	9 446
Loans and advances to customers	11 238 452	2 022 582	2 757 502	366 299	123 255	5 968 814
Other receivables	144 789	-	-	-	-	144 789
Total exposures subject to credit risk	**15 085 130**	**2 022 582**	**2 757 502**	**366 299**	**123 255**	**9 815 492**

50. Risk management (continued)

50.7 Credit risk (continued)

50.7.4. Loans and advances to customers stratification and analysis (continued)

Credit mitigation (continued)

Company

2018

Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Total unsecured P'000
On-statement of financial position exposure						
Balances at central bank	543 710	-	-	-	-	543 710
Financial assets as FVOCI	1 901 953	-	-	-	-	1 901 953
Trading portfolio assets	513	-	-	-	-	513
Due from related parties	811 422	-	-	-	-	811 422
Loans and advances to banks	1 053 266	-	-	-	-	1 053 266
Derivative financial assets	19 058	-	-	-	-	19 058
Loans and advances to customers	12 391 944	2 991 466	2 895 996	48 195	140 457	6 315 830
Other receivables	186 138	-	-	-	-	186 138
Total exposures subject to credit risk	**16 908 004**	**2 093 872**	**2 895 996**	**48 195**	**140 457**	**10 831 890**

2017

On-statement of financial position exposure						
Balances at Central bank	459 133	-	-	-	-	459 133
Available-for-sale investments	1 307 304	-	-	-	-	1 307 304
Trading portfolio assets	114	-	-	-	-	114
Due from related parties	639 887	-	-	-	-	639 887
Loans and advances to banks	1 286 005	-	-	-	-	1 286 005
Derivative financial assets	9 446	-	-	-	-	9 446
Loans and advances to customers	11 238 452	2 022 582	2 757 502	366 299	123 255	5 968 814
Other receivables	144 789	-	-	-	-	144 789
Total exposures subject to credit risk	**15 085 130**	**2 022 582**	**2 757 502**	**366 299**	**123 255**	**9 815 492**

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.8 Liquidity risk

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

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and 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 Group 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						
2018						
Due to related parties	1 525 543	-	-	-	-	1 525 543
Customer deposits	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 from 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
2017						
Due to related parties	68 225	870 168	-	-	-	938 393
Customer deposits	8 913 281	824 230	1 011 419	465 282	-	11 214 212
Debt Securities in issue	-	-	16 696	211 526	-	228 222
Subordinated debt	4 456	2 788	8 363	55 750	262 079	333 436
Deposits form Banks	498 150	19 862	-	-	-	518 012
Other payables	185 925	-	-	-	-	185 925
Commitments not recognised on the statement of financial position	2 820 965	-	-	-	-	2 820 965
	12 491 002	1 717 048	1 036 478	732 558	262 079	16 239 165

50. Risk management (continued)

50.8 Liquidity risk (continued)

Company

	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Total P'000
Liabilities						
2018						
Due to related parties	**1 556 637**	**-**	**-**	**-**	**-**	**1 556 637**
Customer deposits	**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 from 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**
2017						
Due to related parties	88 270	870 168	-	-	-	958 438
Customer deposits	8 911 085	824 230	1 011 419	465 282	-	11 212 016
Debt Securities in issue	-	-	16 696	211 526	-	228 222
Subordinated debt	4 456	2 788	8 363	55 750	262 079	333 436
Deposits form Banks	498 150	19 862	-	-	-	518 012
Other payables	185 925	-	-	-	-	185 925
Commitments not recognised on the statement of financial position	2 820 965	-	-	-	-	2 820 965
	12 508 851	**1 717 048**	**1 036 478**	**732 558**	**262 079**	**16 257 014**

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

50. Risk management (continued)

50.8 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	2018			2017		
	Less than 1 month P'000	5+ years P'000	Total P'000	Less than 1 month P'000	5+ years P'000	Total P'000
2018						
Gross settled:						
Derivative financial assets	**1 340 641**	**-**	**1 340 641**	9 595	-	9 595
Derivative financial liabilities	**562 767**	**-**	**562 767**	9 527	55 260	64 787

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from Group specific or systemic stress events. Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Group'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 Group's operations.

Through scenario analysis and stress testing, the Group 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 Group's overall objective is to ensure that during a liquidity stress event, the Group'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 Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. To monitor the percentage of long-term assets maturing after 1 year as a percentage of total liabilities, a medium term mismatch ratio for both foreign currency and local currency is performed individually. Net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Group'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)

50.8 Liquidity risk (continued)

Consolidated and Company

	2018	2017
At 31 December		
Foreign currency	**5%**	13%
Local currency	**33%**	34%
Average for the period		
Foreign currency	**3%**	16%
Local currency	**34%**	37%
Maximum for the period		
Foreign currency	**14%**	23%
Local currency	**38%**	42%
Minimum for the period		
Foreign currency	**0%**	12%
Local currency	**30%**	29%

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

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

Consolidated

	2018		2017	
	Carrying amount P'000	Fair value P'000	Carrying amount P'000	Fair value P'000
Financial Assets				
Cash	**476 107**	**476 107**	407 947	407 947
Balances at central bank	**543 710**	**543 710**	459 133	459 133
Due from related parties	**811 422**	**811 422**	639 887	639 887
Loans and advances to banks	**1 053 266**	**1 053 266**	1 286 005	1 286 005
Debt securities	**80**	**80**	80	80
Loans and advances to customers	**11 834 679**	**11 834 679**	10 720 556	10 720 556
Other receivables	**186 166**	**186 166**	144 789	144 789
Total	**14 925 430**	**14 925 430**	**13 658 397**	**13 658 397**
Financial Liabilities				
Deposits from banks	**357 972**	**357 972**	517 916	517 916
Due to related parties	**1 525 543**	**1 525 543**	925 337	925 337
Customer deposits	**11 854 620**	**11 854 620**	10 980 544	10 980 544
Debt securities in issue	**537 667**	**537 667**	202 385	202 385
Other payables	**333 409**	**333 409**	185 925	185 925
Subordinated debt	**358 356**	**358 356**	254 456	254 456
Total	**14 967 567**	**14 967 567**	**13 066 563**	**13 066 563**

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Financial Assets				
Cash	**476 107**	**476 107**	407 947	407 947
Balances at central bank	**543 710**	**543 710**	459 133	459 133
Due from related parties	**811 422**	**811 422**	639 887	639 887
Loans and advances to banks	**1 053 266**	**1 053 266**	1 286 005	1 286 005
Debt securities	**80**	**80**	80	80
Loans and advances to customers	**11 834 679**	**11 834 679**	10 720 556	10 720 556
Other receivables	**186 138**	**186 138**	144 789	144 789
Total	**14 905 402**	**14 905 402**	**13 658 397**	**13 658 397**
Financial Liabilities				
Deposits from banks	**357 972**	**357 972**	517 916	517 916
Due to related parties	**1 556 637**	**1 556 637**	945 382	945 382
Customer deposits	**11 853 654**	**11 853 654**	10 978 348	10 978 348
Debt securities in issue	**537 667**	**537 667**	202 385	202 385
Other payables	**328 750**	**328 750**	185 925	185 925
Subordinated debt	**358 356**	**358 356**	254 456	254 456
Total	**14 993 036**	**14 993 036**	**13 084 412**	**13 084 412**

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

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.

51.1. Fair value hierarchy

Consolidated

	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 parties	-	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 parties	-	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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

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
2017				
Financial assets				
Cash	407 947	-	-	407 947
Balances at central bank	459 133	-	-	459 133
Balances with related parties	-	639 887	-	639 887
Loans and advances to banks	-	1 286 005	-	1 286 005
Debt securities	-	-	80	80
Loans and advances to customers	-	330 000	10 390 556	10 720 556
Other receivables	-	-	144 789	144 789
	867 080	**2 255 892**	**10 535 425**	**13 658 397**
Financial liabilities				
Deposits from banks	-	517 916	-	517 916
Balances with related parties	-	925 337	-	925 337
Deposits due to customers	4 370 716	6 609 828	-	10 980 544
Debt securities in issue	-	202 385	-	202 385
Other payables	-	-	185 925	185 925
Subordinated debt	-	254 456	-	254 456
	4 370 716	**8 509 922**	**185 925**	**13 066 563**

Company

2018				
Financial assets				
Cash	**476 107**	**-**	**-**	**476 107**
Balances at central bank	**543 710**	**-**	**-**	**543 710**
Balances with related parties	**-**	**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 parties	**-**	**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**

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
2017				
Financial assets				
Cash	407 947	-	-	407 947
Balances at central bank	459 133	-	-	459 133
Balances with related parties	-	639 887	-	639 887
Loans and advances to banks	-	1 286 005	-	1 286 005
Debt securities	-	-	80	80
Loans and advances to customers	-	330 000	10 390 556	10 720 556
Other receivables	-	-	144 789	144 789
	867 080	**2 255 892**	**10 535 425**	**13 658 397**
Financial liabilities				
Deposits from banks	-	517 916	-	517 916
Balances with related parties	-	945 382	-	945 382
Deposits due to customers	4 368 520	6 609 828	-	10 978 348
Debt securities in issue	-	202 385	-	202 385
Other payables	-	-	185 925	185 925
Subordinated debt	-	254 456	-	254 456
	4 368 520	**8 529 967**	**185 925**	**13 084 412**

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

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

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

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

52.1. Fair value hierarchy (continued)

Consolidated and Company

	Level 1	Level 2	Total
	P'000	P'000	P'000
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
2017			
Recurring fair value measurements			
Financial assets			
Fair value through profit or loss - Held for trading			
Trading portfolio assets	-	114	114
Derivative financial instruments	-	9 446	9 446
	-	9 560	9 560
Available for sale			
Treasury bills and other eligible bills	998 577	-	998 577
Treasury bonds	308 647	-	308 647
	1 307 224	-	1 307 224
Financial liabilities			
Fair value through profit or loss - Held for trading			
Derivative financial instruments	-	8 341	8 341
Derivative instruments in designated hedge accounting relationships			
Derivative financial instruments	-	5 007	5 007

53. Segmental reporting

The Group comprises the following main business segments:
- Corporate and Investment Banking (CIB)
- Retail, Business Banking and Other (RBB)
- Barclays PLC separation costs

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 Chief Operation Decision Maker (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. 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.
- Other: head office costs, which are non-banking costs.

Barclays PLC separation costs: The Barclays PLC separation costs have been shown separately to differentiate between the normal business activities and the impact of separation. For further detail refer to note 5 of these financial statements on the normalised vs IFRS view.

53.1. Statement of financial position

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transitional Costs P'000	Total P'000
2018				
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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

53. Segmental reporting (continued)

53.1. Statement of financial position

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2017			
Assets			
Trading portfolio assets	-	114	114
Derivative financial instruments	-	9 446	9 446
Financial assets held at fair value through OCI	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

Company

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transitional Costs P'000	Total P'000
2018				
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	5 228 179	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

53. Segmental reporting (continued)

53.1. Statement of financial position

Company

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2017			
Assets			
Trading portfolio assets	-	114	114
Derivative financial instruments	-	9 446	9 446
Financial assets held at fair value through OCI	1 307 304	-	1 307 304
Loans and advances to customers	7 198 116	3 522 440	10 720 556
Liabilities			
Customer deposits	4 940 640	6 037 708	10 978 348
Derivative financial instruments	5 007	8 341	13 348
Debt securities in issue	202 385	-	202 385
Subordinated debt	254 456	-	254 456

Statement of comprehensive income

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transitional Costs P'000	Total P'000
2018				
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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

53. Segmental reporting (continued)

53.2. Statement of comprehensive income

Consolidated

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2017			
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
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

Company

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transitional Costs P'000	Total P'000
2018				
Net interest income	734 946	264 317	-	999 263
Net fee and commission income	269 816	46 780	-	316 596
Net trading 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	(664 956)	(133 667)	(50 557)	(813 562)
Profit before tax	459 297	179 184	(50 557)	578 724
Taxation	(100 513)	(43 989)	11 122	(131 352)
Profit for the year	358 784	135 195	(39 435)	447 372

53. Segmental reporting (continued)

53.2. Statement of comprehensive income

Company

	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Total P'000
2017			
Net interest income	726 493	253 038	979 531
Net fee and commission income	256 810	42 306	299 116
Net trading and other income	31 206	109 781	**140 987**
Total income	**1 014 509**	**405 125**	**1 419 634**
Credit impairment charge and other provisions	(139 373)	(5 726)	**(145 099)**
Net operating income	**875 136**	**399 399**	**1 274 535**
Operating expenses	(603 796)	(119 084)	(722 880)
Profit before tax	**271 340**	**280 315**	**551 655**
Taxation	(62 327)	(61 669)	(123 996)
Profit for the year	**209 013**	**218 646**	**427 659**

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:

	Consolidated and Company	
	2018 P'000	2017 P'000
54.2 Share options expense recognised during the year		
Employee expenses		
Equity-settled share based payments	**(2 956)**	(722)
Total expense recognised as employee costs	**(2 956)**	(722)

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

54. Share-based payments (continued)

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 Long-Term Incentive Plan
The Long-Term Incentive Plan (LTIP) is an equity-settled share-based payment arrangement. Qualifying participants will be entitled to Absa Group Limited ordinary shares either by way of a share award. In order for the participant to be entitled to these awards, the participant needs to render three years of service and meet requisite performance conditions.

Absa Group Limited Share Value Plan
The Share Value Plan (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 on vesting. On vesting, participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Absa Group Limited 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 Limited Retention Share Value Plan
The Share Value Retention Plan (SVP Cliff) awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to their own independent non-market related performance condition on vesting. On vesting, participants are awarded Absa Group Limited ordinary shares in settlement of their awards. If the Absa Group Limited 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.

Consolidated and Company

	Number of awards				
	Opening balance	Granted	Forfeited	Exercised	Closing balance
2018					
Equity Settled					
Long term incentive plan (LTIP)	**91 779**	**-**	**-**	**-**	**91 779**
Share value plan (SVP)	**4 906**	**4 964**	**-**	**(2 223)**	**7 647**
2017					
Equity Settled					
Long term incentive plan (LTIP)	-	91 779	-	-	91 779
Share value plan (SVP)	2 347	7 667	(2 725)	(2 383)	4 906
Share value retention plan (SVP cliff)	6 609	(6 609)	-	-	-

	Weighted average share price at the exercise date (P)		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period (P)	
	2018	2017	2018	2017	2018	2017
Equity Settled						
Long term incentive plan (LTIP)	**-**	-	**2**	2	**108**	115
Share value plan (SVP)	**120**	132	**2**	1	**136**	125

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 Group 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
2018								
Shareholders								
Absa Group Limited	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
Other related parties								
Absa Bank Limited	-	-	27 548	(18 882)	-	-	-	-
Other Absa Group Limited entities	-	-	4 528	(9 851)	-	466	(122)	-
	-	-	32 076	(28 733)	-	466	(122)	-
2017								
Shareholders								
Barclays Africa Group Limited	-	(51 531)	-	-	(152 606)	-	-	-
	-	(51 531)	-	-	(152 606)	-	-	-
Other related parties								
Absa Bank Limited	-	-	14 565	(20 017)	-	-	-	-
Barclays PLC	-	(4 952)	777	-	-	-	-	-
	-	(4 952)	15 342	(20 017)	-	-	-	-

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 Country Management Committee ("CMC"). 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

55. Related parties (continued)

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
2018								
Shareholders								
Absa Group Limited	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
	-	(73 440)	-	-	(176 288)	1 541	(613)	(39 683)
Other related parties								
Absa Bank Limited	-	-	27 548	(18 882)	-	-	-	-
Other Absa Group Limited entities	-	-	4 528	(9 851)	-	466	(122)	-
	-	-	32 076	(28 733)	-	466	(122)	-
2017								
Shareholders								
Barclays Africa Group Limited	-	(51 531)	-	-	(152 606)	-	-	-
	-	(51 531)	-	-	(152 606)	-	-	-
Other related parties								
Absa Bank Limited	-	-	14 565	(20 017)	-	-	-	-
Barclays PLC	-	(4 952)	777	-	-	-	-	-
	-	(4 952)	15 342	(20 017)	-	-	-	-

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 Country Management Committee ("CMC"). 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.

Transactions with the subsidiary company, Barclays Insurance Services Limited

	2018	2017
Net income collected on behalf of subsidiary	44 818	42 223
Expenses incurred on behalf of subsidiary	35 516	35 718
Tax paid on behalf of subsidiary	1 393	2 139

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
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
	4 182	807 240	811 422	63 298	1 462 245	1 525 543
2017						
Shareholders						
Barclays Africa Group Limited	2 596	-	2 596	8 005	-	8 005
	2 596	-	2 596	8 005	-	8 005
Other related parties						
Absa Bank Limited	-	633 240	633 240	-	917 236	917 236
Other Barclays Africa Group Limited entities	385	3 666	4 051	-	96	96
	385	636 906	637 291	-	917 332	917 332
	2 981	636 906	639 887	8 005	917 332	925 337

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.

The Group provides and utilises services of its holding company and other group entities, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services.

The recharges and other costs are unsecured, interest free and are repayable on demand. Current accounts, fixed deposits, loans and deposits held with the group are at normal commercial terms.

The current amounts payable and receivable relate to management fees receivable and payable from related parties. The loans to and from related parties relate to current accounts and short term fixed deposit accounts. These balances form part of the cash on hand on the Statement of cash flows. There were no impairment provisions that related to balances and transactions with related parties.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

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
Barclays Insurance Services (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
	4 182	807 240	811 422	93 426	1 463 211	1 556 637
2017						
Shareholders						
Barclays Africa Group Limited	2 596	-	2 596	8 005	-	8 005
	2 596	-	2 596	8 005	-	8 005
Other related parties						
Absa Bank Limited	-	633 240	633 240	-	917 236	917 236
Barclays Insurance Services (Proprietary) Limited	-	-	-	17 849	2 196	20 045
Other Barclays Africa Group Limited entities	385	3 666	4 051	-	96	96
	385	636 906	637 291	17 849	919 528	937 377
	2 981	636 906	639 887	25 854	919 528	945 382

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.

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.

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)
2017						
Directors compensation						
Non-executive directors	(1 690)	-	-	60	(111)	(1 741)
Executive directors	(8 674)	-	(914)	6	(11)	(9 593)
	(10 364)	-	(914)	66	(122)	(11 334)
Key management compensation						
Key management	(20 266)	(1 086)	(97)	133	(42)	(21 358)
	(30 630)	(1 086)	(1 011)	199	(164)	(32 692)

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

55. Related parties (continued)

Consolidated and Company

	Loans to related parties	Deposits from related parties
		P'000
2018		
Directors		
Non-executive directors	**109**	**5 352**
Executive directors	**1 619**	**709**
	1 728	**6 061**
Key management		
Key management	**9 841**	**1 638**
	11 569	**7 699**
2017		
Directors		
Non-executive directors	**135**	4 707
Executive directors	383	2 436
	518	7 143
Key management		
Key management	9 826	1 638
	10 344	**8 781**

	2018 P'000	2017 P'000
56. Capital commitments and contingencies		
Capital commitments		
Authorised and contracted for	**4 913**	3 834
Authorised but not yet contracted for	**24 178**	26 648
	29 091	30 482
Contingent liabilities		
Undrawn commitments to customers	**2 060 405**	2 451 804
Letters of credit	**320 739**	80 005
Guarantees	**217 022**	285 322
	2 598 166	2 817 131

Undrawn commitments to customers are commitments to lend funds to customers, subject to certain conditions. Such commitments are generally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of the agreed facility. Short term commitments are those which have an original maturity of less than a year and may be unconditionally cancelled at any time.

Letters of credit commit the Group to make payments to third parties to facilitate trade. These are short term, self-liquidating contingent liabilities arising from the movement of goods.

Performance and bid bonds are transaction-related contingencies where the Group guarantees a transaction or performance.

57. Events after the reporting date

There were no material changes to the affairs of the Group between year end and the date of the approval of the annual financial statements.

58. New accounting pronouncements

Adoption of new and revised Standards
During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. Apart from the detail included in note 4 the adoption of these new and revised standards and interpretations has not resulted in material changes to the Group's accounting policies.

The Group adopted the following standards, interpretations and amended standards during the year:

IFRS 9 *Financial Instruments* introduces significant changes to three fundamental areas of the accounting for financial instruments, namely: The classification and measurement of financial instruments; the scope and calculation of credit losses, which has moved from an incurred loss, to an expected credit loss (ECL) approach; and the hedge accounting model.

IFRS 9 prescribes the classification of financial assets on the basis of an entity's business model for managing the instrument as well as the contractual cash flow characteristics. The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVPTL). Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk.

The Group has elected to not restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the Group's opening retained earnings on 1 January 2018. Therefore comparative information in the prior period annual financial statements will not be amended for the impact of IFRS 9.

In accordance with the transition options allowable under IFRS 9, the Group will continue to apply the hedge accounting requirements set out in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). It has however implemented the amended hedge accounting disclosures, as required by IFRS 7 Financial Instruments: Disclosures (IFRS 7).

IAS 1 Amendment to IAS 1 Presentation of Financial Statements regarding the presentation of effective interest

As a consequence of IFRS 9, an amendment was made to IAS 1, which is effective from 1 January 2018. The amendment requires interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI, subject to the effects of applying hedge accounting to derivatives in designated hedge relationships. In compliance with this amendment the Group has separately presented its effective interest income within profit or loss. Further, it has, elected to present all interest which falls outside the afore-mentioned scope (for example, interest earned on financial assets designated as at fair value through profit and loss, and interest on finance leases) as a subcomponent of "Interest and similar income". The Group has elected to apply the same approach in presenting "Interest expense and similar charges" to achieve consistency in the presentation of "Net interest income". The revised presentation has been applied on a retrospective basis, to ensure comparability between reporting periods.

IFRS 15 *Revenue from Contracts with Customers* replaces the previous revenue recognition standards and interpretations, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which include interest, dividends, leases, and insurance contracts.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

58. New accounting pronouncements (continued)

Adoption of new and revised Standards (continued)

IAS 1 and IAS 8

Presentation of Financial Statements and Accounting Policies Changes in Estimates and Errors - Amendments regarding the definition of material, in order to better clarify how materiality should be applied, as well as to align the definition across IFRS. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition:

- Explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information, and include examples of circumstances that may result in material information being obscured;
- Clarify that assessing materiality needs to take into account how primary users could reasonably be expected to be influenced in making economic decisions; and
- Refer to primary users in order to respond to concerns that the term users may be interpreted too widely.

The amendments are effective for reporting periods beginning 1 January 2020 and are required to be applied prospectively. The Group has however elected to early adopt the amendments as they allow for an enhanced understanding of the materiality requirements.

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
IFRIC23	*Uncertainty Over Income Tax Treatments* - Interpretation clarifying the accounting for uncertainties in income taxes. The adoption of IFRIC 23 is not expected to have a significant impact on the Group.	1 January 2019
AIP 2015-2017	Non-urgent but necessary clarifications and amendments to the following standards of IFRS: IFRS 3 *Business Combinations* IFRS 11 *Joint Arrangements* IAS 12 *Income Taxes* IAS 23 *Borrowing Costs*	1 January 2019
IFRS 16	*Leases* - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position. Detail regarding the changes, as well as the expected impact thereof, have been included below.	1 January 2019
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.	1 January 2019

58. New accounting pronouncements (continued)

New and revised International Financial Reporting Standards issued not yet effective (continued)

	Standard	Annual periods beginning on or after
IFRS 3	*Business Combinations* - Amendments to the definitions included in the appendix to IFRS 3 which will assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.	Acquisitions on or after 1 January 2020

Apart from the instances detailed above the Group is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

IFRS 16 - Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction a single lessee accounting model.

Applying the revised model, a lessee is required to recognise:

- a right of use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and
- depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

During 2018, the joint leases programme (incorporating corporate real estate services and finance) has focused its efforts on implementing the IT solution, which will ensure that leases are recognised and disclosed in terms of the requirements of IFRS 16, collating the required lease data, designing and testing new processes, and ensuring appropriate financial disclosures.

The effective date of IFRS 16 is 1 January 2019. The Group intends to apply the modified retrospective approach on adoption, with right of use assets measured retrospectively using the Group's transition date incremental borrowing rate. The implementation of IFRS 16 will give rise to an increase in property, plant and equipment (right-of-use assets) and liabilities with the difference between the two being recognised in retained earnings. Capital supply will be impacted to the extent of the retained earnings adjustment which is expected to be in the range of P 1 million decrease in retained earnings (net of deferred tax and the release of IAS 17 straight line reserves). Right of use assets will be risk weighted in line with the nature of the underlying assets.

Annexure to the annual financial statements
for the year ended 31 December 2018

59. Shareholders information

	2018 No. of Ordinary shares held	2018 % holding	Ranking	2017 No. of Ordinary shares held	2017 % holding
Absa Group Limited (AGL)	**577 964 146**	**67.82**	**1**	577 964 146	67.82
FNB Botswana Nominees (Pty) Ltd Re:BIFM BPOPF-Equity	**36 298 202**	**4.26**	**2**	35 838 202	4.21
FNB Botswana Nominees (Pty) Ltd Re: Ag BPOPF Equity Portfolio B	**27 070 497**	**3.18**	**3**	-	3.39
FNB Botswana Nominees (Pty) Ltd Re:AA BPOPF Equity	**26 664 335**	**3.13**	**4**	28 888 203	3.18
Motor Vehicle Accident Fund	**23 736 440**	**2.79**	**5**	23 736 440	2.79
Stanbic Nominees Re: BIFM	**22 470 520**	**2.64**	**6**	22 845 078	2.68
FNB Botswana Nominees (Pty) Ltd Re:IAM BPOPF Equity	**18 781 004**	**2.20**	**7**	18 665 198	2.19
FNB Noms Bw (Pty) Ltd Re:AG BPOPF Equity Portfolio C	**15 150 434**	**1.78**	**8**	-	1.78
FNB Botswana Nominees (Pty) Ltd Re:AG BPOPF Equity	**11 677 782**	**1.37**	**9**	16 667 782	1.37
Stanbic Nominees Botswana Re:AG Debswana Pension Fund	**9 042 398**	**1.06**	**10**	5 447 974	0.84
Stanbic Nominees Botswana Re:Investec DPF	**7 192 410**	**0.84**	**11**	7 192 410	0.64
Scbn (Pty) Ltd Re: IAM Metropolitan Life Botswana Policy	**4 108 886**	**0.48**	**12**	4 277 421	0.5
Stanbic Nominees Botswana Re:IBMF	**3 109 151**	**0.36**	**13**	2 876 556	0.42
FNB Botswana Nominees (Pty) Ltd Re:IAM BBBCSPF	**2 201 166**	**0.26**	**14**	2 191 761	0.34
FNB Botswana Nominees (Pty) Ltd Re:BIFM DPPF	**1 797 288**	**0.21**	**15**	1 407 288	0.26
Stanbic Nominees Botswana Re :BIFM BURSEPF	**1 772 754**	**0.21**	**16**	1 322 754	0.2
Scbn (Pty) Ltd Re: IAM Water Utilities Corp Pens Fund	**1 718 208**	**0.20**	**17**	1 712 103	0.2
Scbn (Pty) Ltd Re: IAM UB Defined Contribution Pension Fund	**1 668 256**	**0.20**	**18**	1 668 256	0.18
Defined Contribution Pension Fund					
SCBN(Pty) Ltd Re:BIFM WUC	**1 563 027**	**0.18**	**19**	-	0.17
SCBN (Pty) Ltd Re: SSB Parametric EM Fund	**1 539 465**	**0.18**	**20**	1 539 465	0.16
Others	**56 634 883**	**6.65**		97 920 215	6.7
Total shareholding	**852 161 252**	**100**		**852 161 252**	**100**

60. Value added statement

	Consolidated 2018 P'000	2017 P'000
Value created		
Income from services	**1 741 428**	1 619 616
Cost of services	**(214 242)**	(164 234)
Value created by operations	**1 527 186**	**1 455 382**
Non-operating income	**3 646**	6 475
Operating expenditure excluding staff costs and infrastructure costs	**(322 450)**	(236 401)
Total value created	**1 208 382**	**1 225 456**
Value distributed		
Employees - salaries and benefits	**418 754**	397 136
Shareholders - dividends	**259 935**	225 005
Government - taxation	**133 380**	126 029
Total value distributed	**812 069**	**748 170**
Value retained		
Retained income	**194 609**	207 096
Infrastructure costs	**107 976**	125 094
Total value retained	**302 585**	**332 190**
Total value distributed and retained	**1 114 654**	**1 080 360**

Notice to Shareholders

Annual General Meeting of the Shareholders of Barclays Bank of Botswana Limited

Notice is hereby given that the 33rd Annual General Meeting of shareholders of Barclays Bank of Botswana Limited will be held at Masa Hotel, Plot 54353, New CBD Corner Khama Crescent and Western Avenue, Gaborone on Thursday June 27 2019 at 12:30 for the following purpose:

1. To receive and adopt the Annual Financial Statements for the year ended 31 December 2018 together with the Directors and Independent Auditor's reports thereon.

2. To re-elect, as a Director, Oduetse Andrew Motshidisi who retires by rotation in accordance with Section 20:10 of the Constitution, and who being eligible, offers himself for re- election.

3. To re-elect, for a period of 12 months only as a Director, Alfred Dube who retires by rotation and in accordance with Section 20:10 of the Constitution, and who being eligible, offers himself for re-election.

4. To re-elect, for a period of 12 months only as a Director, Kenneth Molosi who retires by rotation and in accordance with Section 20:10 of the Constitution, and who being eligible, offers himself for re-election.

5. To approve the remuneration of the Directors for the ensuing year.

6. To approve change of the Company name from Barclays Bank of Botswana Limited to Absa Bank Botswana Limited with effect from the date set out in the Certificate of Change of Name recording the change of name, issued by the Companies and Intellectual Property Authority.

7. To approve the remuneration of the Auditors, KPMG Botswana, for the year ended 31 December 2018.

8. To re-appoint KPMG Botswana (KPMG) as Auditors for the ensuing year.

9. 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.

Further proxy forms are available at the office of the Company Secretary at Barclays Bank of Botswana Limited, Head Office, Barclays Prime Plaza, Plot 74358, Building Four, Central Business District, Gaborone, Completed proxy forms must be deposited there not less than 48 hours before the meeting.

BY ORDER OF THE BOARD

Dr. Kealeboga N. Bojosi
Company Secretary

Annexure to the Notice to Shareholders

Annual General meeting of the Shareholders of Barclays Bank of Botswana Limited

Agenda item 9. 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.

The list of the substantial gifts during the year ended 31 December 2018 is as follows:

1. Kuru Development Trust – P 338,910
   For the Annual Kuru Dance Festival that was held in August 2018

2. Sir Ketumile Masire Foundation - P 100,000
   To support the Sir Ketumile Masire Foundation Leadership workshops

3. Project Concern International - P 625,000
   Ready to Work Job Placement Pilot Programme and Training

4. Stepping Stones International- P 569,638
   Ready to Work Job Placement Pilot Programme and Training

5. The below payments were made for the scholarships awarded to masters students under the Barclays F.G Mogae Scholarship Fund.

University of Botswana	10 students	P 700 000
Botswana International University of Science and Technology	10 students	P 700 000
Botswana University of Agriculture and Natural Resources	10 students	P 700 000
Botswana Accountancy College	8 Students	P 644 520

Proxy Form

Please complete in block letters.

I / We _____

of _____

being a shareholder of Barclays Bank of 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 33rd Annual General Meeting of the Company to be held at Masa Hotel, Gaborone on Thursday 27th June 2019 at 12:30hrs.

As witness my hand this_____ day of _____2019

Signature _____

Witness _____

Note:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.
2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/ signatories.
3. This form of proxy should be signed and returned so as to reach the Registered Office of the Company, Head Office, Barclays Prime Plaza, Fifth Floor, Building 4, Plot 74358, Gaborone, Central Business District no later than 48 hours before the meeting.

BARCLAYS