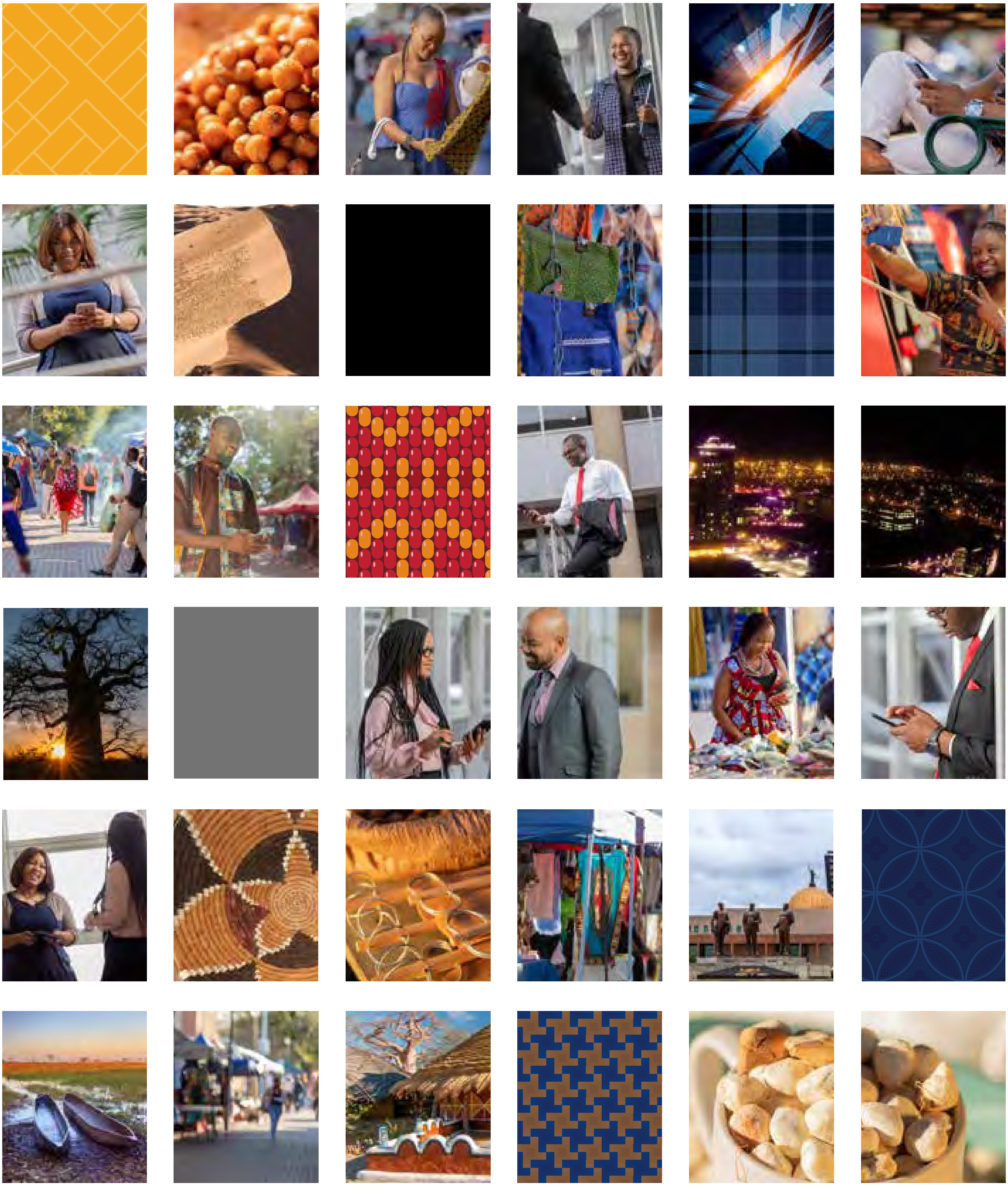
PREPARING FOR THE FUTURE

ANNUAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2018

BancABC
part of
atlasmara



GROUP OVERVIEW

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PREPARING FOR THE FUTURE

Since 2009, BancABC Botswana has journeyed with its clients to help them facilitate some of their most important life and business goals.

Our pioneering heritage and our unique way of addressing our clients' most pressing challenges has allowed us to become the preferred bank for many of our clients - clients that we are committed to growing with into the future.

We recognise the role that our technology infrastructure and operational efficiency plays in fulfilling our purpose to invent and reinvent financial solutions that empower our customers to fulfil their dreams along each stage of their life journey. We, therefore, dedicated much of the 2018 financial year to improving our holistic service offering to deliver a much smoother banking experience to our clients.

Firstly, we improved the availability, reliability and efficiency of our core banking system to enable enhanced system performance and transactional channel uptimes. We would later raise additional funding to support the Bank's transformation journey by listing on the Botswana Stock Exchange Limited (BSEL) in December 2018. These are only a few of the changes and investments made into the Bank in 2018 to signal our commitment to building the right platforms and solutions that will help us turn our partners' dreams into a reality.

We firmly believe that the best way of predicting the future is by creating it. We are confident of our ability to deliver an exciting future based on the work done in the prior year in preparation of the Bank's next phase of growth.

2010

BancABC **opened the first branch** at The Square (New CBD)

2011

The first bank to launch the full suite of **Debit, Prepaid and Credit Chip & PIN cards** in Botswana

2012

Launched **the first** 100% mortgage finance offering

2013

Launched **the first Visa card partnership** between a **bank and insurer** with **Botswana Life Insurance Limited**

2014

Launched **the first mobile wallet Visa companion card with** Orange Money Botswana

2014

voted

Best Retail & SME Bank in Botswana

by the Global Banking & Finance Review

2016

Launched **Mobile banking**

2018

Launched the unique **Clan Cover Funeral Policy** covering up to 20 **extended family members**

2018

Became a

GEMVAS

(Government Employee Mortgage & Vehicle Assisted Scheme) partner

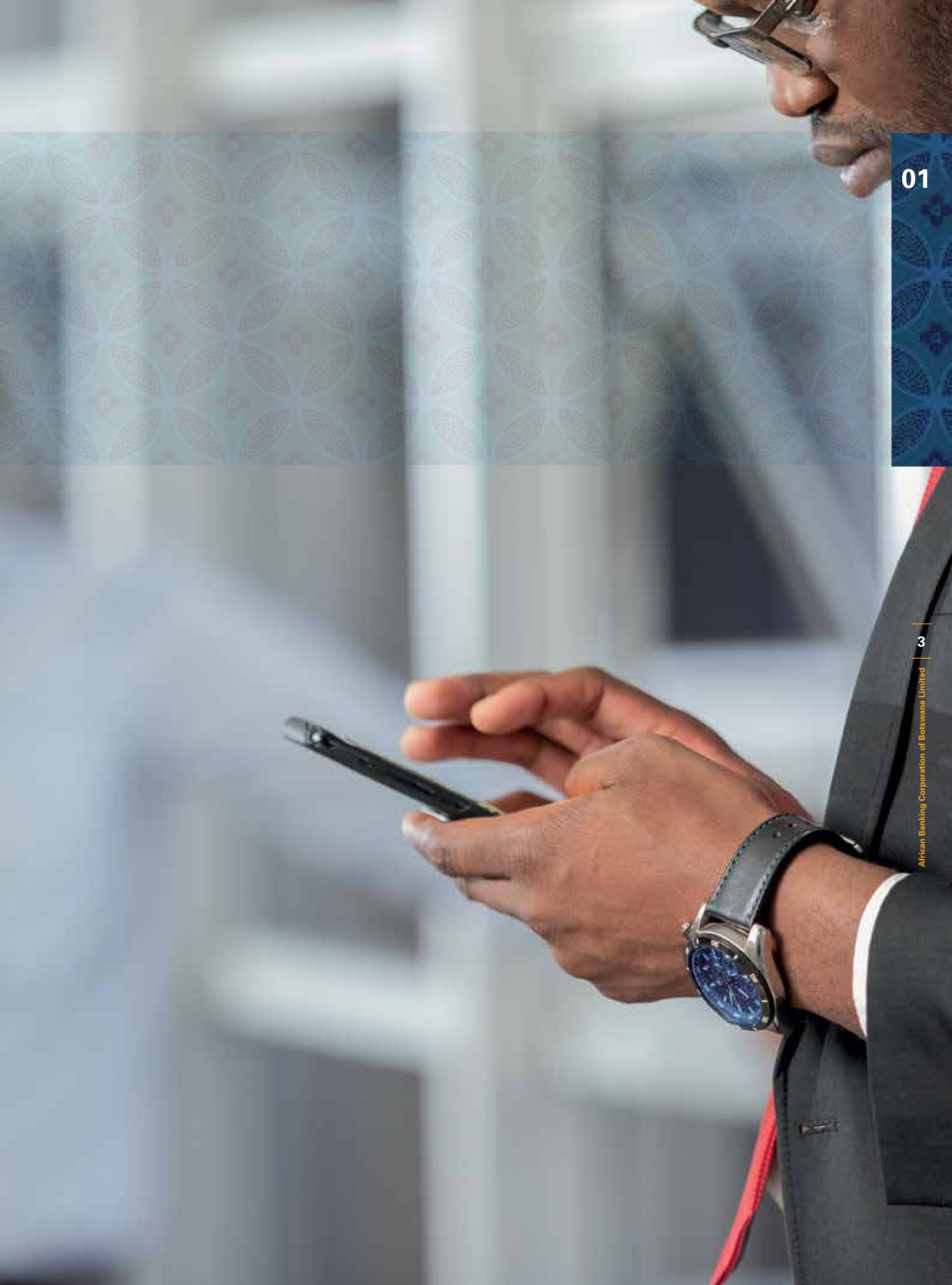
Selected as

partner of choice

and launched the

GOVERNMENT OF BOTSWANA VISA PULA CARD

GROUP OVERVIEW



01

PERFORMANCE SUMMARY

Financial

Revenue
P569.9m
F2017: 553.1 million

Expenses
P404.5m
F2017: 374.0 million

Profit After Tax
P128.2m
F2017: 139.2 million

Gross Loans
P6,123.7m
F2017: P5,899.8 million

Customer Deposits
P7,192.5m
F2017: 6,059.9 million

Total Equity
P972.8m
F2017: 1,065.3 million

Cost to Income
73.4%
F2017: 62.1%

Return on Equity
12.6%
F2017: 14.0%

Key Performance Indicators

Consolidated	2018 P'000	2017 P'000
Profit for the year	128,182	139,162
Total comprehensive income	131,645	137,992
Taxation	(37,234)	(39,960)
Net assets	972,801	1,065,305

PAGE Refer to page 34 to 39 for additional information on the financial review section.

Strategy

i) 2018: Preparing for the Future
Fixing and getting the right technologies for both the present and the future. Retaining the business of key schemes that were coming up for renewal and building capacity to acquire market share through an improved customer value proposition.

ii) 2019
Continue the transformation and launch of customer-facing digital platforms intended to make the Bank a transactional bank and begin to acquire market share.

iii) 2020-2021
Accelerate transformation momentum and begin to make inroads into being a Top 3 Bank.

People

Localisation of Top Management

92%

85%
F2017

Employee Awards

Lorato Koko
Disruptor Award (Annual Award)

Thapelo Senabye
Outstanding Individual (Quarterly Award)

Bobi Sithole
Service Excellence Award (Quarterly Award)

Employees

425

as at 31 December 2018

F2017: 392

Percentage of Women at Management Level

54%

F2017: 51%

MESSAGE FROM

LORATO MOSETLHANYANE

CHAIRPERSON

Dear Stakeholder,

It is a great pleasure for me to present our 2018 Annual Report – the first since our listing on the Botswana Stock Exchange on 13 December 2018. The listing was the culmination of the hard work done by our team to enable Batswana to become active participants in the Bank's exciting next growth phase.

The listing allowed ABC Holdings Group to raise the funding needed for investment into the tools and technology required for future growth and transformation of the subsidiaries, and enable us to take advantage of opportunities presented in the market. In fact, it was more than that; it was also a demonstration of BancABC's commitment to all our stakeholders within Botswana from our employees and customers, and to Botswana as a whole.

OVERVIEW

2018 was a truly transformational year for the Bank and only the beginning of so much more as the Bank writes the next growth chapter in our journey to becoming a Top 3 Bank by end of the financial year 2021. The Board is pleased with the Management Team's effort, which produced yet another set of positive results, albeit slightly lower than the prior year.

2018 came along with market-wide challenges that had a negative impact on the Bank's performance. The Bank had to deal with a full year's impact of record-low interest rates, which led to further margin compression. This was not helped by delays in Government budget allocation to certain key institutions and reduced Government spending, both affecting market liquidity leading to increased deposit rates.

2018 also marked the Managing Director's first full year of strategic execution after approving his turnaround strategy in late 2017. We are greatly pleased that, in this time, the Bank completed plans to double its presence in areas outside of Gaborone with the addition of four brand new Sales and Service Centres, while also completing the infrastructure migration of the Bank's core banking system to more modern data centres. These changes are expected to enhance our clients' overall experience of the Bank's physical and digital presence points.

PERFORMANCE HIGHLIGHTS

The Bank returned acceptable results in the face of the listing on the BSE and significant investment into transforming the business within a challenging macro-economic environment. We are aware of earnings variability emanating from a reliance on interest income. Investments are being made to ensure better management and control of this from the second half of 2019.

While performance for the year reflects the declining net interest margin, this was balanced by pleasing growth in non-interest income and impairment releases post the implementation of IFRS 9. The Bank's return on equity tapered during the year under review to 13% as a lot of effort was expended in talent acquisition, improving governance structures and processes, and strengthening the Enterprise Risk Framework.

STRATEGY REVAMP

The Board approved a three-year strategy for the Bank prior to the listing, covering the years 2019 - 2021. 2018 was a year of fixing the basics, and this will continue into the first half of 2019. This exercise was aimed at retaining the existing large-core workplace lending scheme business relationships, which are a key part of the Bank's current revenue base; as well as remediation of the electronic infrastructure and capacity to provide a solid base from which to support current operations. A strategy refresh was necessary post the listing to focus on accelerated transformation in order to consolidate the Bank's fourth position in the market and begin to grow market share.

The revamped Strategy is focused on three main areas –

- Diversifying our business concentrations in both the Corporate and Retail businesses;
- Growing our Corporate and Small, Medium Enterprises business; and
- Increasing market share by developing a compelling customer value proposition underpinned by electronic banking and digital capability, supported by an appropriate distribution strategy.

Beyond a competitive lending proposition which has already been achieved, the digital transformation is focused on enabling customers to move money from any store of cash across multiple platforms at their convenience.

All of this is to be underpinned by excellent customer service.

A lot of effort was expended in talent acquisition, improving governance structures and processes, and strengthening the Enterprise Risk Framework.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

In 2018, the Board and Management spent a considerable amount of time working on strengthening the Bank's control environment to align it with best practice and embedding further controls to ensure that the organisation is fit for growth. This included the hiring of key resources with international banking experience: a new Head of Risk, Head of Credit and, subsequent to year-end, a new Chief Operations Officer. The Bank is in the process of appointing a Head of Internal Audit following the departure of the previous incumbent.

The Bank also completed development of its Enterprise Risk Framework and is working on hiring resources to further strengthen the First Line of Defence in the organisation at business unit level in order to move more comprehensively to a Combined Assurance Model.

The Bank's Audit Committee has done tremendous work in ensuring that a balanced combined assurance approach will begin to take root in the year ahead.

The Bank continued to make investments in Compliance with Anti-Money Laundering (AML) and Customer Due Diligence (CDD) improvements in the year. It acquired and commissioned sophisticated systems to automate Anti-Money Laundering alerts.

A review and renewal of Know Your Customer (KYC) documentation was undertaken for a significant part of the customer base to ensure alignment with regulations. Compliance will continue to be a focus area going forward given the significant number of new regulations announced during the review period which are expected to become effective in the years ahead.

The Board was strengthened this year with the appointments of Messrs Joshua Galeforolwe, Boiki Tema and Mrs Ntoti Mosetlhe. To have colleagues of this calibre agreeing to serve the Bank is a great positive for our Corporate Governance, effectively doubling the number of Non-Executive Directors to ensure we can continue to exercise a much deeper level of Governance consistent with the demands of a listed company. I hope that my appointment as Board Chairperson will also contribute to strengthening the Board's overall effectiveness.

OUR EMPLOYEES

The Bank continued to invest in its employees over the year.

This will play an important role as we move towards sustaining a high-performance culture and will undoubtedly underpin the Bank's commitment to excellent customer service.

Part of our transformation agenda means having the right talent in place to deliver the strategy and fulfil our commitment to all stakeholders. As such, we are excited to have the previously mentioned new members join at Senior Management level to not only enhance governance, but to deliver value to our clients and shareholders.

The Bank made a number of investment hires at Middle Management levels as well, in order to inject talent in areas where the Bank seeks to make greater progress in the year ahead.

OUR CUSTOMERS

Special appreciation must be shown to our loyal customers, who continue to support the Bank along its growth journey.

The Bank made significant strides during the year in ensuring remediation of infrastructure issues that impact customer satisfaction – starting with the migration of our core banking platform in late August to a more stable infrastructure. Improvements in card and ATM stability are scheduled for completion in early 2019.

The majority of the IPO funding will see functional, performance and stability improvements made to our clients' most frequently used digital channels, i.e. mobile banking, Internet banking for corporates, card and ATM platforms.

We appreciate our clients need to access their funds from wherever and whenever and we continuously endeavour to provide them with the most convenient platforms and services to make their financial dreams a reality.

Part of the Bank's transformation agenda means having the right talent in place to deliver the strategy and fulfil our commitment to all stakeholders.

OUR COMMUNITY

2018 saw the Bank continue to make investments within the local community.

The causes selected relate to the brand's desire to build closer ties with the public and is premised on benefiting the local community in addition to promoting meaningful and sustainable community-based initiatives.

Through the various donations and projects implemented over the year, we were able to deliver on this key element of our strategy. The construction of a house in the Central District and a wheelchair donation to a student in Letlhakane are just two initiatives that underscore our commitment to positive social impact and improving the quality of life for those we serve.

DIVIDEND PAYOUT

Given that the Bank listed on the Botswana Stock Exchange less than five months prior, no dividend was paid at that time.

However, the Bank intends to maintain its dividend pay-out ratio of about 40% of profits from full year 2019, subject to it maintaining healthy capital adequacy ratios and provision made for future growth opportunities.

Lorato Mosetlhanyane
Chairperson

2018 marked the company's first set of results following our successful listing on the Botswana Stock Exchange. We returned another year of consistent profitability in an increasingly challenging operating environment with headwinds of reducing liquidity and narrowing margins as the cost of funding tightened for the industry as a whole.

MESSAGE FROM KGOTSO BANNALOTLHE

MANAGING DIRECTOR

The theme for the year was "Preparing for the Future" as we seek to embark on a phase of further growth with the business focused on:

- Making key investments in technology infrastructure to refresh from old technology that was beyond end-of-life and negatively impacting delivery of services to the customer; and
- process improvements for efficiency gains.

Profit after tax was P128 million, marginally 8% down from the year prior. It was a year of pleasing growth on the key balance sheet metrics. The business recorded healthy balance sheet growth exceeding key milestones for the first time – Assets increased by 12% to exceed P9 billion while Customer Deposits grew by 19%, topping P7 billion, also for the first time.

This positive traction should continue as the business refreshes its value proposition in the year ahead in order to gain market share and increase the customer base.

Revenues rose by 3% led by an encouraging increase of 18% to P133 million in Non-Interest Income. Interest Income decreased substantially given tighter liquidity conditions that prevailed for most of the year and, as a result, significantly drove up the cost of deposits while interest margins on lending declined in line with a 50bp rate cut by the Bank of Botswana on 24 October 2017.

The business is aware of its over-reliance on interest income and has been taking measures to ensure a more balanced revenue mix. This is evidenced by the substantial increase in Non-Interest Income as these efforts begin to show traction.

Expenses grew a moderate 8% despite investments made during the year which drove up costs particularly on the technology and human capital fronts. The Bank increased its permanent headcount by 20% as we turned several long-standing but temporary positions into permanent positions in order to reflect the staffing and headcount requirements of the business at current operational levels.

The business realised an impairment release given the first year of IFRS 9 reporting, taking in a substantial IFRS 9 Day 1 adjustment in line with an impairment model choice made of a single default given existing data quality. The business expects further release of this Day 1 impact in the years ahead as more improvements to model inputs are made and a less stringent impairment methodology, reflective of the quality of data, becomes a viable choice.

The Bank will continue to make the necessary investments into the business in the first half of 2019 in order to continue to diversify its customer base and income streams as part of its four-year strategy to become a Top 3 Bank.

STRATEGIC PERFORMANCE AND DEVELOPMENTS

2018 marked the first full year of the Bank's execution of our three-year Strategy. Central to the strategy is a desire to consolidate the Bank's 4th position in the market, thereby remaining among the ranks of preferred banks for both institutional and retail customers. The Bank intends to embark on a further phase of growth and has identified the following key Strategic Pillars for the years ahead:

i) 2018: Preparing for the Future
This year's priorities remained to attract funding and making key investments into fixing and getting the right technologies for both the present and the future. The year also included retaining the business of key schemes that were coming up for renewal and beginning the necessary transformation to build capacity to acquire market share in the years ahead through an improved customer value proposition – better customer service and a complete and more relevant product offering delivered in a convenient manner via a complementary distribution strategy led by digital capability.

ii) 2019
Continue the transformation and launch of customer-facing digital platforms intended to make the Bank a transactional bank and begin to acquire market share.

iii) 2020-2021
Accelerate transformation momentum and begin to make inroads into being a Top 3 Bank.

In all the above, the Bank remains clear about the need to deliver acceptable returns to its shareholders.

2018 was hence the first year of execution of our strategy – a year dedicated to Preparing for the Future through concerted effort to Fix, Retain and Transform the Bank as per the above.

The Bank made great strides in its execution of the Strategy:

01 Preparing for the Future by Ensuring the Right Funding to Execute our Strategy

- The Bank listed on the Botswana Stock Exchange Limited at the end of 2018 in order to raise funding for the Group to invest in the systems and architecture required for it to execute the digital enhancements necessary for its second phase of growth. The listing also attracted key stakeholders into our shareholding and raised the profile of the business in Botswana.

- We successfully refinanced, at a lower rate, the Tier II Capital from ABCH Group with Botswana Development Corporation, thereby accessing further liquidity for the Group for other investments and reducing our cost of funding.

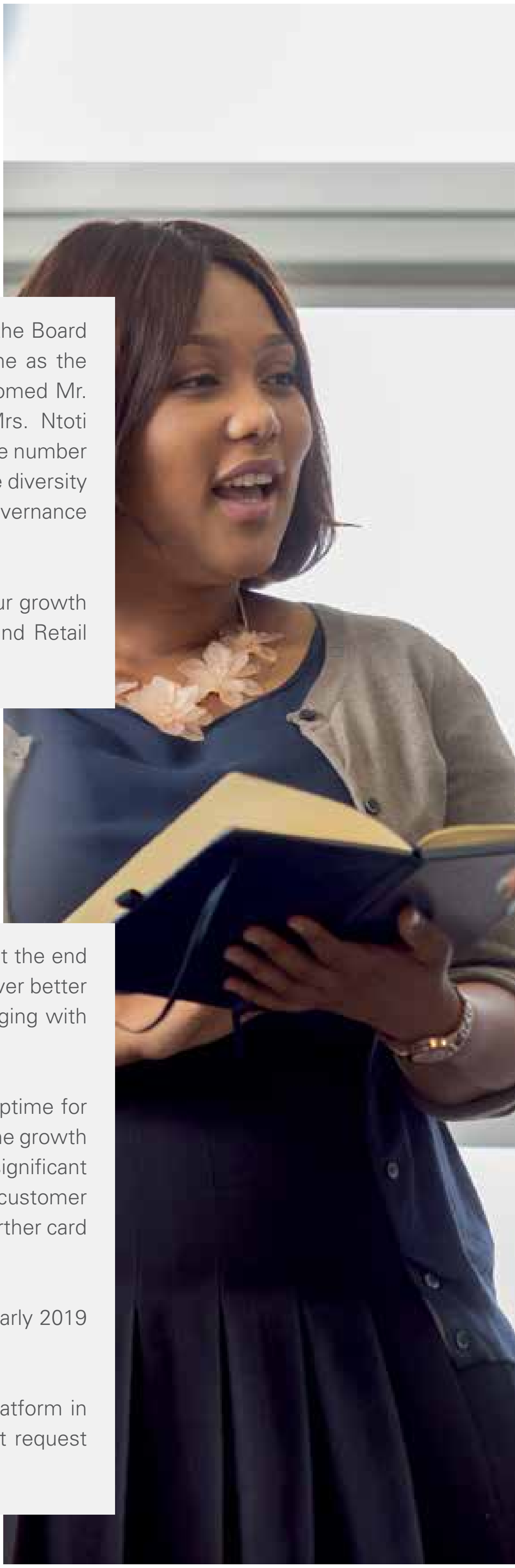
- The Bank made great progress in its project to build and launch in the first half of 2019 a Corporate Online Transactional Banking Platform in order to attract cheaper funding in the form of current and savings accounts, and to become a transactional bank for key corporates as part of its growth strategy.

02 Preparing for the Future by Ensuring we have the Right People to Execute our Strategy

- The Bank improved its Governance structures by completing the Board composition. The Board appointed Mrs. Lorato Mosetlhanyane as the Chairperson of the Board of Directors. Additionally, we welcomed Mr. Joshua Galeforolwe as Senior Independent Director and Mrs. Ntoti Mosetlhe and Mr. Boiki Tema to the Board. This has doubled the number of Independent Directors on our Board and provides us with the diversity and capability to be a more robust Board with strong governance principles as is expected of a company listed on the BSE; and
- We made key investment hires, acquiring talent in line with our growth ambitions and rebuilding capacity in the Corporate Banking and Retail businesses.

03 Preparing for the Future by Ensuring that we Refresh our Technology Estate to Ensure Better Service Delivery for our Customers

- The Bank moved its core banking suite to new infrastructure at the end of the August 2018. This was to ensure greater stability to deliver better uptime and sustain the business as key concerns were emerging with system capability;
- We revamped our card infrastructure and enabled improved uptime for our card portfolio. Given the number of card partnerships and the growth experienced in this area, the ageing infrastructure with its significant downtime and outages at month end was negatively impacting customer confidence. In the years ahead, we will be looking to access further card infrastructure modules in order to expand functionality;
- We revamped our ATM infrastructure and implementation in early 2019 to ensure further stability; and
- We added further functionality to our Mobi mobile banking platform in line with customer demand. This included enabling statement request and recent transactions view.



04 Preparing for the Future by Ensuring we Retain and Win New Key Schemes Business to Provide a Good Base from which to Execute our Strategy

- We successfully renewed two of our largest schemes' business for the years ahead;
- We began to win new Workplace Banking Arrangements; and
- We partnered with the Government of Botswana on the launch of the PULA Card, which grows our presence in Botswana and also assists with financial inclusion for the unbanked.

05 Preparing for the Future by Building our Distribution Strategy with New Presence Areas

- We relocated our Palapye Branch to a new mall in Palapye for increased capacity, visibility and accessibility; and
- We significantly advanced our distribution capability and growth with Service Centres completed and awaiting Central Bank approval to operate in Letlhakane, Kanye, Molepolole and Ghanzi. This will effectively double our footprint outside of Gaborone. The Sales and Service Centres are intended to reduce customer effort to access cashless services, except for cash handling.

OUTLOOK

The Bank has made significant strides in execution of the Strategy in 2018. Further efforts will be made to complete the work in the first half of 2019 to ensure that we can deliver the competitive products and services necessary for the growth of the Bank in the years ahead. We are focussed on execution of a clearly laid out Strategy that should bring acceptable returns to shareholders. We remain committed to our desire to make BancABC Botswana a Top 3 Bbank by the end of 2021.

Kgotso Bannalotlhe
Managing Director

FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2018

INCOME STATEMENT

Profit After Tax	P128.2m	-8%
Non-Interest Income	P133.0m	18%
Interest Income	P748.9m	-2%
Changes in Expected Credit losses	P18.9m	-139%
Total Expenses	P404.5m	8%

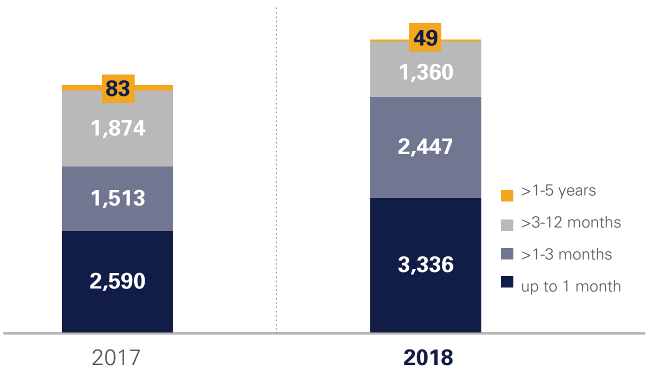
BALANCE SHEET

Assets	P9,130.6m	12%
Gross Loans	P6,123.7m	4%
Customer Deposits	P7,192.5m	19%

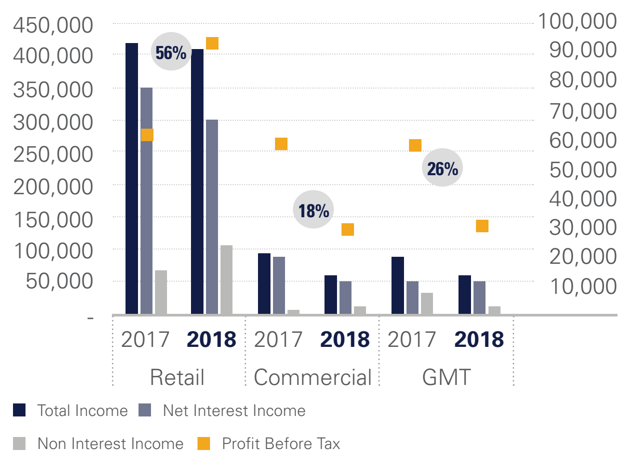
KEY RATIOS

CTI	73%	11%
LDR	81%	15%
ROE	13%	1%

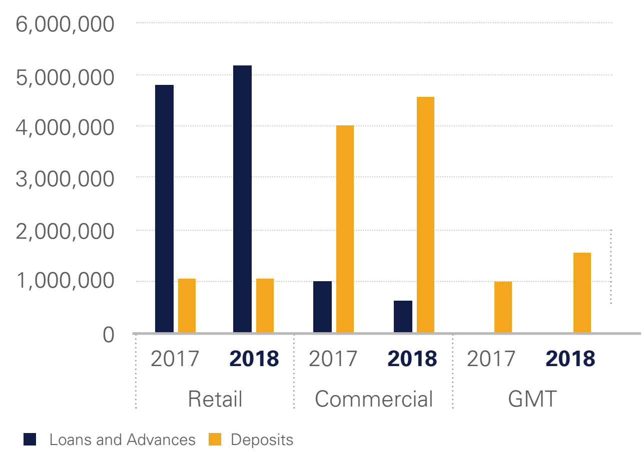
Deposits by Tenor (P'000)



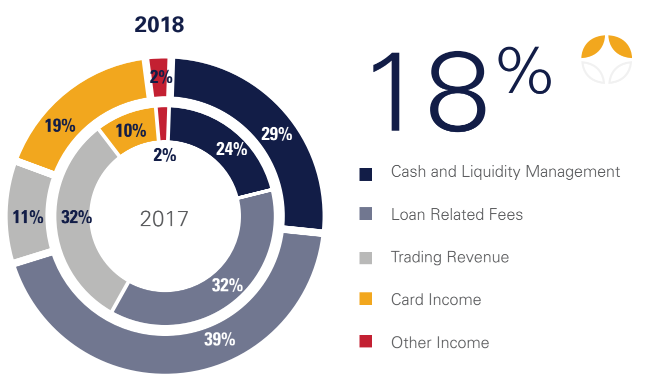
Income Profitability (P'000)



Customer Loans and Deposits (P'000)



Non interest Income Breakdown



CHIEF FINANCIAL OFFICER'S
REVIEW OF FINANCIAL PERFORMANCE
FORTUNE TAKAINDISA

The economy showed signs of better than expected recovery, having grown by an average of 4.6% in nine months of 2018 led by a recovery in the mining sector.

ECONOMIC DEVELOPMENTS

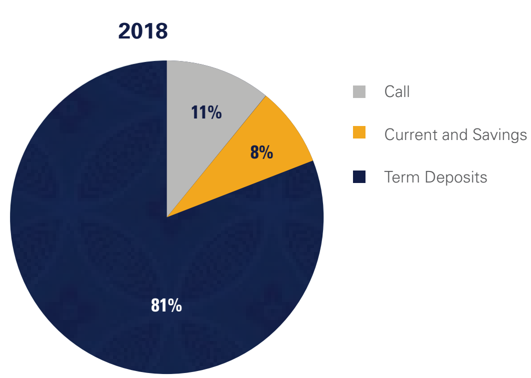
Looking ahead into 2019, economic growth is expected to remain around 4.5% although a weakening global expansion amid growing risks may hamper this.

Trade and hospitality, now the largest sectors in terms contribution to GDP, may benefit from the favourable diamond price outlook and expected improvement in tourism flows. The strong performance in the non-mining sector reflects the positive impact of the fiscal stimulus.

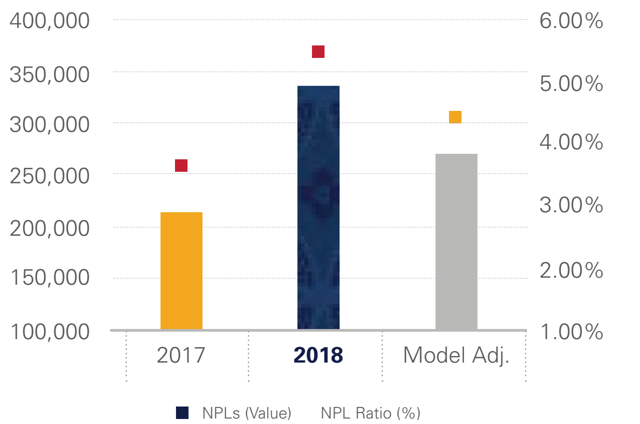
In the banking sector, private sector credit growth was muted. This was largely attributed to restrained growth in personal incomes and relatively high levels of household debt. Given the favourable inflation outlook, an accommodative monetary policy is expected to remain in place in the medium term.

Although starting from a low base, the moderate rebound in private sector growth which commenced in the second half of 2018 is expected to continue in 2019, underpinned by a strong mining sector and increased Government capital spending.

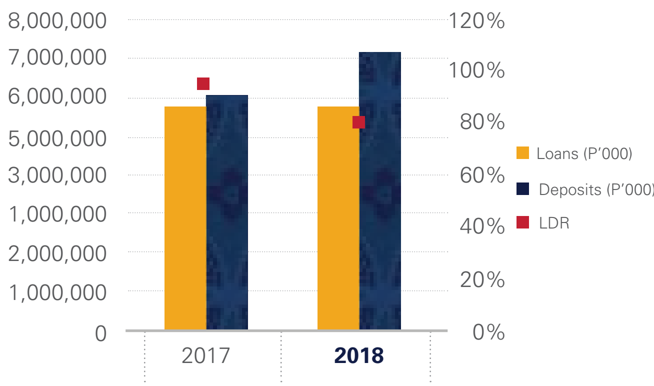
Deposit by Type (P'm)



Non Performing Loans (P'000s)



Loans Deposit Ratio (LDR)



The downside risks relate to soft household demand for credit. The sector-wide non-performing loan (NPL) ratio fell to 4.8% as at June 2018, down from 5.2% a year earlier. Asset quality is expected to continue improving on the back of increased Government spending on infrastructure, which should support significant growth in the construction industry.

Banking sector deposit growth was sluggish on account of weak household wage growth.

However, increased private sector activity in 2019 should support deposit growth.

FINANCIAL PERFORMANCE

The Bank's net Profit After Tax of P128 million was 8% down on the prior year. Customer deposits closed at P7.2 billion which was 19% above prior year, resulting in a healthy Loan to Deposit Ratio (LDR) and Liquid Asset Ratio (LAR) of 81% and 18.04% respectively.

The significant increase in customer deposits was invested in Bank of Botswana Certificates (BOBCs) and Treasury bills which increased by 84% to P1.2 billion. The increase was mainly to cater for anticipated first quarter loan disbursements as well as to provide liquidity for deposits considered transitory. The Bank's return on equity tapered during the year under review to 13% as a lot of effort was expended in improving governance structures, processes and the enterprise risk framework.

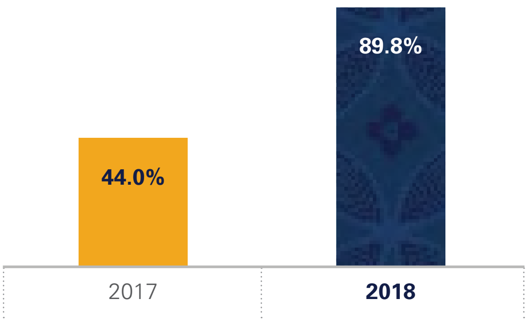
Financial Indicator (P'm)	Dec 2018	Dec 2017	% Variance
Profit after tax	128	139	-8%
Loans and advances	5,809	5,795	0.2%
Customer deposits	7,192	6,060	18%
Total assets	**9,130**	**8,128**	**12%**

TOTAL INCOME

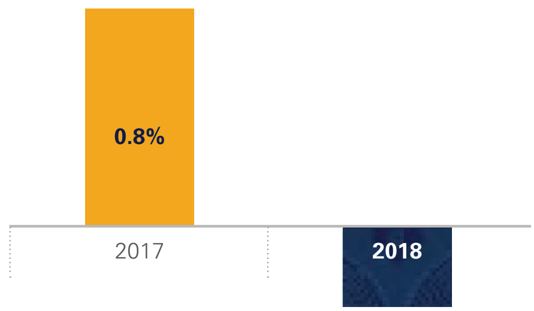
Net interest income at P418 million was 15% below that of the prior year. The net interest margin narrowed by 1.2% to 5.2% reflecting the higher cost of funding which increased by 0.5%, and a decrease of 0.7% in average yields on interest bearing assets. Margin compression was a result of the full year impact of the 0.5% reduction in the bank rate in October 2017 as well as the general softening of yields on the consumer loan book and the change in asset mix after a significant increase in liquid assets.

The Bank's cost of funding increased slightly as a result of tight liquidity in the first half of the year. The Bank also incurred high deposit interest rates during the first half of the year because of the market liquidity squeeze and the Bank's funding structure which is heavily skewed towards term deposits and wholesale funding. Customer deposit interest rates only softened in the last quarter of the year. The cost of Libor-linked (London Inter-bank Offered Rate) borrowings also contributed to the increase in funding costs.

Coverage Ratio



Credit Loss Ratio



Non-funded income of P133 million is 18% higher than in the previous year. Lending-related charges contributed 44% of non-funded income which was 41% above that of the prior year, reflecting the adjustments on the pricing regime of some of the retail lending portfolio. Customer service fees of P25 million contributed 28% to total income and was 44% above prior year as a result of an increase in the services which are being charged for after a review of service offering and related pricing. The increase in fees was partially offset by the reduction in foreign exchange trading income which declined by 59%. The reduction can be attributed to a reduction in volumes and margins as well as trading losses on the Bank's proprietary book.

CHANGES IN EXPECTED CREDIT LOSSES AND IMPAIRMENTS

The Bank adopted the IFRS 9 impairment calculation methodology at the beginning of the year. During the review period, the Bank had a net impairment release of P19 million.

The net charge comprised of impairment release emanating from the improvement in expected credit loss coverage ratios.

The expected credit loss ratios for all financial assets considered for impairments improved from 4.95% as at 1 January 2018 to 3.72% as at 31 December 2018. Generally, all lending products experienced improvements in coverage ratios as depicted in the 'Expected credit losses coverage ratio' table below. The improvements were largely a result of continued efforts during the year to improve the quality of model inputs.

Expected credit losses coverage ratio

Product	Dec - 2018	Dec - 2017
Consumer loans	5.83%	6.67%
Mortgage lending	1.52%	4.44%
Corporate lending	1.83%	5.86%

OPERATING EXPENSES

Operating expenses at P404 million increased by P30 million or 8% when compared to the prior year, reflecting inflationary increases, capacity building and investments in infrastructure. The increase in operating expenses of P30 million from the prior year was a result of an increase in staff costs (P 18 million), IT (P4 million) and depreciation (P4 million). The increase in staff costs was influenced by salary adjustments and increase in headcount in line with the Bank's thrust to build capacity across all business segments.

The increase in operating costs was partly offset by the reduction in commission expenses which reduced by P15 million.

Description (P'm)	Dec-18	Dec-17	% Variance
Staff costs	145	127	14%
Shared service costs	51	54	6%
Other operating costs	140	133	5%
Marketing	10	10	-3%
Information technology	31	26	19%
Depreciation and amortisation	26	22	-18%

BALANCE SHEET

The significant customer deposit growth in the last quarter of the year resulted in the Bank reaching another significant milestone with customer deposits and balance sheet size surpassing P7 billion and P9 billion respectively for the first time. The customer deposit balance at P7.2 billion was 19% above prior year. Part of the deposit growth transpired in the last quarter of the year and was to provide liquidity for anticipated repatriation of special funds and levies to the Central Bank and preparing for first quarter disbursements. Most of the deposit growth was invested in short term liquid assets. The deposit growth largely emanated from commercial banking and global markets which grew by 14% and 56% respectively.

The loan book at P5.8 billion remained constant compared to prior year, with the Retail loan book growing by 8% compared to prior year. Lending was constrained in the first half of the year due to slow growth on deposits. Lending picked up in the second half of the year as deposit inflows improved. Commercial loan book at P629 million was 36% below prior year. Lending to corporates will continue to be reviewed in line with improvements in the cost of funding to maintain profitability. In the short-term, whilst investments are being made to be a transactional business, the Bank will prioritise value add business.

CAPITAL ADEQUACY

The Bank's unimpaired capital and risk weighted assets stood at P1.3 billion and P7.4 billion respectively, resulting in a capital adequacy ratio of 17.7%. Internal capital generation for the year contributed 200basis points to capital adequacy. The current capital base and forecast profits are sufficient to meet the 2019 Bank's growth prospects as well as its dividend commitments.

During the year, the Bank refinanced the Tier 2 capital from the holding company (ABC Holdings Ltd) of P131 million with a 10-year loan of P150 million raised from a leading local institutional investor.

SEGMENTAL REPORTING

Retail Banking Performance

Retail Banking posted a significant increase in profitability of 50% compared to prior year. The notable improvement in performance was on the back of significant impairment releases. Despite the 8% increase in the loan book, net interest income decreased by 14% owing to the high cost of funding and softening lending yields.

Non-interest income increased by 60% as a result of increased card volumes, increased lending activity and a reviewed pricing regime on some of the Bank's products. Expenses were well contained, increasing by only 0.3%. Traction on deposit raising was slow,

resulting in deposits actually reducing by 2% to P1 billion. The 8% increase in the loan book was funded by the Commercial Banking and Global Markets.

Commercial Banking Performance

There was a significant drop in profitability for Commercial Banking largely emanating from the steep 43% drop in net interest income and a 54% increase in expenses. Non-funded income increased by 13% on the back of increased trade finance volumes.

Lending volumes fell substantially from P980 million to P629 million. This was because of a strategic decision to apply available funding to high margin business given the current high cost of funding. Deposits increased by 14% from P4 billion to P4.6 billion.

Global Markets

Global Markets reported a significant decline in performance with net profit after tax of P42 million being 26% below prior year. Net interest income increased by 32% benefiting from the liability margin as deposits were raised at much reduced interest rates.

Foreign Exchange trading revenues declined by 59% largely as a result of margin compression, lower volumes and trading losses on the Bank's proprietary position. Customer deposits at P1.6 billion increased by 56%. Financial assets at amortised costs which are held mainly to support the Bank's liquidity stood at P1.2 billion, a considerable increase from the prior year's holding of P633 million.

2019 Forecast
Economic Growth
is expected to
remain at 4.5%

F2018: 4.5%

Off Balance Sheet Items

Description (P'm)	Dec-18	Dec-17	Variance	% Variance
Letters of credit	388	417	(29)	-7%
Guarantees and Bonds	109	150	(41)	-27%
Commitments	65	150	(85)	-57%
Forward Contracts	77	22	55	247%
Total	**639**	**739**	**(100)**	**-14%**

Off balance sheet items reduced by 14% to P0.6 billion. Though the balances were lower at year end, there was a lot of activity on the trade finance desk during the year with most of the transactions being of a short-term nature. The Bank realised a significant increase in trade finance income on the back of the short-term transactions. Focus for 2019 will be to grow this line of business which is not heavy on capital allocation.

OUTLOOK

The Bank achieved a modest performance in 2018, which was slightly lower than prior year. Efforts are already underway to strengthen and improve the performance for 2019 through a number of initiatives which include enhancing the customer value proposition by introducing more channels, products and ensuring high system availability.

The Bank's risk appetite was reaffirmed during the year and a lot of effort went into strengthening the bank's risk governance structures so as to protect the bottom line. Significant building blocks have been put in place to prepare the Bank for the future. The core banking infrastructure was stabilised and a road map on all other critical systems was finalised towards the end of 2018. Roll-out of key transactional platforms have already started in earnest as it is a key driver in the transformation of the Bank's balance sheet and future growth capacity.

GROUP REVIEWS

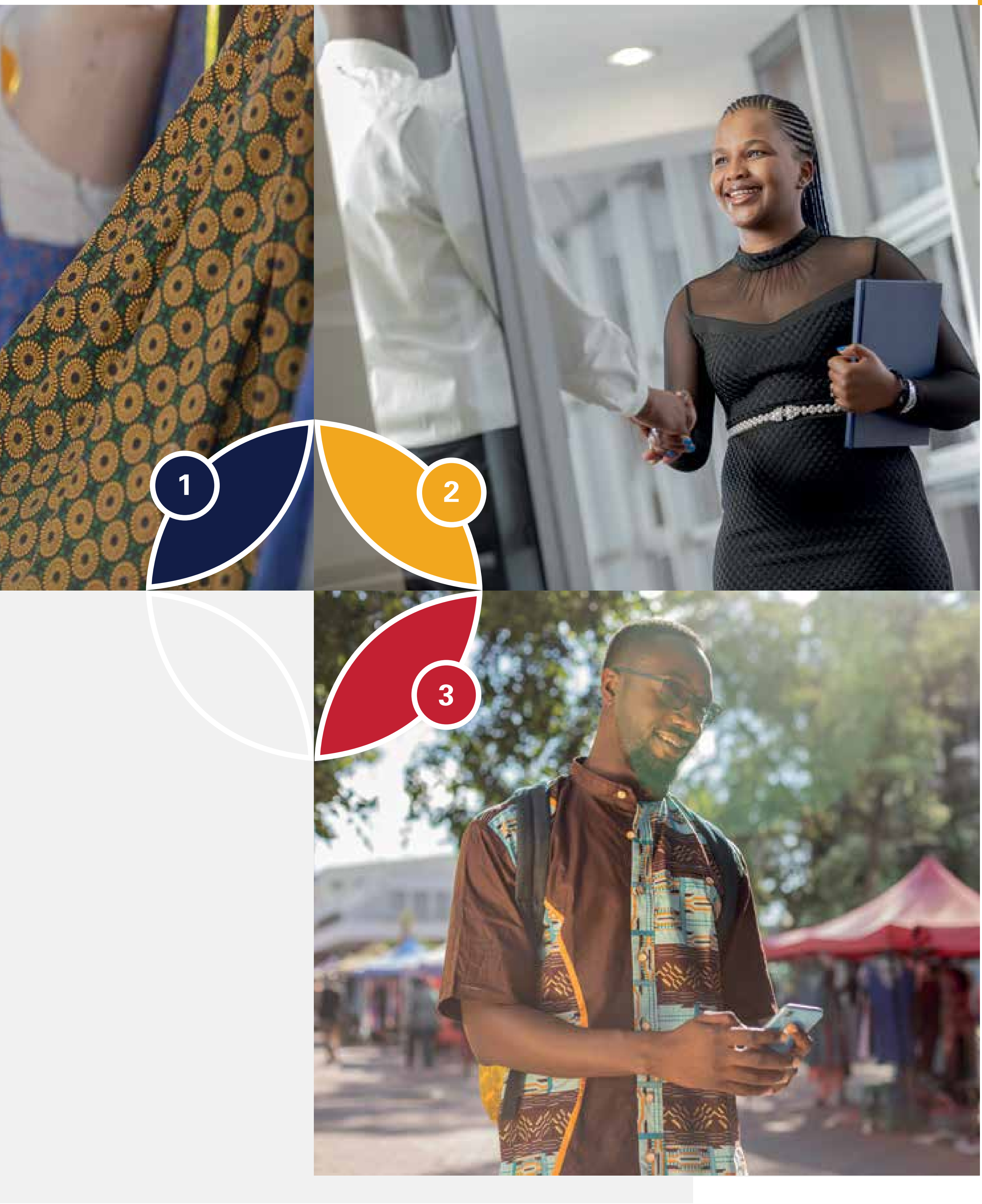
02

GROUP STRUCTURE

1 Retail & Digital Banking

2 Commercial Banking

3 Global Markets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RETAIL BANKING

Our customer-focused business operations are currently directed at two distinct market segments: **consumer and business.**

These two market segments are served by two business units:

Retail and Digital Banking; and **Commercial Banking**

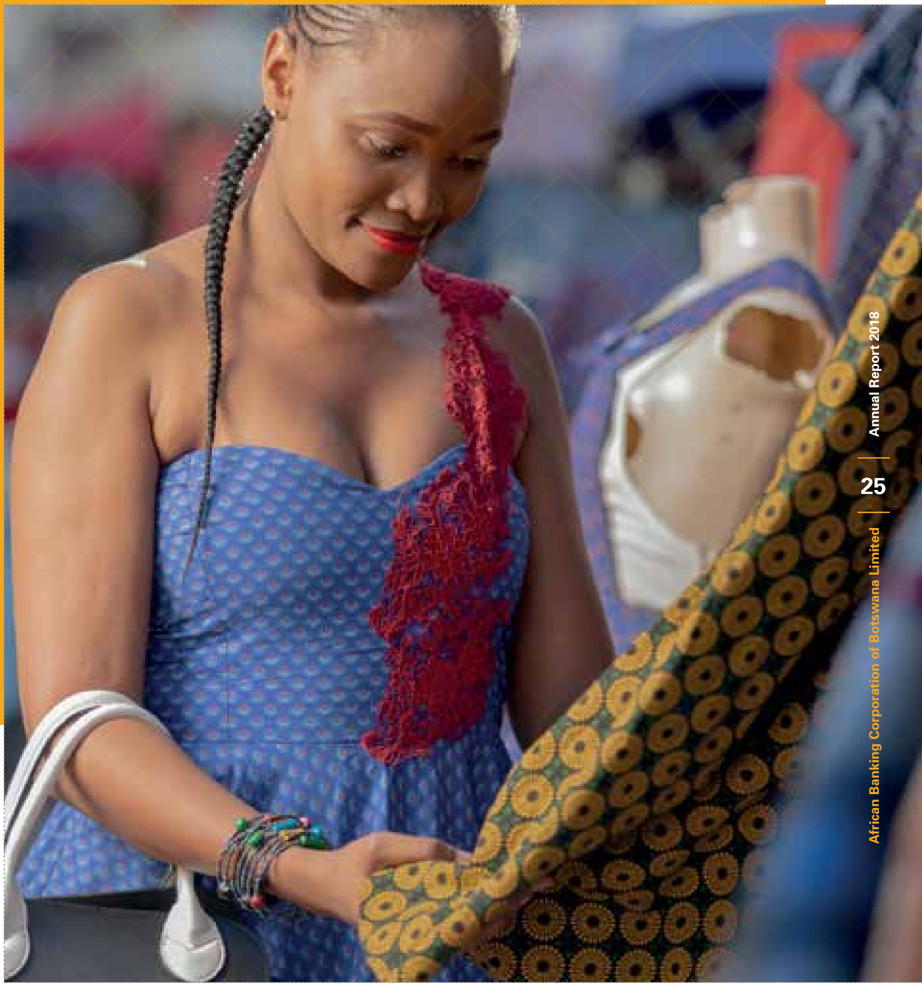
RETAIL BANKING

2018 was the year in which our Retail and Digital Banking business embarked on a strategy to diversify in order to achieve sustained growth in our chosen markets while protecting our existing business.

The Retail and Digital Banking business is focused on two distinct customer segments: Private Clients and Workplace Banking. These customers are offered a range of products including Bancassurance, Cards and Partnerships, Home Loans, and Vehicle and Asset Finance. This is delivered through two key distribution channels: Branches and Digital/self-service (Mobile Banking, Internet Banking and ATMs).

This breakdown enables us to provide consumers with the products and solutions they require through a channel that best suits their specific needs and wants.

Consumer segments	Products	Distribution
Private Clients	Bancassurance	Branches
	Cards & Partnerships	
Workplace Banking	Home Loans	**Digital** Mobile Banking Internet Banking ATMs
	Vehicle & Asset Finance	



Growth and Transformation

In order to achieve our growth goals, we focused on transforming solutions to bring them in line with customers' needs. This resulted in our enhancing existing products, expanding our "assisted" points of presence and revamping our digital channels.

Risk management was also top of mind and we focused on reward and improving front line risk awareness.

We revitalised our credit card solution as well the overdraft facility for a select section of our existing base. This will be expanded to a wider market in Q1 2019.

A highlight of our product transformation strategy was the reintroduction of one of the gems in our suite of deposit products, 'Fresh Save' through our innovative and highly successful 'Save and Win' campaign. This enabled us to gain new customers and obtain additional and new deposits from existing customers.

We also worked on promoting growth in the Cards and Partnership business through increased card penetration via new card sales as well as the on-boarding of new Partnerships. We were extremely proud and honoured to be selected as partner of choice to the Government of Botswana thanks to our multifaceted and competitive Prepaid Card proposition. This led to the launch of the Pula Card. In addition, we revamped our Credit Card, successfully testing several new features which will be launched in 2019.

We also introduced new products under the Bancassurance business in response to customer demand for a solution that enables them to support extended families. In addition, our customer base indicated a need for an insurance solution that would protect their borrowing in the event of loss of earnings. Both solutions proved to be competitive and beneficial.

Another key aspect of our growth initiative was the launch of an additional mobile sales channel through the direct sales model countrywide. This allowed us to extend our reach beyond the brick and mortar branches.

Finally, the business reviewed and retained a number of strategic partnerships in both the Card and Workplace Banking schemes. Several new relationships were struck which are expected to reach their full potential in 2019.

COMMERCIAL BANKING

Commercial Banking is made up of **Corporate Banking and SME Banking**. SME Banking has historically been grouped with Retail Banking, and their financial performance is still captured under Retail Banking.

However, in 2018 a decision was taken to streamline the Bank's various processes, product and service offerings under Corporate and SME Banking. Their collective would then be referred to as Commercial Banking. Commercial Banking plays a significant role in liability raising in the BancABC context. The team attracts transactional and term deposits from clients, and this predominantly supports the Retail Banking lending objective as well as funds Commercial Banking clients' borrowing needs.

PERFORMANCE REVIEW

Commercial Banking collectively reported P29.7 million Profit After Tax. Performance during the year was impacted by increased cost of funding mainly due to widespread market liquidity challenges. Delays in Government budget approvals and subventions to certain clients resulted in a market liquidity squeeze in the first half of the year. The available deposits were priced higher and maintained their higher prices even after market liquidity normalised in the latter part of the year.

The impact of the increased cost of funding meant the team had to forgo a number of lending opportunities that could not be priced at required profitability levels. This also meant that a few large asset exposures had to be let go of due to reducing margins. The net effect was a 43% reduction in net interest income. The reduced lending activity, however, led to a saving from reduced Credit Impairments. The implementation of IFRS 9 also contributed to a favourable Credit Impairment figure during the year.

Despite these challenges, Commercial Banking managed to significantly grow its liabilities from customer deposits. The deposit book expanded by over 14% to help the Bank cross the total customer deposits line of P7 billion for the first time. The majority of the additional funding came late in the year, however, which limited the benefit enjoyed by Retail and Commercial Banking lending activity.

STRATEGIC OVERVIEW

The Commercial Banking team has recognised its need to refresh its organisational structure in line with its focus with diversifying and growing its client base. Several key milestones in setting the team up for success were achieved during 2018. These included updating the internal operating mode and hiring experienced talent for critical portfolios, updating process flows, development of new investment products, and completion of the Corporate Internet Banking Transactional platform.

ORGANISATIONAL RESTRUCTURING

The first step in executing the Commercial Banking overarching strategy of growing and diversifying its client base to reduce client, product and revenue concentrations was getting the right people on board. During the year, the team underwent a number of reorganisation and hiring exercises to ensure that clients from the Bank's key target industries were approached and serviced by personnel with the right expertise. New roles were added and existing roles were revised to provide greater responsibility and the necessary support to allow the team to successfully achieve its mandate.

COMPLETION OF CORPORATE TRANSACTIONAL BANKING PLATFORM

The Bank has invested in a fully-fledged transactional banking platform to complete its product offering and significantly attract transactional deposits to diversify the team's and the Bank's historic deposit concentration on pricier fixed deposits. Great progress was made in completing the product build and preparing the platform for launch in 2019.

LOOKING AHEAD

Liability Portfolio Rebalancing

The Commercial Banking team has developed new investment products and identified new opportunities to bring fixed deposits pricing more in line with market averages. The anticipated success of this exercise is anticipated to lower the Bank's overall cost of funding.

Launch and Client Rollout of Transactional Banking Platform

The Corporate Internet Banking solution is slated for an H1 completion and will immediately be marketed to key target clients, many of whom have already expressed their excitement around the platform's functionality. The platform is expected to lead to new lines of business such as a compelling Trade Finance solution as well as more convenient Foreign Exchange services, anchored by transactional deposit flows from key clients.

Asset Growth

The net result of the Bank's efforts in enhancing our product suite is expected to bring the Bank's cost of funding more in line with our peers' and will see the Bank competing for fairly priced assets. The Bank has sufficient liquidity to significantly increase the size of the Commercial Banking asset book.

There is much scope to increase the department's overall profitability in the coming year. The team has carefully chosen a few key high impact initiatives for the year. The focus now is on execution of these plans.

GLOBAL MARKETS

The Global Markets and Treasury (GMT) business unit serves two main broad purposes:

(i) Global Markets, to provides Foreign Exchange (Forex) solutions to commercial clients, (ii) While supporting the branch network's retail Forex service.

The Treasury Division plays an important role in managing the Bank's funding and liquidity, and assists with sourcing interbank lines and supporting complex transactions. Historically, the Treasury Division has also managed relationships with Financial Institutions, hence deposits from such clients are recorded under GMT liabilities.

PERFORMANCE REVIEW

GMT recorded Profit After Tax of P42.9 million, 26% down on profitability in 2017. Total income dropped slightly by 6% from P86.9 million in 2017 to P81.5 million in 2018. The Treasury business closed the year 32% up from the prior year with Total net interest income of P66.6 million, compared to P50.4 million in 2017.

However, the Global Markets business closed the year with Total Non-Interest Income of P14.9 million, significantly lower than the year prior.

Global Markets performance was negatively affected by a combination of factors. The first half of the year was affected by fewer trades booked from the Sales Team's top clients. Reduced market flows from key sectors further increased competition, which resulted in a squeeze on the Bank's margins. The trading team was also negatively impacted as the team was caught on the wrong side of a few sizeable trades that took place in quick succession during a period of market volatility following the Turkish crisis which affected the Lira and other emerging market currencies.

Treasury's performance was much improved as deposits from customers grew by 56% to close the year just shy of P1.6 billion, up from P1.0 billion in 2017. Stressed market liquidity conditions led to an increased interest expense from pricier deposits booked during the period.

LOOKING AHEAD

There were a few lessons learned during the period under review. The team has made great strides in better managing the Bank's liquidity in a more forward-looking manner. This change has borne early fruit in pricing term deposits. The team is also working collaboratively with the Commercial team to develop new investment products that further help attract clients' excess funds at competitive rates.

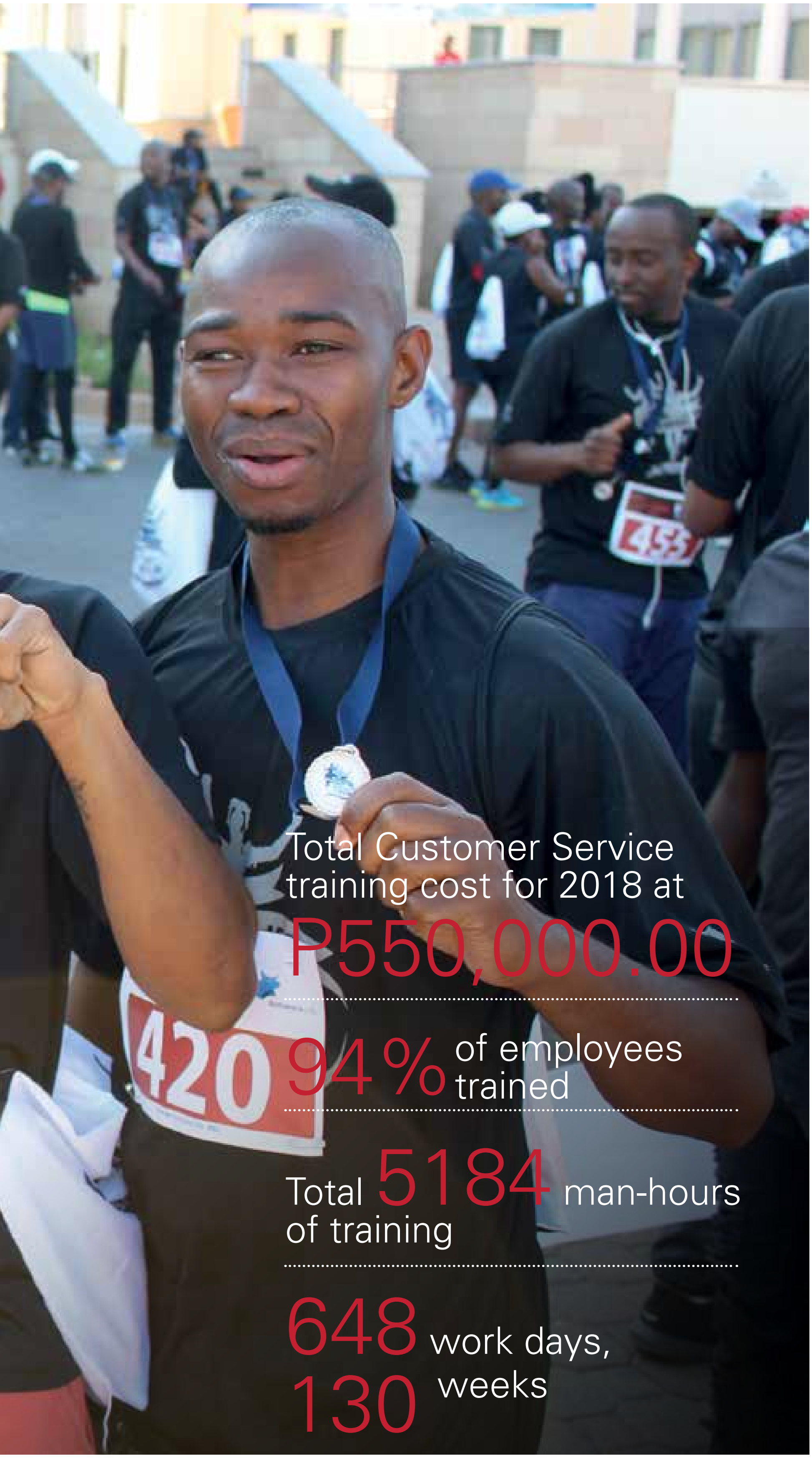
The Markets business is also expected to benefit from the launch of the Bank's transactional banking platform as more clients switch their transactional business to the Bank. This will result in increased transactions made directly from the platform. The added convenience is anticipated to boost our competitive value proposition, resulting in higher volumes and more positive pricing levels for the Bank. The Bank is also embarking on new Trade Finance solutions, which should yield increased Forex volumes at improved margins.

SUSTAINABILITY

03

HUMAN CAPITAL REVIEW

2018 was a year of transformation within BancABC Botswana with an emphasis on enabling our people to reach their full potential, retaining our best and brightest talent, and attracting top talent into our organisation and continuously raising the performance bar.



Total Customer Service training cost for 2018 at
P550,000.00

94% of employees trained

Total **5184** man-hours of training

648 work days,
130 weeks

Our goal is to be an employer of choice by offering an inclusive culture with opportunities to make a difference, learn, grow and build lasting careers. We ended the year with 425 employees throughout our network, an increase of 10%. This was mainly due to strategic leadership and specialists hires needed to implement the Strategy of the Bank. The hires also included additional Sales employees in Retail Banking as well as the hiring of other support employees to augment service and ensure process enhancement in our operations.

LEADERSHIP DEVELOPMENT

In our quest to drive a high performance culture throughout our organisation, we invested extensively in Leadership Development related interventions for different levels of Management.

We partnered with the John Maxwell leadership team to deliver different leadership programmes, mainly Leadership Gold, which is a self-leadership journey for those transitioning into management positions and 15 Invaluable Laws of Growth; this programme is a personal growth journey for those already in leadership positions. The 2 programmes run for an average of 15 weeks.

The Bank also continued with other leadership initiatives. The Future Leaders Programme (FLT) which is aimed at creating a platform for Millennials to be involved in the transformation of the Bank through various projects and secondment appointments. We also continued with the Extended Leadership Team (ELT) Programme which allows all levels of management to take part in the strategic priorities for the Bank. We also have Executive Coaching for all our leaders to ensure there is alignment with the organisation's aspirations of achieving the Strategy and the Leadership needed to guide the teams.

EMPLOYEE ENGAGEMENT

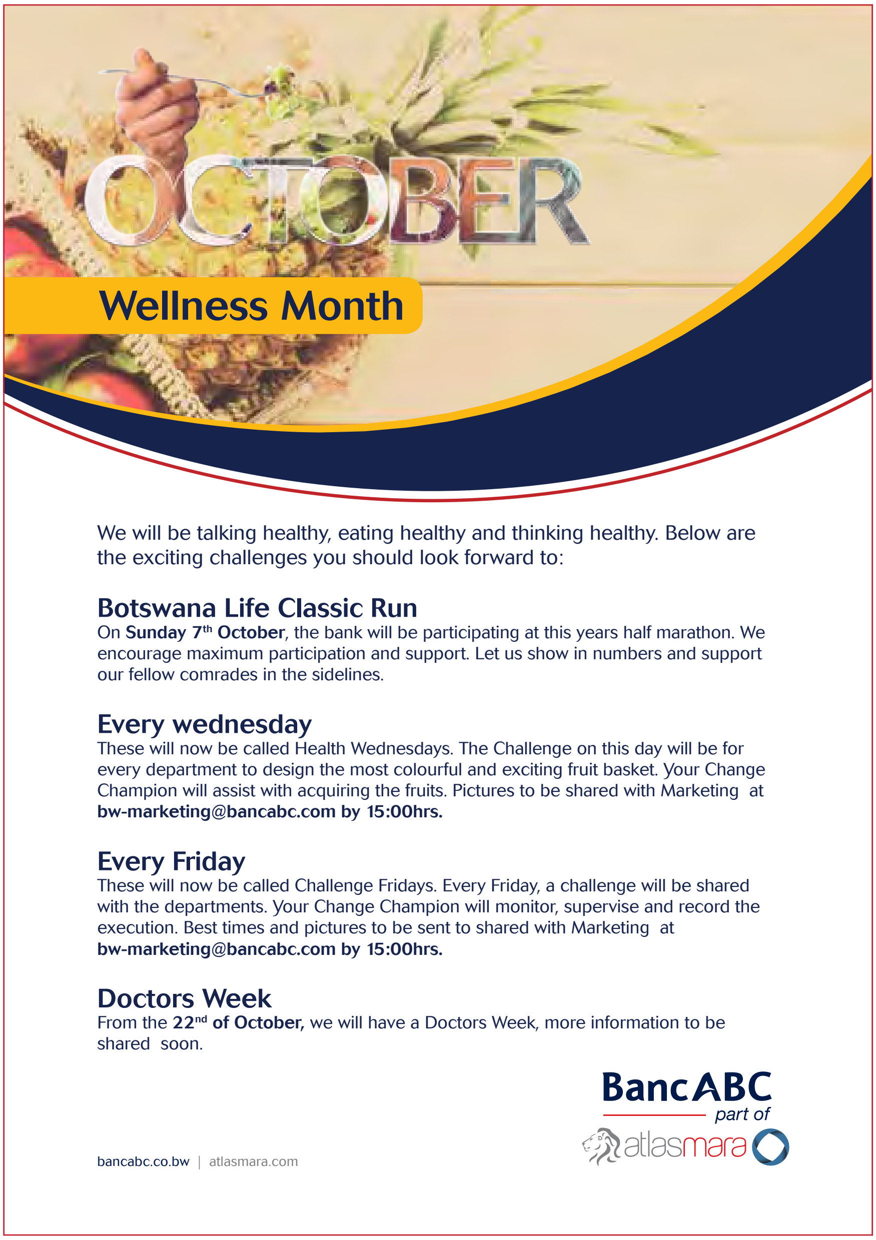
Our Human Capital Business Partnering model maximises the Bank's ability to continuously improve communication and maximises internal contact with employees while improving employee engagement.

It also contributes to promoting a culture that is open, caring and inclusive throughout the organisation.

To ensure that we are on the right track, we regularly conduct **Employee Engagement and Enablement surveys**. This enables us to identify areas of strength and those in need of improvement. The results of these surveys are closely monitored as well as using a comprehensive Human Capital work plan to track progress and ensure delivery.

Another important aspect of our employees engagement, enablement and retention focus is our comprehensive **Employee Wellness Programme**. This is designed to positively impact their whole being, including their performance at work. The programme helps build a culture of healthy living.

Some of the wellness initiatives during the year included the Wellness Month in October, where several activities took place including regular Wellness tips sent out to all employees.



TALENT MANAGEMENT

BancABC is a fast growing bank operating in an environment in which there is fierce competition for critical skills.

It is thus extremely important that we do our utmost to retain and hire the best talent possible. We define "best talent" as individuals with more than just the right qualifications; but with high aspirations, high ability and high engagement levels.

We closely monitor our talent and High Performers (HIPOs) and constantly seek opportunities to expose them to the kind of high impact project that provide them with the satisfaction of making a real difference.

The majority of our workforce (69%) are Millennials and they are highly ambitious. The leaders of the future will emerge from this group and the Bank therefore makes a concerted effort to engage and expose them to different kinds of short-term projects that tap into and grow their skills and expertise.

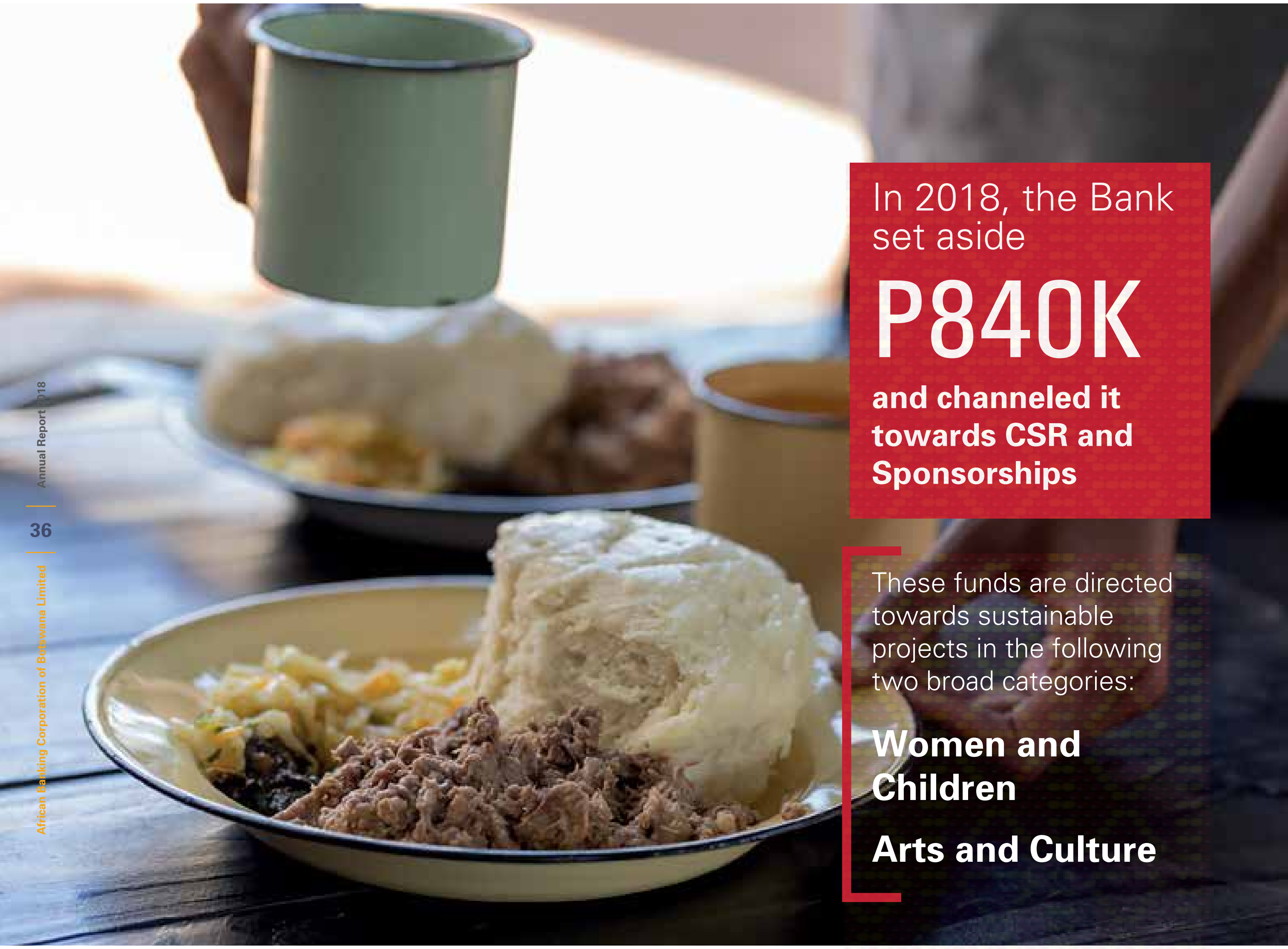
Superior performance in all areas is acknowledged and recognised through the Bank's quarterly recognition programme. All employees get an opportunity to recognise the star of their choice.

THE YEAR AHEAD

Our key people priorities for the year ahead include:

- Transforming the organisation into a "talent magnet"
- Being a catalyst for a disruptive performance culture that will set the Bank apart from its competitors
- Continuous capacity development through targeted learning in Behavioural and Technical Skills
- Ensuring that Values are alive in how we do business in the Bank
- Driving a focus on process standardisation and governance
- Developing differentiated organisational and leadership capabilities
- Making diversity and inclusion key enablers for business success

CORPORATE SOCIAL RESPONSIBILITY



In 2018, the Bank set aside

P840K

and channeled it towards CSR and Sponsorships

These funds are directed towards sustainable projects in the following two broad categories:

Women and Children

Arts and Culture

2018 CSR contributions:

Major projects funded	2018 P'000
Central District Council House: Gobojango Village	165
Boitumelo Foundation	12,5
Wheelchair Donation: Letlhakane	21
University of Botswana Foundation	146

When it comes to Corporate Social Responsibility (CSR), we as BancABC Botswana look at things with a lens premised on sustainable impact. We take a long-term view on how we can make a lasting impact in the communities that we operate in, and we work to ensure not just relevance, but meaningful gain for those affected. This is where international benchmarks on Environmental, Social and

Governance (ESG) criteria play an integral role. This way of thinking and indeed set of standards built around a need and desire to be socially inclusive. (More information on our corporate governance standards and practices can be found on pages 50 to 55 of this Annual Report).

In this section, we unpack our efforts in the CSR space, guided by ESG philosophies.

All our CSR investment is premised on making meaningful and sustainable contributions that will enable communities to gain skills, experiences and/or vital tools to improve their lives not just in the short-term, but well into the future.

Thus, our CSR programme has been designed to go beyond the donation of funds to select organisations, but with more sustainability-grounded nuances in addition to this. In this vein, our employees are actively involved in community-based initiatives. Together, this approach allows us to ensure maximum impact and meaningful engagement.

In 2018, the Bank set aside P840 thousand and channeled it towards CSR.

These funds are directed towards sustainable projects in the following two broad categories:

Women and Children - assisting with the economic upliftment of these groups, the most vulnerable on the African continent.

Arts and Culture - vibrant arts and culture are a vital expression of Africa's identity and, as such, deserve to be nurtured and celebrated.

In the review period, BancABC supported four major projects. These were:

Central District Council House: Gobojango Village

The plight of orphans remains an ongoing problem in Botswana. Many of these children live in circumstances of extreme poverty, which adversely affects their health and educational prospects. BancABC donated P165 thousand to the Central District Council for the construction of a two-bedroom house for orphans living in the rural Gobojango Village. While this was a once-off donation, it bears long-term impact. We are confident that it will have a long-lasting, beneficial impact on the lives of the two children who will now have a secure roof over their heads.

Boitumelo Foundation

BancABC made a donation of P12.5 thousand towards a benefit concert staged by the Boitumelo Foundation to raise funds for two important charity organisations with extensive and long-term ambitions and impacts:

- The Happy Hearts Foundation, which is building a home for cancer-affected patients; and
- UNICEF Botswana, for a Nationwide campaign on sexual reproductive health.

Wheelchair Donation: Letlhakane

Having identified the needs of the mobility impaired and having donated over 50 wheelchairs to individuals in need via the Office of the President, the Bank donated a wheelchair valued at P21 thousand to a pupil at the Motsumi Community Junior Secondary School in Letlhakane. Without a specialised wheelchair, this learner would have been unable to continue with his education due to lack of access to the school.

University of Botswana Foundation

The University of Botswana Foundation raises funds to provide scholarships for deserving and promising graduate scholars. The endowment fund was set up in 2004 with an investment of just over P1 million to ensure that as many Batswana as possible have access to higher education. The fund has since made an important contribution towards meeting the strategic objective of increasing the number of full-time graduate students at the University. Its main fund-raising event is an annual golf day, to which BancABC contributed P146 thousand in 2018. This marked the end of a four-year agreement with the UB Foundation valued at P397 thousand. Negotiations are underway for our continued involvement with the project into the future.

GOVERNANCE

CORPORATE GOVERNANCE REPORT STRUCTURE

THIS REPORT IS DIVIDED INTO 2 SECTIONS:

i. STRENGTHENING CORPORATE GOVERNANCE

ii. BOARD OF DIRECTORS

04

STRENGTHENING CORPORATE GOVERNANCE

Corporate Governance is integral to every aspect of our business. For this reason, the Board focused on embedding a culture of good governance.

Number of Board Members increased to

8 members

This was done to enable the right **balance of skills, diversity and expertise of Directors** who collectively possess the qualifications and experience commensurate with the size, complexity and risk profile of the business.

This began with ensuring that the diversity of skills and experience of the Board itself was best suited to supporting the business. BancABC is a newly listed company, giving the Board the perfect opportunity to ensure at the outset that its Corporate Governance complies not only with international best practice and standards such King III, but also with the Bank of Botswana and the Botswana Stock Exchange requirements as well.

There is no doubt that good governance starts with a strong framework as well as a culture of integrity and accountability across the business.

This framework is key for the establishment of a sound relationship between the management, Board, shareholders, customers and all other stakeholders, which is essential for achieving the strategic objectives of the business.

BOARD COMPOSITION AND STRUCTURE

The number of Board members was increased to eight (8). This was done to enable the right balance of skills, diversity and expertise of directors who collectively possess the qualifications and experience commensurate with the size, complexity and risk profile of the business. In line with King III's recommendation that a majority of Directors be Non-Executive Directors, two-thirds of the Bank's Directors are Independent Non-Executive directors. One of the Independent, Non-Executive Directors, Mrs. Lorato Mosetlhanyane, is the Chairperson of the Board.

The Board of Directors bid farewell to Mr. Elias Mpedi Magosi in August 2018. It was strengthened with the appointments of Mr. Boiki Matema Wabo Tema (October 2018) and Mrs. Ntoti Mosetlhe (November 2018). The new Directors went through a very comprehensive induction programme, which provided them with insight into the business, helping them to carry out their duties as Directors more effectively.

BOARD OF DIRECTORS

LORATO MOSETLHANYANE (47)
Chairperson
Member: Risk and Compliance Committee; Credit Committee

Having worked as an Accountant at different levels, in different industries for over seventeen years, Mrs. Mosetlhanyane brings a wealth of experience to the BancABC Board.

Having successfully completed the Professional Coaching Course (PCC) through the Centre for Coaching which is in partnership with the University of Cape Town's Graduate School of Business and New Ventures West (NVW) based in San Francisco, she left the corporate world five years ago, resigning her position as Chief Finance Officer of a leading life Insurance company in Botswana to set up practice as a Certified Professional Integral Coach, coaching and training young and mature leaders, locally and internationally.

Mrs. Mosetlhanyane is a Fellow of the Association of Certified Chartered Accountants (FCCA) and also holds a Masters in Business Administration (MBA) from Oxford Brookes University in the UK. She currently serves on the Board of G4S, a security company listed on the Botswana Stock Exchange.

JACOB MOOKETSE MOTLHABANE (47)
Independent Non-Executive Director
Committee Chairperson: Audit Committee
Member: Credit Committee

Mr. Motlhabane is the Head of Private Equity at African Alliance in Botswana and was previously the Chief Executive Officer of Turnstar Holdings, a property company listed on the Botswana Stock Exchange. Mr. Motlhabane holds a Bachelor of Commence in Accounting from the University of Botswana and he is currently pursuing a Masters of Business Administration at Mancosa in Botswana and Certificate in Management Accounting from the Chartered Institute of Management Accounting.

ADAMS CHILISA DAMBE (70)
Independent Non-Executive Director
Member: Loans Review Committee; Remuneration and Nominations Committee

Mr. Dambe is the Chief Executive Director of Gradam Holdings, a tourism company in Botswana and a Director of Chobe Holdings Limited, which owns and operates eco-tourism lodges in Botswana and Namibia. Mr Dambe has Bachelor of Science degree and a Master of Arts in Business Administration (MBA) from Kensington University in California, USA.

He also has a diploma in Hotel Management from Kenya Utalli College in Nairobi and an advanced Diploma in Labour Relations from UNISA Business School of Leadership. He has also completed the Industrial Relations Development Programme at Stellenbosch University, South Africa; and an Anglo-American Management Programme at UNISA School of Business.

JOSHUA BENJAMIN GALEFOROLWE (67)
Independent Non-Executive Director
Committee Chairperson: Remuneration and Nominations Committee
Member: Audit Committee

Mr. Galeforolwe is a Managing Consultant for West Cliff Capital (Pty) Ltd, a corporate advisory and management consultancy company in Botswana. He has over 35 years' experience in large scale performance and process improvement, leadership and strategic management, policy formulation, and the development of privatisation implementation strategies.

He has a BCom in accounting from Makerere University, Kampala, Uganda and completed Part 1 of a BA in Economics at the University of Botswana, as well as the Management and Development Programme at the University of Pittsburg.

BEATRICE HAMZA BASSEY (48)
Non-Executive Director
Committee Chairperson: Risk and Compliance Committee
Member: Loans Review Committee; Remuneration and Nominations Committee

Mrs. Hamza Bassey is Group General Counsel at Atlas Mara as Group General Counsel, a position she took up after almost two decades representing a host of multi-national corporate entities in compliance and corporate governance matters. Prior to joining Atlas Mara, she was a partner in the New York office of the Wall Street firm Hughes Hubbard & Reed where she was Chair of the firm's Africa Practice Group and member of their Executive Committee. She represented the Trustee of the liquidation of Lehman Brothers Inc., the largest broker-dealer liquidation in the United States, where she led the recovery and return of multi-billion Dollars to Lehman Brothers customers. She has garnered many awards accolades for her work by African, US and International media, and has been profiled by Forbes Africa and CNN's African Voices as a top African lawyer. She obtained her Law degrees from the University of Maiduguri, Nigerian Law School and Harvard Law School, Cambridge, Massachusetts.

BOIKI MATEMA WABO TEMA (48)
Independent Non-Executive Director
Committee Chairperson: Credit Committee
Member: Audit Committee

Mr. Tema has acquired extensive expertise in banking and other financial services over a period of 24 years, during which he worked in different capacities within the FirstRand Group and more recently as Coverage Director at Rand Merchant Bank Botswana (RMBB). He started his career as an Executive Trainee at First National Bank of Botswana Limited (FNBB) in 1994, moving through the ranks to hold numerous senior positions including Senior Manager and Head of the Property Finance Division; Senior Manager - New Business Development; Head – Wholesale Segment; Director Commercial Banking; and Director, Property Finance Division.

He has a Bachelor of Arts (BA) in Economics from the University of Botswana, and a Master of Science (MSc) in Strategic Management from the University of Derby in the United Kingdom. He has completed Part 1 of a Diploma in Banking (Botswana Institute of Bankers) and a Diploma in Financial Management with Allenby College in South Africa. Mr. Tema has served in the Boards of various executive management committees of FNBB, and

on the Boards of subsidiary and associate entities such as FNBB Insurance Agency and FNBB Pension Fund. He has also been a member of the Botswana Post Board.

NTOTI MOSETLHE (59)
Independent Non-Executive Director
Committee Chairperson: Loans Review
Member: Risk and Compliance Committee

Mrs. Mosetlhe acquired her Bachelors of Administration from the University of Botswana and went on to obtain a certificate in Manpower Planning from the University of Sussex. She headed Debswana's Human Resources Department from 2008 to September 2018, during which time she led two restructuring processes to optimise the Head Office and improve cost efficiency at the mines, embedded a talent management and performance management system which resulted in increased productivity and improved succession planning whilst also managing to put in place as well as implement a workforce planning method aligned to Debswana's long term resource plan. Prior to her tenure at Debswana, she had acquired vast experience through having led a Corporate Strategy / Corporate Performance monitoring team and developing several products and services through strategic alliances.

KGOTSO BANNALOTLHE (40)
Executive Director
Managing Director

Mr. Bannalotlhe was appointed as BancABC's Managing Director on 7 August 2017. As such, he is a member of all the Board's Committees. He is a seasoned banker with over 14 years' experience in regional and international financial institutions. Prior to joining BancABC, he was with Barclays Bank Botswana, where he served as Head, Corporate Investment Banking. Before his appointment as Head of CIB, he held several positions including Barclays Country Treasurer and Head of Markets. He has also worked for Standard Chartered Bank Botswana and Tanzania as Head, Assets and Liabilities Management and Head of Financial Markets/Co Head for Wholesale Banking respectively. He started his banking career with First National Bank Botswana.

He has a Bachelor of Commerce degree from the University of Melbourne and an Executive Masters in Positive Leaders and Strategy (ExMPLS) from IE University, Madrid, Spain. Mr Bannalotlhe has completed level 1 of the CFA programme.

SENIOR MANAGEMENT

1 Kgotso Elvis Bannalotlhe

Managing Director

Refer to page 43 for Kgotso Elvis Bannalotlhe's profile.

Fortune Takaindisa

2

Head of Finance

Mr. Fortune Takaindisa worked as an auditor in manufacturing and retail trading environments, having also spent many years in the fields of Finance/Accounting. He started his career as a Financial Accountant at the then UDC Holdings in 1998. After the merger of UDC Holdings, Bard and FMB Holdings to form ABC Holdings, he was promoted to the position of Finance Manager and ascended to Head of Finance in April 2006. In May 2007, he was transferred to BancABC Botswana in the same capacity.

He is a Chartered Management Accountant (ACMA) with a Bachelor of Accountancy from the University of Zimbabwe. He also has a Masters of Business Administration (MBA) from University of Hull in the United Kingdom.

He attended the Management Leadership Development Programme organised by the Gordon Institute of Business Science, an affiliate of the University of Pretoria, in 2011 and 2013 he attended an Executive Development Programme organised by University of Stellenbosch.

3

Thato Mmile

Group Head of Legal & Compliance and Company Secretary for Botswana and ABCH

Mrs. Thato Mmile is a Legal and Compliance Specialist with a strong focus on Corporate Governance and Regulatory issues and over 10 years in the banking sector dealing with compliance against financial crime. Prior to her appointment as Group Head of Legal for ABC Holdings Limited, she was the Head of Legal and Compliance of Standard Chartered Bank Mauritius Limited, having held several executive positions at Standard Chartered in Botswana including Head of Legal, Company Secretary, and Head of Legal and Compliance.

Prior to joining the financial sector, she was a Magistrate in the Courts of Botswana.

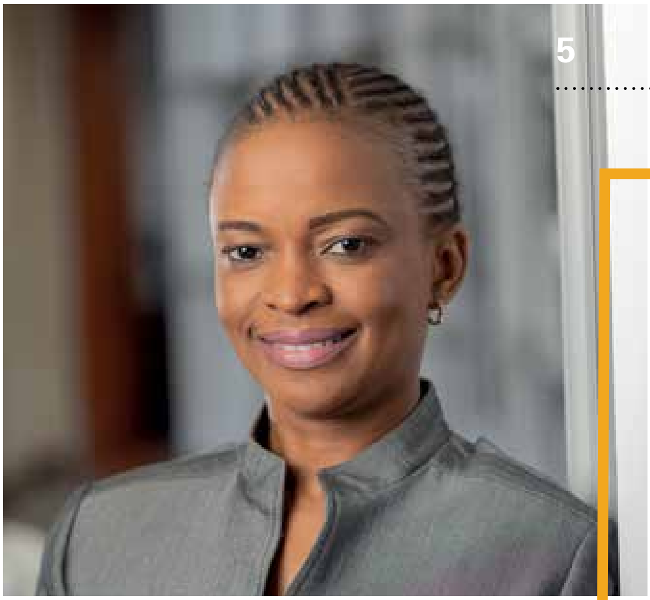
Tumelo Pitlo

4

Head of Treasury

Mrs. Tumelo Pitlo started her banking career at BancABC as a Graduate Trainee in 2005, where she gained exposure to banking not only in Botswana but also in Zimbabwe and Zambia. On completion of the trainee programme, she joined Treasury as a junior dealer on the trading desk and worked her way up to her current position by July 2014.

Tumelo has a Bachelor of Arts in Economics degree from the University of Botswana. In 2010, she attained her ACI dealing certificate and later she graduated with an MSc in Strategic Management from University of Derby in 2013. She recently completed Stellenbosch University's Management Leadership Programme.



5

Neo Ndwapi

Head of Human Capital

Mrs. Neo Ndwapi joined ABC in 2008 from Standard Chartered Bank, where she had been Human Resources Manager dealing with Employee Relations, Performance and Rewards Management, HR Business Relationship Management, Pension Administration, HR processes and Payroll Management. She assumed her current position with BancABC in 2008. Prior to joining the banking sector, she worked for the United Nations Development Programme (UNDP).

She has a Bachelor's Degree in Social Work, Diploma in Human Resources Management and a Master's degree in Business Administration. She has attended the Management Leadership Development Programme at the Gordon Institute of Business Science, an affiliate of the University of Pretoria.

Grace Setlhare-Mankanku

6

Head of Retail Banking

Mrs. Grace Setlhare-Mankanku is a seasoned banker who holds a Masters in Business Administration from Duke University, USA.

She began her career as an Executive Trainee at First National Bank Botswana Limited. She rose though the ranks during her tenor in the bank where worked predominantly in Corporate and Commercial Banking where she was Director Business Segment. Furthermore she held numerous senior management and management positions during her tenor including roles in Retail banking and Credit.

In 2015 she joined ABC Holdings as Regional Head of Corporate and investment Banking for Botswana, Zambia and Tanzania giving her exposure into the African market. In November 2017 she transitioned into her current role of Country Head Retail Banking.

She also holds a Bachelor of Commerce Degree from University of Botswana and has completed a Senior Management and Management Development Programs with University of Pretoria and University of Cape town respectively.

7

Itumeleng Moremong

Head of Strategic Relationships

Mrs. Itumeleng Moremong started her banking career in 2002 as a dealer (Money Market Desk) at ABC before moving in 2006 to First National Bank Botswana (FNBB) as Treasury Sales Executive. She later moved to Standard Chartered Bank Botswana as Head of Financial Institutions. Then came back to BancABC, Corporate as Senior Relationship Manager, then joined Retail as Country Head, Schemes and Liabilities and now Head of Strategic Relationships.

She has a Master of Arts, Finance and Investment from the University of Exeter (U.K) and a Bachelor of Arts, Economics, from West Virginia University (USA). She also completed the Management Leadership Development Programme from the University of Stellenbosch.

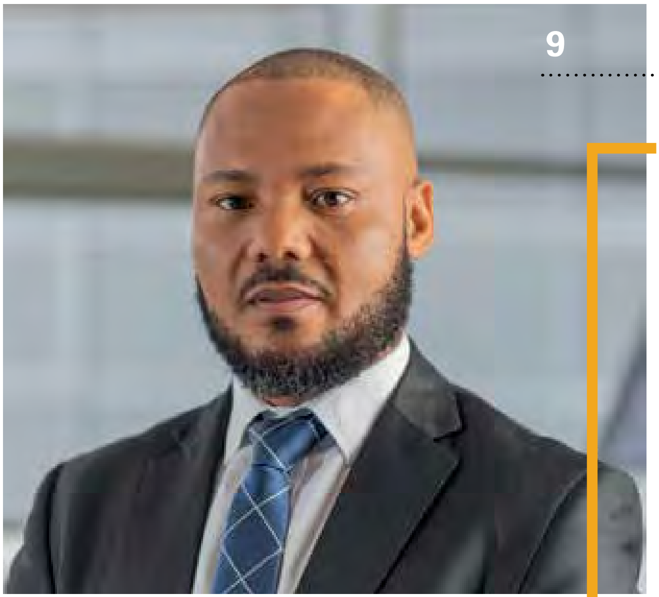
Polelo Kilner

Head of Marketing and Communications


8

Mrs. Polelo Kilner joined BancABC in 2014 as the Country Marketing Manager. Prior to that, she had worked at First National Bank Botswana (FNBB) as a Marketing Executive responsible for marketing Product Houses and, later, as FNBB's Consumer Segment Marketing Manager. Before joining FNBB, she worked at OP Advertising.

She has a Bachelor of Arts in Humanities (French and English); a PGDip in Marketing Management from IMM Graduate School of Marketing, and underwent the New Managers Development Programme at the University of Stellenbosch. She also holds a Diploma in French Language Studies.


9

Molefe Petros

Head of Information Technology

Mr. Molefe Petros has 10 years' experience in the IT industry, much of which has been spent in the Financial Services sector, having worked for both Barclays Bank Botswana in the IT Department; and Bayport Financial Services Botswana where he held the role of Chief Information Officer/Head Innovation Department. Prior to joining Barclays Bank Botswana, he worked for National AIDS Coordinating Agency as the IT Systems Analyst; and for Data Generale in Australia as the Lead Systems Developer.

He has a Degree in Communication Design/Information Technology from Queensland University of Technology (Brisbane, Australia); and MSc Strategic Management from the University of Derby. He also holds an MDP qualification from the University of Stellenbosch.

Segametsi Sethantsho

10

Head of Credit

Mrs. Segametsi Sethantsho started her career at Barclays Bank of Botswana as a Performance Analyst before being promoted to Retail Manager and then moving to Corporate Banking as the Corporate Relationship Manager. She later joined Stanbic Bank where she held many roles including Manager; Credit Origination and Head of Credit Origination. She re-joined Barclays Bank in 2013 as Head of Portfolio Management before being promoted to the position of Consumer Risk Director. She joined BancABC in 2018.

She holds a Master's Degree in Leadership and Change Management and a BA Honours in Economics and Environmental Science.

11

Lindiwe Mogotsi

Head of Risk

Mrs. Lindiwe Mogotsi joined BancABC in 2018 from Barclays Bank where she started her career in 2004 as a Treasury Assistant in the Treasury Operations department. She later moved into the Dealing room, and held a number of roles over a 10 year span. She moved from the dealing room as Head of Balance Sheet Management in 2014, taking on a role of Head of Business Performance in Finance (Retail and Business Banking) before Acting as Head of Collections in 2017. During her time in Barclays, Lindiwe has been on a number of secondments. In 2008 she was seconded to Regional Office in Dubai as Asset and Lability Management (ALM) Manager, as part of a Women Leadership Programme; Barclays New York in 2014 in Capital Management and Barclays Africa (South Africa) in 2017 in Credit Risk.

She has a Bachelor of Commerce (Macroeconomics and Finance) from the University of Melbourne Australia, and an ACCA. She also completed Management Development Programme with the University of Stellenbosch and the the Barclays Africa i-Lead Leadership Development Programme with Duke University.

Mrs. Tefo Lionjanga

12

Head of Banking Operations

Mrs. Lionjanga served continuously for 31 years as an employee of Barclays Bank of Botswana in middle and senior management positions. She has a wealth of experience in people management, customer service and banking operations/ compliance. Tefo worked for Debswana Pension Fund on a short term contract as Project Coordinator in 2006 before joining Glenrand MIB Botswana in April 2007, as General Manager responsible for Business Development, Human Resources, Operations and Compliance. She Joined African Banking Corporation in October 2008 as Head of Banking Operations, with specific assignment to develop operational standards putting in place controls in preparation for the Retail rollout, procedure manuals, operational policy documents and ensure regulatory compliance not only for the Department but for other departments as well, reporting to the Managing Director. She is currently responsible for a Team of 49 employees, in seven different Units within Banking Operations. Her responsibilities are to ensure delivery of quality work to agreed service levels to enable front line functions and other support functions to deliver world class service, people management, cost management and all these done in the most professional, inspired, motivated and fully involved manner.

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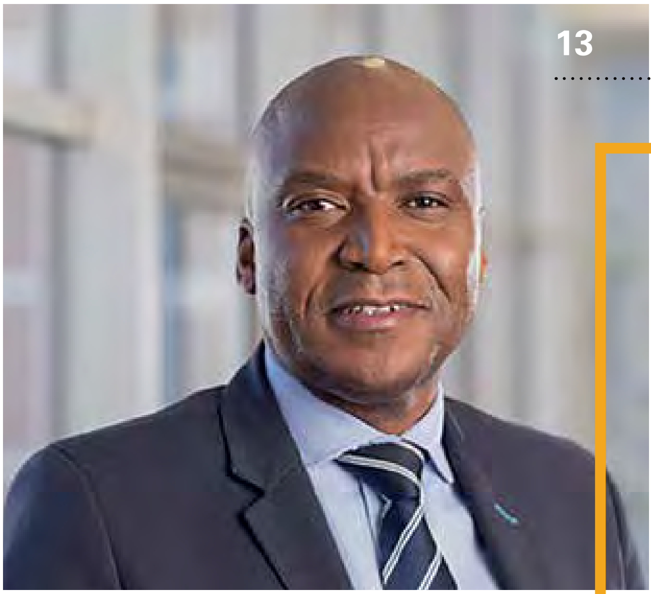

Mr. Mmoloki Ramaeba

Head of Commercial Banking

Mr. Ramaeba is an accomplished banker with a span that covers his entire working life. His first encounter with banking started at First National Bank of Botswana in 1996 as an Executive trainee after graduating from the University of Botswana with a single major degree in Economics. In his banking career he has worked for First National Bank as Foreign Exchange Dealer (FX), Bank of Botswana still as a (FX) Dealer and finally joining African Banking Corporation of Botswana in 2000 as FX, Sales and Origination Dealer. At African Banking Corporation Mmoloki was instrumental in setting up the Treasury unit. BancABC invested its resources to get Mmoloki proficient in Banking with his successful completion of the Senior Management Development Programme Certificate from the University of Pretoria and other training interventions attended in South Africa, Dublin and London.

In 2007, Mmoloki was transferred to Mozambique as Head of Treasury for BancABC Mozambique, and returned back to Botswana in 2014 on promotion as the General Manager for Wholesale Banking for BancABC Botswana.

BOARD AND COMMITTEE ATTENDANCE

Director	Main Board	Remuneration and Nomination	Audit	Risk and Compliance	Loans Review	Credit
Lorato Nthando Mosetlhanyane	8/8	6/6		4/4		4/4
Adams Dambe Chilisa	8/8	6/6	2/4	2/4	4/4	
Jacob Mooketsi Motlhabane	8/8		4/4		2/2	4/4
Elias Mpedi Magosi	3/5	3/4	-	3/3	3/3	
Kgotso Elvis Bannalotlhe	8/8	6/6	4/4	4/4	4/4	4/4
Beatrice Hamza Bassey	8/8	6/6	-	4/4	-	
Joshua Benjamin Galeforolwe	6/6	1/1	3/3	1/1	1/1	4/4
Boiki Matema Wabo Tema	1/1	1/1	1/1	1/1	1/1	
Ntoti Mosetlhe	1/1	1/1	1/1	1/1	1/1	

* The Board Credit Committee convened on several occasions to discuss deals of a threshold between P5 million (five million pula) and P10 million (ten million pula). Many of the applications tabled before the Committee were circulated and approved via round robin (email).

BOARD EVALUATION & ROLE OF THE BOARD

1. **Mr. Elias Mpedi Magosi resigned from the Board of Directors in August 2018**
2. **Mr. Galeforolwe was appointed in April 2018, and as part of his induction he sat through all committee meetings at least once**
3. **Mr. Tema was appointed in October 2018, and as part of his induction he sat through all Committee meetings at least once**
4. **Mrs. Mosetlhe was appointed in November 2018, and as part of her induction she sat through all Committee meetings at least once**

The Board of Directors plays a vital role by effectively representing, and promoting the interests of the Bank, its Stakeholders and Shareholders. The Board provides ethical leadership, and directs and supervises the management of the Company's business and affairs. Board members are regularly trained and are evaluated on an annual basis to assess their individuals and the Board's overall effectiveness as well as to identify potential areas for improvement.

The Board meets at least four times per annum under the chairmanship of the Chairperson, Mrs. Lorato Mosetlhanyane. In her absence, (Mr. Joshua Benjamin Galeforolwe) would act as Chairperson, but this was not necessary during the review period. In addition, members are in constant communication and frequently approve deals, making decisions and continuously provide value-adding input to the business throughout the year.

In the period under review, the Board met eight (times).

The Chairperson as well as ordinary Board members also serve on one or more of the Board's five Committees set up to help the Board to effectively carry out its oversight role and responsibilities. This includes ensuring that the Board has the time and means to deal with all issues in sufficient depth and to enable a robust discussion around matters of importance. The Committees meet regularly to consider issues under their remit.

Most committees consist of five (5) members including the Board Chairperson and the Managing Director as ex officio members. Meetings are held provided a quorum of no fewer than 2 members (including the ex officio members) are present.

Loans Review Committee

The Loans Review Committee meets four (4) times per year to assist the Board with discharging its responsibility to review the quality of the Bank's loan portfolio and periodically reviewing the Bank's Credit appetite. The Committee upon reviewing the Bank's Loan portfolio amongst other things, ensures the conformity of the loan portfolio and lending function to a sound lending policy as documented, approved, and adopted by the Board, and that it is in conformity with approved internal policies and all applicable laws and regulations. The committee further reviews and approves the Bank's Debt recovery strategies, review and recommend to the Board, for approval lending strategies and policies, including but not limited to, commercial lending and leasing, commercial real estate lending, consumer credit, and mortgage lending policies, including appropriate loan limits and classification of loans requiring Board or Committee approval. Mrs. Ntoti Mosetlhe took up the chairmanship of this Committee following her appointment to the Board. Prior to that, the committee was Chaired by Mr. Joshua Benjamin Galeforolwe.

Risk and Compliance Committee

The Risk and Compliance Committee meets four (4) times per year under the chairmanship of Mrs. Beatrice Hamza-Bassey.

This committee has the vital role of assisting the Board in overseeing the systems of Compliance policies and procedures across the Company and to provide oversight and advice to the Board in respect of the Bank's risk appetite, risk monitoring, capital management and compliance requirements.

Further, the Committee is to provide oversight and advice to the Board on current risk exposures and future risk strategy, and to assist the Board in monitoring and reviewing the effectiveness of the credit and risk functions in the context of the Company's overall Risk Management Framework and in maintaining appropriate compliance policies and procedures such that the Company will remain compliant with all legal and regulatory requirements applicable to it across all jurisdictions.

Audit Committee

The Audit Committee meets four (4) times per year to monitor the integrity of the financial statements of the Bank, including its annual and half-yearly reports, prospectuses, trading updates, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the Auditor.

In particular, the Committee reviews where necessary whether the Company has followed appropriate accounting standards and has made appropriate estimates and judgements, taking into account the views of the external auditor, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made and all material information presented with the financial statements, such as the business review and the corporate governance statements relating to audit and Risk Management. It is Chaired by Mr. Jacob Motlhabane.

Remunerations and Nominations Committee

The Remuneration Committee reviews and approves; all Senior Management appointments including terms and conditions of their employment, talent management processes including senior management succession plans salary budgets, bonus accruals, annual bonus pools and the annual remuneration review process of the bank's staff compliment. This Committee is further charged with overseeing and supporting a formal rigorous and transparent approach to senior appointments within the bank, including considering and making recommendations regarding appointments to leadership roles, as defined by the Board of Directors as well as appointments of new executive directors and non-executive directors whilst ensuring that the Board and sub committees have an appropriate balance of skills, experience, availability, independence and knowledge of the Company to enable them to discharge their respective responsibilities effectively. The committee makes further recommendation regarding the structures of the organization, composition of the Board generally and the balance between executive and non-executive directors appointed to the Board as well as regularly reviewing the Board structure, size and composition and making recommendations with regards to any adjustments that are deemed necessary. The Committee meets four (4) times per year under the chairmanship of Mr Joshua Benjamin Galeforolwe as Senior Independent Director.

Credit Committee

The Credit Committee has scheduled weekly meetings every Wednesday for purposes of considering and approval of Credit deals placed before them with the mandate and responsibility of evaluating Credit Applications greater than P5 million but not exceeding P10 million and operates under the Chairmanship of Mr. Boiki Tema.

Meetings	Loans Review	Risk and Compliance	Audit	Remco	Credit
Magosi					
Chilisa					
Mosetlhanyane					
Motlhabane					
Hamza Bassey					

The size of the Board and committee seating in 2018.

RISK

It is our strong belief that effective Risk Management is fundamental to the long-term viability of our business.

We continue to espouse a strong risk management culture to ensure an appropriate balance between the diverse risks and rewards inherent in any transaction and process to underpin sound decision-making. Accordingly, we continue to work towards implementing a comprehensive risk management process to evaluate, monitor and manage the principal risks the Bank assumes in conducting its activities. In the course of conducting its business, the Bank is exposed to various risks inherent in providing financial services. Some of these risks are managed in accordance with established risk management policies and procedures.

RISK PRIORITIES

Risk Culture

Risk Culture provides the standards of behaviors expected from colleagues with regards to Risk Management. Embedding accountability and end to- end ownership of risk within the business starts with the tone from the top, and is key to building a strong risk culture. There are a number of activities to increase awareness of risk and ownership as part of the process to build risk culture.

Enhance Control Environment

Risk is a moving target and is complex and therefore needs to be continually reviewed to ensure that it remains relevant. Strong and dynamic Risk Identification processes are therefore imperative to ensure that Risk Management remains applicable and that controls reviews are proactive to mitigate any potential risks.

We have multiple initiatives to improve identification, exposure management and reporting.

Financial Crime Risk

Investments in control systems to improve our ability to detect financial crime are ongoing. We are committed to working with the industry and regulators in fighting financial crime, and therefore continuously review our processes and systems to ensure that we are aptly positioned to monitor and detect suspicious transactions.

Information Technology and cyber security risks

The increasing threat and focus by regulators on information technology and cyber security risk has led to enhanced focus in the Bank, especially in light of increased digitisation. Significant progress has been made. Continuous Monitoring is necessary to assess and invest with the evolving nature of this risk.

PRINCIPAL RISKS

Liquidity and Funding Risk

We have a strong capital and liquidity position to support the business on a sustainable basis. We also continuously enhance and align our risk management frameworks to reflect the changes in the industry to ensure that we can proactively anticipate and respond to any liquidity threats.

Mitigation Actions

- Ongoing of liquidity risk frameworks to adopt updated practices
- Proactive Management and forecasting of liquidity positions
- Transformation of the structure of the balance sheet

Operational Risk

Operational Risk changes rapidly with changes in customer needs and the banking landscape. It is therefore key that as BancABC we continuously to evolve and employ risk management practices that allow us to stay relevant.

We have a number of initiatives to improve risk culture, enhancement of processes to reduce level of inherent risk largely through automation and improve risk identification to enable a more proactive management of risk.

Mitigation Actions

- Appropriate skills training and elevation of employee awareness across the Bank on fraud, controls and self-assessments.
- Ongoing review of IT systems architecture and systems resilience, including with respect to business continuity planning and identification of areas for improvement.
- Active focus from senior management on the execution of integration and performance enhancement programmes.
- Enhancements to operational risk policies and processes for ensuring compliance with safe practice and a secure controls environment.

Credit Risk

The Bank may be adversely impacted by an increase in its credit exposure related to lending, trading and other business activities. Credit risk stems from the possibility of losses arising from the failure of customers or counterparties to meet their financial obligations on a timely basis. Credit Risk arises from lending and other financing activities comprising of the Bank's core business.

Mitigation Actions

- Well considered credit policies incorporating prudent lending criteria.
- Well defined authorities and governance structures with appropriate separation between origination and sanctioning.
- Improvements to credit processes and controls, including proactive portfolio monitoring especially with the pre-NPL portfolio and effective remedial management.
- Stress testing and scenario planning.

Market Risk

BancABC may be adversely impacted by both global and local markets and economic conditions that can lead to fluctuations in interest and exchange rates, as well as equity and commodity prices. It may also be adversely impacted by significant holdings of financial assets, or significant loans or commitments to extend loans

Mitigating actions

- Vigilant monitoring of macroeconomic and geopolitical conditions.
- Establishment and regular monitoring of trading limits and positions.
- Rates hedging programmes, both with respect to interest rates and foreign exchange.
- Stress testing and scenario planning.

Compliance Risk

It is imperative that the business is positioned to respond appropriately to evolving and increasing regulatory and legislative requirements.

Mitigating actions

- Frequent interactions with regulators
- Active dialogues with relevant government officials and monitoring of events potentially impacting our business
- Improving Compliance systems and controls

Reputational Risk

Damage to BancABC brand arising from any association, action or inaction which is perceived by customers, regulators, shareholders or other stakeholders as inappropriate or unethical would impact the Company's ability to achieve its strategic goals.

Mitigating actions

- Continuous emphasis on a culture of excellence and integrity to preservation and enhance of our reputation
- Sustaining a robust internal audit function to ensure compliance with standards, policies and procedures
- Continuous proactive engagement with relevant stakeholders

ANNUAL FINANCIAL STATEMENTS

05

Directorate, management and administration

Board of Directors

Mrs. Lorato Nthando Mosetlhanyane	Motswana (Chairperson)
Mr. Adams Chilisa Dambe	Motswana
Mr. Mooketsi Jacob Motlhabane	Motswana
Mr. Joshua Benjamin Galeforolwe	Motswana
Mrs. Beatrice Hamza Bassey	American
Mr. Boiki Matema Wabo Tema	Motswana
Mrs. Ntoti Mosetlhe	Motswana
Mr. Kgotso Bannalotlhe	Motswana

Company Secretary

Mrs. Thato Mmile

Management

Mr. Kgotso Bannalotlhe	Managing Director
Mr. Mmoloki Ramaeba	Head of Commercial Banking
Mr. Fortune Takaindisa	Head of Finance
Mrs. Tefo Lionjanga	Head of Banking Operations
Mrs. Neo Ndwapi	Head of Human Capital
Mrs. Lindiwe Mogotsi	Head of Risk
Mrs. Itumeleng Moremong	Head of Strategic Relationships
Mrs. Segametsi Sethantsho	Head of Credit
Mr. Molefe Petros	Head of Information Technology
Mrs. Thato Mmile	Head of Legal, Compliance & Company Secretary
Mrs. Kagiso Grace Setlhare-Mankanku	Head of Retail Banking
Mrs. Polelo Kilner	Head of Marketing and Communications
Mrs. Tumelo Pitlo	Head of Treasury
Mr. Kabelo Sechoni	Head of Internal Audit (Acting)

Administration

Registered Office:	ABC Botswana ABC House Plot 62433 Fairgrounds Office Park Gaborone Botswana
Telephone:	3674300
Fax:	3902131

Auditors

KPMG
Plot 67977
Fairgrounds Office Park
P O Box 1519
Gaborone

Bankers

Standard Bank of South Africa Limited
Standard Chartered Bank New York
Citibank New York

Directors' report

The Directors have pleasure in submitting their Annual Report and the Financial Statements of African Banking Corporation of Botswana Limited for the year ended 31 December 2018.

Activities

The Bank was licensed as a commercial bank on 28 August 2009 and is trading as BancABC ("the bank"). Its principal activities include treasury activities, corporate and SME banking, trade finance, investment banking and retail banking. The bank registered an insurance agency on 18 January 2012. The insurance agency was registered as Kaleu (Pty) Ltd, trading as BancABC Insurance. Kaleu (Pty) Ltd is 100% owned by the bank.

Stated capital

The issued share capital of the bank comprised of 29 000 000 ordinary shares at the beginning of the year. During the year, the board of directors approved a share split of one share for 25 shares resulting in a total number of shares of 725 000 000 at the end of the year.The shares were then listed on the Botswana stock exchange on 13 December 2018.

Dividend

No dividends were declared during the current or previous financial year.

Directorate

During early 2019, BancABC confirmed Mrs. Lorato Nthando Mosetlhanyane as the Board Chair, with Mr. Joshua Benjamin Galeforolwe (appointed on 1 April 2018) as Senior Independent Non-Executive Director on the Board. BancABC also welcomed Mr. Boiki Matema Wabo Tema and Mrs. Ntoti Mosetlhe to the Board of Directors on the 3rd of October 2018 and the 1st of November 2018 respectively having had to bid farewell to Mr. Elias Mpedi Magosi effective on the 1 August 2018.

The members will be asked to approve the directors' emoluments for the year ended 31 December 2018 amounting to P3,349,000 (2017: P1,811,000).

Events after the reporting date

On 17 January 2019 BancABC Botswana finalised a USD 10 million debt facility with Microfinance Enhancement Facility SA, SICAV-SIF, an investment company with variable capital established as a Luxembourg specialised Investment fund, organised and existing under the laws of Luxembourg, registered with the Luxembourg Trade and Companies Register. The debt facility will be used to finance the bank's asset growth as well as to manage any potential liquidity mismatches. The facility was partially utilised by the time these financial statements were authorised for issue.

The debt facility has a 3 year tenor. Interest is paid half yearly during the three years. The facility is priced at Libor plus a margin of 4.25bps.

Mrs. Thato Mmile
Company Secretary

Directors' statement of responsibility and approval

for the year ended 31 December 2018

The Directors are required by law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the group as at the end of the financial year, and of the statement of profit or loss and other comprehensive income and statement of cash flows of the group for the year.

The Directors consider that, in preparing the Financial Statements for the year ended 31 December 2018 on pages 64 - 157 the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors are responsible for ensuring that the group keeps accounting records which disclose with reasonable accuracy at any time the profit or loss and other comprehensive income, financial position, changes in equity and cash flows of the group which enable them to ensure that the financial statements comply with the Botswana Companies Act, 2003, the Banking Act (Cap 46:04) and International Financial Reporting Standards (IFRS).

The Directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Auditors' responsibilities are stated in their report to the shareholders on pages 59 - 63.

The members of the Board, supported by the Risk and Compliance Committee and the Audit Committee, are satisfied that management introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the annual financial statements, to safeguard the assets of the group and to ensure all transactions are duly authorised.

The Directors have no reason to believe that the group will not be a going concern in the year ahead, based on the forecasts and available cash resources. These Financial Statements have accordingly been prepared on that basis.

The Board of Directors have reviewed and approved the accompanying financial statements, set out on pages 64 - 157 for issue.

Mrs. Lorato Nthando Mosetlhanyane
Chairperson

Mr. Kgotso Bannalotlhe
Managing Director

Report of the Independent Auditors

To the Shareholders of African Banking Corporation of Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of African Banking Corporation of Botswana Limited (the Group and Company), set out on pages 64 - 157, which comprise the statements of financial position as at 31 December 2018, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the significant accounting policies and the notes to the financial statements.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of African Banking Corporation 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 and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and company 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 2.1 - significant accounting judgements, estimates and assumptions – measurement of expected credit loss allowance,
Note 2.4.2 - Impairment of financial assets,
Note 2.22 - Transitional IFRS 9 notes,
Note 3.1 - Credit risk,
Note 4.2 - Measurement of expected credit loss – 2018 only,
Note 6 - Changes in expected credit losses
Note 20 - Loans and advances to customers.

KPMG

The key audit matter	How the matter was addressed in our audit

The Group and the Company's core business involves providing loans and advances to individuals and corporate customers.
 	
The Group and company's gross loans and advances amount to BWP6.12billion as at 31 December 2018 (2017:BWP5.89billion) and impairment allowance for the year amount to BWP303million as at 31 December 2018 (2017:BWP94million).
 	
On 01 January 2018, the Group and Company 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.
 	
The impairment provision is considered separately on an individual (specific) and collective impairment basis.
 	
Retail exposures (collective impairment basis)
A significant portion of the loan book impairment is calculated on a collective basis. In calculating the impairment provision, 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 exposures (specific impairment basis)
Expected credit losses on individually large exposures and credit impaired loans are measured individually.
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.
 	
Due to the significance of the 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.
	Our procedures included the following:
	
	- We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan impairment process, focusing on the identification of impairment losses, the governance processes implemented for credit models and inputs, and management's oversight over the loan provisions.
	- We evaluated the design and implementation and the operating effectiveness of controls relating to the Group and the Company's loan origination process and credit reviews.
	- 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 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 with consideration for internal business practice as well as industry norms. Our credit risk specialists re-performed model calculations to confirm the risk parameter inputs.
	- We assessed completeness, accuracy and validity of data and inputs used during the development and application of the ECL models.
	- Assessed the reasonableness of forward-looking information incorporated into the credit loss calculations.
	- 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 exposures (collective 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 and Company's ECL.
	
	Wholesale exposures (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.

Other Information

The Directors are responsible for the other information. The other information comprises Directorate, management and administration, Directors' report and the, Directors' statement of responsibility and approval and all the information contained in the annual report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

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.

KPMG

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 and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

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

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

Report of the Independent Auditors (continued)

To the Shareholders of African Banking Corporation of Botswana Limited

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
29 March 2019
Gaborone

Statement 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 and similar income		748,923	767,181	748,923	767,181
Effective expense and similar charges		(330,931)	(278,230)	(334,969)	(278,230)
Net interest income	5	**417,992**	**488,951**	**413,954**	**488,951**
Changes in expected credit losses and other credit impairment charges	6	18,906	-	18,906	-
Loan impairment charges	6	-	(48,697)	-	(48,697)
Net interest income after expected credit losses/ loan impairment charge		**436,898**	**440,254**	**432,860**	**440,254**
Net trading income	7	14,865	36,432	14,865	36,432
Net fee and commission income	8	118,138	76,476	89,183	54,957
Total net revenue		**569,901**	**553,162**	**536,908**	**531,643**
Personnel expenses	9	(144,979)	(126,598)	(144,203)	(125,871)
General and administrative expenses	10	(159,391)	(137,581)	(156,160)	(135,933)
Depreciation and amortisation expenses	11	(26,422)	(22,298)	(26,422)	(22,298)
Other operating expenses	12	(73,693)	(87,563)	(73,693)	(87,563)
Total operating expenses		**(404,485)**	**(374,040)**	**(400,478)**	**(371,665)**
Profit before tax		**165,416**	**179,122**	**136,430**	**159,978**
Income tax expense	13	(37,234)	(39,960)	(30,845)	(35,748)
Profit for the year		**128,182**	**139,162**	**105,585**	**124,230**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Gain on revalution of property		4,440	(1,500)	4,440	(1,500)
Deferred tax (loss)/gain on revaluation of property	13.4	(977)	330	(977)	330
Other comprehensive income for the year		**3,463**	**(1,170)**	**3,463**	**(1,170)**
Total comprehensive income for the year		**131,645**	**137,992**	**109,048**	**123,060**
Earnings per share					
Basic and diluted earnings per share (thebe)	14	204	480	168	428

The notes on pages 134 - 157 are an integral part of these financial statements.

Statement of financial position

as at 31 December 2018

		Consolidated		Company	
	Notes	2018 P'000	2017 P'000	2018 P'000	2017 P'000
ASSETS					
Cash and balances with the Central Bank	16	424,734	369,567	424,734	369,567
Balances with other banks	18	845,788	425,038	845,788	425,038
Balances due from related parties	17.1	528,780	628,403	528,780	628,403
Derivative financial assets	34	62,755	63,967	62,755	63,967
Financial assets held for trading	19	-	632,673	-	632,673
Financial assets held at amortised cost	19	1,162,700	-	1,162,700	-
Loans and advances to customers	20	5,809,123	5,795,372	5,809,123	5,795,372
Other assets	21	53,100	37,305	49,680	35,201
Current tax assets	27.1	12,544	17,020	12,733	17,669
Deferred tax asset	27.2	50,553	-	50,553	-
Intangible assets	28	110,833	90,341	110,833	90,341
Property and equipment	29	69,705	68,033	69,705	68,033
Total assets		**9,130,615**	**8,127,719**	**9,127,384**	**8,126,264**
LIABILITIES					
Deposits from banks	22	16,321	130,703	16,321	130,703
Deposits from customers	22	7,192,452	6,059,935	7,321,048	6,160,530
Derivative financial liabilities	34	59,173	61,577	59,173	61,577
Balances due to related parties	17.2	54,201	32,686	54,201	32,686
Other liabilities	26	92,787	79,707	77,370	71,470
Deferred tax liabilities	27.1	-	13,900	-	13,900
Borrowed funds	23	742,880	683,906	742,880	683,906
Total liabilities		**8,157,814**	**7,062,414**	**8,270,993**	**7,154,772**
EQUITY					
Stated capital	24	222,479	222,479	222,479	222,479
Retained earnings	25.3	735,786	831,753	619,376	737,940
Revaluation reserve	25.2	8,445	4,982	8,445	4,982
Other reserves	25.1	6,091	6,091	6,091	6,091
Total equity		**972,801**	**1,065,305**	**856,391**	**971,492**
Total equity and liabilities		**9,130,615**	**8,127,719**	**9,127,384**	**8,126,264**

The notes on pages 134 - 157 are an integral part of these financial statements.

Statement of changes in equity

as at 31 December 2018

Consolidated

	Notes	Stated capital P'000	Other reserves P'000	Revaluation reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2017		**222,479**	**6,091**	**6,152**	**692,591**	**927,313**
Profit for the year		-	-	-	139,162	**139,162**
Revaluation of land and buildings	25.2	-	-	(1,500)	-	**(1,500)**
Deferred tax on revaluation	25.2	-	-	330	-	**330**
Total comprehensive income		**-**	**-**	**(1,170)**	**139,162**	**137,992**
At 31 December 2017		**222,479**	**6,091**	**4,982**	**831,753**	**1,065,305**
Expected credit loss (ECL) adjustment on initial application of IFRS 9 at 1 January 2018	2.22	-	-	-	* (288 515)	**(288,515)**
Deferred tax on ECL adjustment on initial application of IFRS 9 at 1 January 2018	2.22	-	-	-	63,473	**63,473**
Net impact on IFRS 9 application at 1 January 2018		**-**	**-**	**-**	**(225,042)**	**(225,042)**
Re-measurement of financial instruments from fair value to amortised cost	2.22				893	**893**
At 1 January 2018		**222,479**	**6,091**	**4,982**	**607,604**	**841,156**
Profit for the year		**-**	**-**	**-**	**128,182**	**128,182**
Revaluation of land and buildings	25.2	-	-	4,440	-	**4,440**
Deferred tax on revaluation	25.2	-	-	(977)	-	**(977)**
Total comprehensive income		**-**	**-**	**3,463**	**128,182**	**131,645**
At 31 December 2018		**222,479**	**6,091**	**8,445**	**735,786**	**972,801**

*The adoption of IFRS 9 resulted in an increase in impairments of P289 million which was adjusted against retained earnings net of tax. At the time of publishing the half year results the impact of adoption of IFRS 9 was assessed net of tax as P194 million. Subsequent review of the model resulted in an increase of the day 1 adjustment net of tax to P225 million.

Statement of changes in equity (continued)
as at 31 December 2018

Company

	Notes	Stated capital P'000	Other reserves P'000	Revaluation reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2017		**222,479**	**6,091**	**6,152**	**613,710**	**848,432**
Profit for the year		-	-	-	124,230	**124,230**
Revaluation of land and buildings	25.2	-	-	(1,500)	-	**(1,500)**
Deferred tax on revaluation	25.2	-	-	330	-	**330**
Total comprehensive income		**-**	**-**	**(1,170)**	**124,230**	**123,060**
At 31 December 2017		**222,479**	**6,091**	**4,982**	**737,940**	**971,492**
Expected credit loss (ECL) adjustment on initial application of IFRS 9 at 1 January 2018	2.22	-	-	-	* (288 515)	**(288 515)**
Deferred tax on ECL adjustment on initial application of IFRS 9 at 1 January 2018	2.22	-	-	-	63,473	**63,473**
Net impact on IFRS 9 application at 1 January 2018		**-**	**-**	**-**	**(225,042)**	**(225,042)**
Re-measurement of financial instruments from fair value to amortised cost	2.22	-	-	-	893	**893**
At 1 January 2018		**222,479**	**6,091**	**4,982**	**513,791**	**747,343**
Profit for the year		**-**	**-**	**-**	**105,585**	**105,585**
Revaluation of land and buildings	25.2	-	-	4,440	-	**4,440**
Deferred tax on revaluation	25.2	-	-	(977)	-	**(977)**
Total comprehensive income		**-**	**-**	**3,463**	**105,585**	**109,048**
At 31 December 2018		**222,479**	**6,091**	**8,445**	**619,376**	**856,391**

The notes on pages 134 - 157 are an integral part of these financial statements.

*The adoption of IFRS 9 resulted in an increase in impairments of P289 million which was adjusted against retained earnings net of tax. At the time of publishing the half year results the impact of adoption of IFRS 9 was assessed net of tax as P194 million. Subsequent review of the model resulted in an increase of the day 1 adjustment net of tax to P225 million.

Statement 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					
Profit before tax		165,416	179,122	136,430	159,978
Adjusted for:					
Depreciation	29	12,216	12,074	12,216	12,074
Amortisation of intangible assets	28	14,206	10,224	14,206	10,224
Expected credit losses / Loan impairment charges	6	(18,906)	48,697	(18,906)	48,697
Profit on disposal of fixed assets		-	(5)	-	(5)
Fair value adjustment on derivatives		(1,192)	545	(1,192)	545
Movement in deferred lease liability		451	2,698	451	2,698
Taxation paid	27.1	(34,715)	(36,012)	(27,866)	(32,403)
Cash flows from operating activities before changes in operating assets and liabilities		**137,476**	**217,343**	**115,339**	**201,808**
Movement in operating assets/liabilities:					
Loans and advances to customers		(276,093)	(166,036)	(276,093)	(166,036)
Other assets		(16,570)	(245,770)	(15,256)	(246,908)
Deposits from customers and banks		1,018,135	(678,572)	1,046,136	(659,056)
Other liabilities		27,006	(53,074)	19,828	(55,917)
Net cash from operating activities		**889,954**	**(926,109)**	**889,954**	**(926,109)**
Cash flows from investing activities					
Purchase of property and equipment	29	(9,448)	(4,759)	(9,448)	(4,759)
Proceed from disposal of property and equipment		-	5	-	5
Purchase of intangibles assets	28	(34,698)	(41,439)	(34,698)	(41,439)
Net cash used in investing activities		**(44,146)**	**(46,193)**	**(44,146)**	**(46,193)**
Cash flows from financing activities					
Proceeds from borrowed funds		150,000	396,236	150,000	396,236
Repayments on borrowed funds		(91,026)	(9,133)	(91,026)	(9,133)
Net cash from financing activities		**58,974**	**387,103**	**58,974**	**387,103**
Net increase/(decrease) in cash and cash equivalents		904,782	(585,199)	904,782	(585,199)
Cash and cash equivalents at beginning of year		874,035	1,459,234	874,035	1,459,234
Cash and cash equivalents at end of year		**1,778,817**	**874,035**	**1,778,817**	**874,035**
Cash and cash equivalents comprised of:					
Balances with other banks	18	845,788	425,038	845,788	425,038
Financial assets	19.1	815,440	368,830	815,440	368,830
Cash and balances with the Central Bank	16	117,589	80,167	117,589	80,167
		1,778,817	**874,035**	**1,778,817**	**874,035**

The notes on pages 134 - 157 are an integral part of these financial statements.

Significant accounting policies

for the year ended 31 December 2018

General information

African Banking Corporation of Botswana Limited (trading as BancABC) provides corporate banking, retail and treasury activities. The company is a limited liability company and is incorporated and domiciled in Botswana (registration number C086/384). A 100% owned subsidiary company of BancABC, Kaleu (Pty) Ltd was registered as an insurance agency in 2012. The registered address of the Group and company is Plot 62433, BancABC House, Fairgrounds Office Park, Private Bag 00303, Gaborone. The Group's holding company is ABC Holdings Limited with a shareholding of 79.5%. The ultimate holding company is Atlas Mara Co-Nvest Limited incorporated in the British Virgin Islands and assumed control of ABC Holdings on 31 August 2014. African Banking Corporation of Botswana Limited was listed on the Botswana Stock Exchange on 13 December 2018.

1. Basis of preparation

The consolidated and company ("the Group") financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Banking Act (Cap 46:04). The financial statements have been prepared in accordance with the going concern principle under the historical cost convention for all years presented unless otherwise stated, except as modified by the revaluation of financial instruments measured at fair value through profit or loss (FVTPL) (comparative period), property and equipment measured at revalued amounts. The Group has consistently applied the accounting policies. Where necessary, the Group adjusts comparative figures to conform to changes in presentation in the current year.

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

This is the first set of the Group's annual financial statements in which IFRS 9: *Financial instruments* and IFRS 15: *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 2.

Comparatives

The prior year figures are presented in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* basis. Presentation of certain comparatives have been changed to align with current year disclosures. The main changes are in respect of IFRS 9.

The financial statements comprise the statement of profit or loss and comprehensive income showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumption and estimates are significant to the financial statement are disclosed. Refer to note 4.

Basis of consolidation

The consolidated annual financial statements include those of African banking Corporation of Botswana Limited and Kaleu (Pty) Ltd ("the Group").

Subsidiaries are those entities controlled by the Group. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. Accounting policies of subsidiaries conform to the policies adopted by the Group. Investments in subsidiaries are accounted for at cost less impairment losses in the Company accounts. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

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

1.1 Standards and Interpretations in issue but not yet effective:

The Directors are of the opinion that the impact of the Classification and *Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*,IFRS 4 *Insurance Contracts (Amendments to IFRS 4) Transfers of Investment property (Amendments to IAS 40)* are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lesees and lessors. The Group and Company have begun assessing the potential impact of IFRS 16 on the financial statements but have not opted for early adoption. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity adopts IFRS 15.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same under IAS 17. The Group expects to adopt the standard using a modified retrospective approach where the cumultive effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to have a reduction on retained earnings of P13.3 million net of tax. Assets and liabilities are expected to both increase by P75 million.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- Judgments made;
- Assumptions and other estimates used; and
- The potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. The Group did not opt for early adoption.

This standard is not expected to have any impact on the the Group`s Financial statements.

Prepayments Features with Negative Compensation (Ammendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted. The Group did not opt for early adoption.

Long-term Interests in Associates and Joint Ventures (Ammendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

1.1 Standards and Interpretations in issue but not yet effective (continued):

Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)

The IASB's amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments clarify that:

- On amendment, curtailment or settlement of a defined benefit plan, it is now mandatory for entities to use the updated actuarial assumptions to determine the current service cost and net interest for the period; and
- The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted.

Annual Improvements to IFRS Standards 2015/2017 Cycle various standards

As part of its process to make non-urgent but necessary ammendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2015-2017 cycle. The ammendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

1.2 Early adoption of standards

The Group did not early-adopt new or amended standards in 2018.

1.3 Changes in accounting policies

The accounting policies disclosed for the consolidated financial statements apply equally to the Company's separate financial statements unless otherwise specified. In preparing these financial statements, the Group adopted the following new and revised amendments and interpretations effective in 2018 that are relevant to the Group:

Applicable standards, interpretations and amendments issued and effective:

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other interpretations and ammendments are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements have not been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributable to the following:

- an increase in expected credit losses on financial assets (see Note 2 on Significant Accounting Policies);
- additional disclosures related to IFRS 9 (refer to Notes 2.22 on detailed disclosures relating to IFRS 9);

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

1.3 Changes in accounting policies (continued)

Applicable standards, interpretations and amendments issued and effective (continued):

IFRS 9: Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements for IAS 39. The Group however did not have any hedge accounting balances or transactions for the reporting periods.

The Group has adopted consequential ammendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to the comparative information. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 2 and 3.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, refer to Note 2.22 for more details.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9,see 'Significant Accounting Policies'.

1.3 Changes in accounting policies (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been recognised in retained earnings as at 1 January 2018, except as described below. Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of the initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at Fair Value Through Profit or Loss (FVTPL).
- The designation of certain investments in equity instruments not held for trading as at Fair Value through Other Comprehensive Income (FVOCI).
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 ***Revenue from contracts with customers*** establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18: ***Revenue,*** IAS 11: ***Construction Contracts*** and related interpretations. It applies to all contracts with customers except for transactions specifically scoped out and which include interest, dividends, leases and insurance contracts.

The Group initially applied IFRS 15 in full on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note below).

In addition, BancABC has adopted the requirements of IFRS 15 ***'Revenue from contracts with customers'*** and a number of interpretations and ammendments to standards, which have had an insignificant effect on the consolidated financial statements of BancABC and separate financial statements of the Company.

1.3 Changes in accounting policies (continued)
Transition (continued)

Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregragated by major type of service. The table also includes a reconciliation of disaggregragated fee and commission income with the group segments:

	Reportable segments							
For the year ended 31 December	**Retail banking**		**Commercial banking**		**Treasury**		**Total**	
	2018 P'000	**2017 P'000**	**2018 P'000**	**2017 P'000**	**2018 P'000**	**2017 P'000**	**2018 P'000**	**2017 P'000**
Cash and liquidity management	31,467	19,414	7,053	7,337	-	-	38,520	26,751
Loan arrangement fees	17,058	11,677	3,318	2,027	-	-	20,376	13,704
Loan insurance fees	31,491	23,129	-	-	-	-	31,491	23,129
Other bank fees	12,620	12,041	8,415	6,604	-	-	21,035	18,645
Internet Banking Income	80	72	18	11	-	-	98	83
Cellphone Banking Income	2,220	1,776	-	-	-	-	2,220	1,776
Card Income	23,211	10,336	-	-			23,211	10,336
Other income	19,584	12,691	256	39	-	-	19,840	12,730
Total fee and commission income from contracts with customers	**137,731**	**91,136**	**19,060**	**16,018**	**-**	**-**	**156,791**	**107,154**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management,provision of overdraft facilities,foreign currency transactions, credit card and servicing fees. Fees for ongoing account managementare charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

2 Significant accounting policies

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

2.1 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ending 31 December 2019 is included in the following notes;

- Determination of the fair value of financial instruments with significant unobservable inputs.
- Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used
- Estimation of current tax payable and current tax expense
- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows

The judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

Measurement of expected credit loss allowance – Applicable to 2018 only

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses. Explanations of the inputs assumptions and estimation techniques used in measuring ECL is further detailed on IFRS 9 note 2.22, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

2.2 Functional currency and presentation currency

Items included in the financial statements are measured using Pula, being the currency of the primary economic environment in which the entity operates ("the functional currency"). Except as otherwise indicated, financial information presented in Pula has been rounded to the nearest thousand. The financial statements are presented in Pula, which is the Group's presentation currency.

2 Significant accounting policies (continued)

2.3 Foreign currency transactions

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 net trading income of the statement of comprehensive income.

2.4 Financial instruments

Classification of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and financial assets available-for-sale. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. The fair value designation, once made, is irrevocable. Subsequent to the initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes therein are recognised in profit or loss for all dated financial assets and in non interest revenue for all undated financial assets. Financial assets at fair value through profit and loss are measured at initial recognition and subsequently at fair value based on quoted market price using the bid/offer mid rate at the reporting date. If there is no quoted market price in an active market, the instruments are measured using valuation models. All changes in fair value are recognised in the profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables comprise of cash balances with the Central Bank, balances due from related parties, balances with other banks and loans and advances to customers. Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

The majority of the Group's advances are included in the loans and receivables category. They are stated net of allowances for specific and portfolio impairment.

Included in loans and advances are finance lease receivables. Finance lease receivables are those leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset. Finance lease charges are recognised in interest income using the effective interest method.

2 Significant accounting policies (continued)

2.4 Financial instruments (continued)

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Banks, treasury bills and other eligible bills, loans and advances to Groups, amounts due from other Groups and short-term government securities. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Other assets

Other assets initially measured at fair value, are subsequently measured at amortised cost using the effective interest method less impairment losses. Other assets comprise of interbranch accounts, prepayments and staff advances.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as the Group's trading activities.

(f) Derivative financial assets and liabilities

A derivative is a financial instrument with the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable;
- It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date. Derivatives are normally recorded in the statement of financial position at fair value with any changes in value reported in profit or loss.

Derivatives are normally recorded in the statement of financial position at fair value with any changes in value reported in profit or loss.

2.4.1 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access to at that date. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. When available, the Group measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for assets and liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market then the Group uses valuation techniques that maximise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

When such valuation models, with only observable market data as input, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in the profit or loss immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The deferral and unwind method is based on the nature of the instrument and availability of market observable inputs.

2 Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.1 Fair value (continued)

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analysis are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the reporting date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

2.4.2 Impairment of financial assets (applicable to 2017 only)

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.2 Impairment of financial assets (applicable to 2017 only) (continued)

(a) Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss in loan impairment charges.

(b) Available for sale assets

A significant or prolonged decline in fair value of an equity security below its cost is considered among other factors in assessing objective evidence of impairment for equity securities. Where objective impairment exists for available for sale financial assets, the cumulative loss is measured as the difference between the amortised cost and the current fair value less impairment loss of that financial asset previously recognised in profit or loss.

(c) Renegotiated loans

If the terms of a loan were renegotiated or modified or an existing loan was replaced with a new one due to financial difficulties of the borrower, then an assessment was made of whether the loan should be derecognised. If the cash flows of the renegotiated loan were substantially different, then the contractual rights to cash flows from the original loan were deemed to have expired. In this case, the original loan was derecognised and the new financial asset was recognised at fair value.

Loans that are either subject to collective impairment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

2 Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.2 Impairment of financial assets (applicable to 2017 only) (continued)

(d) Collateral valuation

The Group sought to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral was generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, was valued daily.

To the extent possible, the Group used active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value were valued using models. Non-financial collateral, such as real estate, was valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

2.5 Financial liabilities

Financial liabilities other than trading liabilities are initially recognised at fair value and subsequently carried at amortised cost using effective interest rate method. Financial liabilities are derecognised when they are extinguished.

2.6 Interest income and expense

Interest income and interest expense are recognised in profit or loss for all interest bearing financial instruments on an accruals basis using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

2 Significant accounting policies (continued)

2.8 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Income tax is recognised in profit or loss unless it relates to items directly in equity or other comprehensive income in which instance it is recognised in equity or other comprehensive income.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The recognition of deferred tax assets is based on profit forecasts made by management of the particular Group Company where the asset has arisen. These forecasts take into account the Group's re-capitalisation plans of the subsidiary and market conditions prevailing in the economy in which the Company operates.

2.9 Deferred tax

Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, the changes in fair value of financial assets and liabilities which are measured at fair value, provisions for bad debts and tax losses carried forward.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realistic.

Deferred taxation is not recognised when it arises from:

- temporary differences on initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss.
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising from the initial recognition of goodwill.

2.10 Property and equipment

Items of property and equipment are stated at cost or revaluation less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

2 Significant accounting policies (continued)

2.10 Property and equipment (continued)

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

- Commercial Buildings	Shorter of estimated life or period of lease
- Motor vehicles	5-6 Years
- Furniture	10 Years
- Office equipment	5 Years
- Computer equipment	3-4 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Land and buildings held for use for administrative purposes or for supply of services are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. Revaluations are performed annually such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any revaluation surplus or deficit arising on the revaluation of such land and buildings is credited/debited in other comprehensive income and accumulated in equity. The reserve is utilised on the sale of other assets.

Gains and losses on disposal of plant and equipment, which arise in the normal course of business are determined by reference to the asset carrying amounts compared to the proceeds received and are recognised in profit or loss.

2.11 Intangible assets

Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life is three to five years.

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.

2 Significant accounting policies (continued)

2.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Repossessed property

In certain circumstances, property pledged as collateral by customers is repossessed following the foreclosure on loans that are in default. Repossessed properties are maintained off balance sheet and measured at fair value prior to disposal. Properties pledged as collateral are taken into consideration when calculating credit exposures and impairment provisions.

2.14 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised in profit or loss as interest expense.

2.15 Financial guarantee contracts

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 a debt instrument. Such financial guarantees are given to groups, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss, the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Financial guarantees and loan commitments issued at a below-market interest rate are initially recognised in the financial statements at fair value on the date the guarantee or loan commitment was given, while financial guarantee contracts and loan commitments issued at market rates are recorded off balance sheet.

Subsequently they are measured as follows:
Any increase in the liability relating to guarantees is taken to profit or loss under other operating expenses.

2 Significant accounting policies (continued)

2.16 Employee benefits

(a)Defined Contribution plans

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other short term employee benefits

The Group's obligation in respect of accumulated leave days is recognised in full in the statement of financial position. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group assists officers and employees in respect of housing, motor vehicles and personal loans at subsidised rates as part of their remuneration package.The loans to employees are fair valued at the prevailing market interest rate at the time of origination.The loans are held as financial assets at armotised cost.

2.17 Stated capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity as a liability and deduction in the period in which they are approved by the Group's shareholders.

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

2.18 Lease agreements

(a) Where the group is the lessor

Finance leases

Assets leased to customers under agreements, which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The group allocates each lease payment between the liability and finance charges to achieve a constant rate on the balance outstanding. The interest component of the finance charge is charged to profit or loss over the lease period. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(b) Where the group is the lesee

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances on the statement of financial position. Finance charges earned are computed using the effective interest method, which reflects a constant periodic return on the investment in the finance lease.The group capitalise all the initial direct costs paid to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return. The Group's escalation clauses have been agreed upon on the contracts and they are only subject to change on contract renewal.

2 Significant accounting policies (continued)

2.18 Lease agreements (continued)

Operating leases (continued)

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. The total payments made under operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.19 Related parties

Parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other, in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business. These transactions are carried out under normal commercial terms and conditions at market rates, as summarised in the notes to the financial statements.

2.20 Borrowings

Borrowings are recognised initially at a fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transactions costs of the loan to the extent that is probable that some or all of the facility will be drawn down. In this case the fee is deferred until the draw-down occurs.

2.21 Other liabilities

Other liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

2.22 Transitional IFRS 9 Notes

IFRS 9: Financial Instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

Classification of Financial assets

Policy from 1 January 2018

On recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are Solely Payments of Principal and Interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Classification of Financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business model is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and its strategy for how those risks are managed;
- how managers of the business model are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments for principal and interest

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

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

ii) Reclassified from amortised cost

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

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

iii) Reclassified from fair value through other comprehensive income

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

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

iv) Reclassified from fair value through profit or loss

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

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Key Credit Definitions

Credit risk is broken down into the common risk components of probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), modelled at a client, facility and portfolio level. These risk components are used in the calculation of a number of aggregate risk measures such as Expected Loss Credit (ECL). The models used by the Group are aimed to be compliant with Basel II and regulatory requirements. These risk measures would be used as inputs to calculate the collective impairment amounts.

Components	Definition
Probability of default (PD)	The probability that a counterparty will default, over the next 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2 and stage 3) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The PD estimates will fluctuate in line with the economic cycle. The lifetime (or term structure) PDs are based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.
Loss given default (LGD)	The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive. The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.
Exposure at default (EAD)	The expected statement of financial position exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

Expected credit losses

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables
- financial guarantee contracts issued; and
- loan commitments issued.
- financial assets at FVOCI (ECL is only measured for financial assets if they are debt instruments)

No impairment loss is recognised on equity investments.

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

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Measurement

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

The estimate of ECL is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument.

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

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

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

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

Recognition of Credit losses and Impairment methodology

12 months expected credit losses (stage 1)

If financial assets are exposed to low credit, expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. The credit risk on a financial instrument is considered low if it has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Financial assets that are 0-29 days past due and not credit-impaired are classified as stage 1.

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Significant increase in credit risk (stage 2)

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

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty.

Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

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

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

Credit-impaired (or defaulted) exposures (stage 3)

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

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

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions.
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligations;

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Credit-impaired (or defaulted) exposures (stage 3) (continued)

· The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;

· Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses

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

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

For individually significant financial assets within stage 3, the MANCO Credit Committee will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options. The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

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

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

Expert credit judgement

For Corporate lending, borrowers are graded by credit risk management on a credit grading scale from Performing to Loss. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as credit grade Special Mention the credit assessment and oversight of the loan will normally be performed by Group Credit Committee.

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

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

Credit-impaired (or defaulted) exposures (stage 3) (continued)

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use. Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models. The group applies a single default definition on the impairment model and it implies once a customer falls into default ,they will fall into default with no curing except for settlement cures which are applied within the model.Therefore once an account migrates into default ,it will remain in default until settlement.

Modified financial instruments

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

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third-party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

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

Write-offs of credit-impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as income in profit or loss.

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

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

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

Forward Looking Information

The group's impairment model is continuously undergoing enhancement as data availability and quality improves. Because of the unavailability of historical data on certain key fields, the group elected to apply a single default model of impairment calculation. Single default definition is applied throughout the modelling process. Therefore, no curing, except for settlement cures, are applied within the modelling. Under this model, once an account migrates into default, it will remain in default until settlement. This model is very conservative and given the nature of the loan book which is mostly retail with repayments at source from government, high and stable collection rates, stable economic environment, high levels of employment security, stable probability of default and generally high but stable loss given default (LGD's). It was management well considered view that the model is not yet mature enough to incorporate forward looking information. Expected credit losses (ECL's) are expected to remain stable in the short term, with improvements in ECL's expected to be influenced by improvements in data quality.

The following table illustrates measurement category comparison between IAS 39 and IFRS 9:

The measurement category and carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS at 1 January 2018

In thousands of pula	IAS 39		IFRS 9	
Financial asset	**Measurement Category**	**Carrying amount**	**Measurement Category**	**Carrying amount**
Cash and balances with the Central Bank	Loans and receivables -amortised cost	369,567	Amortised cost	369,567
Balances with other banks	Loans and receivables -amortised cost	425,038	Amortised cost	425,038
Financial assets held for trading	Held for trading - FVPL	632,673	Amortised cost	633,551
Loans and advances	Loans and receivables -amortised cost	5,795,372	Amortised cost	5,546,275
Balances due from related parties	Loans and receivables -amortised cost	628,403	Amortised cost	628,391
Derivative financial assets	Held for trading - FVPL	63,967	Held for trading - FVPL	63,967
Total financial assets		**7,915,020**		**7,666,789**

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

The following table illustrates the original assessment categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets at 1 January 2018 and the reclassifications between IAS 39 measurement categories and the IFRS 9 measurement categories:

		Remeasurement due to adoption of IFRS 9				
In thousands of Pula	Carrying amount as at 31 December 2017 (IAS 39)	IFRS 9 ECL	IFRS 9 Classification and measurement	Carrying amount 1 January 2018	Amortised cost	FVTPL
Financial assets						
Cash and balances with Central bank	369,567	-	-	369,567	369,567	-
Balances with other banks	425,038	-	-	425,038	425,038	-
Financial assets held for trading	632,673	(15)	893	633,551	633,551	-
Derivative financial assets	63,967	-	-	63,967	-	63,967
Balances due from related parties	628,403	(115)	-	628,288	628,288	-
Loans and advances to customers	5,795,372	(281,247)	-	5,514,125	5,514,125	-
Total assets	**7,915,020**	**(281,377)**	**893**	**7,634,536**	**7,570,569**	**63,967**
Off balance sheet	738,442	(7,138)	-	731,304	731,304	-
Total	**8,653,462**	**(288,515)**	**893**	**8,365,840**	**8,301,873**	**63,967**
Financial liabilities						
Deposits from customers	6,059,935	-	-	6,059,935	6,059,935	-
Deposits from banks	130,703	-	-	130,703	130,703	-
Balances due to related parties	32,686	-	-	32,686	32,686	-
Borrowed funds	683,906	-	-	683,906	683,906	-
Derivative financial liabilities	61,577	-	-	61,577	-	61,577
Total liabilities	**6,968,807**	**-**	**-**	**6,968,807**	**6,907,230**	**61,577**

2 Significant accounting policies (continued)

2.22 Transitional IFRS 9 Notes (continued)

The table below shows movement in equity balances as at 31 December 2017 before and after IFRS 9 transition:

	Movement as a result of IFRS 9 day 1 adjustment		
In thousands of pula	**Balance as at 31-Dec-2017 (Audited)**	**IFRS 9 transitional adjustments**	**Adjusted Balance as at 1 January 2018 (Audited)**
Ordinary share capital and share premium	222,479	-	222,479
Retained earnings	831,753	-	831,753
Movement as a result of IFRS 9 Day 1 adjustments:			
Reclassification of financial instruments	-	878	878
Increase in expected credit loss on balances due from related parties	-	(115)	(115)
Increase in expected credit loss on loans and advances to customers	-	(281,247)	(281,247)
Increase in expected credit loss on off balance sheet items	-	(7,138)	(7,138)
Deferred tax asset arising from the impairment impact	-	63,473	63,473
Net impact on retained earnings	1,054,232	(224,149)	830,083
Other reserves	**11,073**	**-**	**11,073**
Total equity position after IFRS 9 transition	**1,065,305**	**(224,149)**	**841,156**

3 Financial risk management

Objectives on risk management

The group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the group's financial performance.

The group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial Risk Governance

Audit Committee

The Group's Audit Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial reporting across the Group. The Committee performs its role by ensuring that the external and internal audit arrangements are appropriate and effective. The annual report and accounts, interim reports and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised.

Risk and Compliance Committee

The objective of the Committee is to assist the Board in overseeing the systems of compliance policies and procedures across the Group and to provide oversight and advice to the Board in respect of the Group's risk appetite, risk monitoring, capital management and compliance requirements. Further, the Committee provides oversight and advice to the Board on current risk exposures and future risk strategy, and to assist the Board in monitoring and reviewing the effectiveness of the credit and risk functions in the context of the Group's overall risk management framework and in maintaining appropriate compliance policies and procedures such that the Group will remain compliant with all legal and regulatory requirements applicable to it.

Assets and Liabilities Committee (ALCO)

The Group trades in financial instruments where it takes positions in traded instruments, to take advantage of short-term market movements in currency and interest rates. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities. Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives, are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Asset and Liability Committee monitors the balance sheet management and consideration of risk, liquidity risk, and interest rate risk in the banking book, the foreign exchange position risk and the capital risk. The meetings of the Committee are held monthly, however, extraodinary committee meetings may be called where there is:

(a) a sudden change in regulations;
(b) material loss of deposits without notice, and ahead of maturity;
(c) failure to honour commitments n approved facilities; or
(d) unanticipated movement in exchange rates.

Credit Committee

The Credit Committee approves large exposures and monitors them on an ongoing basis. The committee also assist the Board in ensuring that all credit activities relating to large exposures are conducted within the risk strategy, policies and tolerance levels approved by the Board.

3 Financial risk management (continued)

3.1 Credit risk

Credit risk is the risk of loss due to inability or unwillingness of the customer or other counter-party to meet their obligations. Credit risk is a significant risk facing the Group. In order to manage this risk, the Group has implemented clearly defined credit policies which are documented and form the basis of all credit decisions. The Group structures the levels of credit risk it undertakes, placing limits on the amounts of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. The Group also makes provision against non-performing accounts in line with the approved provisioning policy.

Risk limit control and mitigation policies

The group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries.

Such risks are monitored on a revolving basis and subject to an annual or more frequent reviews, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the board of directors, and reviewed regularly.
Some specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:
- Cash collateral;
- Charges over assets financed;
- Charges over cash proceeds from trading transactions financed;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities, and equities.

In order to minimise credit losses, the Group will also seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

3 Financial risk management (continued)
3.1 Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements.

	Consolidated and Company		
	P'000 Maximum exposure to credit risk	P'000 Fair value of collateral	P'000 Net Exposure
		2018	
Balances with other banks	845,788	-	845,788
Financial assets held for trading	-	-	-
Financial assets held at amortised cost	1,162,700	-	1,162,700
Balances with Central Bank	424,734	-	424,734
Amounts due from related parties	528,780	-	528,780
Loans and advances to customers	**6,123,729**	**2,158,612**	**3,965,117**
Mortgage lending	675,091	968,216	(293,125)
Instalment finance	21,244	22,191	(947)
Corporate lending	678,914	919,436	(240,522)
Commercial and property finance	4,136	494	3,642
Retail and SME lending	4,744,344	248,275	4,496,069
Maximum exposure	**9,085,731**	**2,158,612**	**6,927,119**
Credit exposures relating to off-balance sheet items are as follows:			
Financial guarantees	109,331	96,876	12,455
Loan commitments and other credit related liabilities	530,519	-	530,519
	639,850	**96,876**	**542,974**
		2017	
Balances with other banks	425,038	-	425,038
Financial assets held for trading	632,673	-	632,673
Balances with Central Bank	369,567	-	369,567
Amounts due from related parties	628,403	-	628,403
Loans and advances to customers	**5,899,757**	**1,607,039**	**4,292,718**
Mortgage lending	561,091	685,173	(124,082)
Instalment finance	40,609	29,029	11,580
Corporate lending	865,636	761,105	104,531
Commercial and property finance	424	11,134	(10,710)
Retail and SME lending	4,431,997	120,598	4,311,399
Maximum exposure	**7,955,438**	**1,607,039**	**6,348,399**
Credit exposures relating to off-balance sheet items are as follows:			
Financial guarantees	149,851	15,570	134,281
Loan commitments and other credit related liabilities	588,592	-	588,592
	738,443	**15,570**	**722,873**

3 Financial risk management (continued)

3.1.1 Repossessed collateral

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

	Consolidated and Company	
Nature of assets	2018 P'000	2017 P'000
Property	15,589	12,573
Motor Vehicles	130	3,363
	15,719	15,936

3.1.2 Loans and advances by industry sectors

The following table analyses the Group's gross loan book by the industry sectors of the counterparties:

	Consolidated and Company	
	2018 P'000	2017 P'000
Agriculture	7	103,012
Construction	58,331	46,147
Wholesale, retail and trade	277,555	318,622
Manufacturing	7,404	9,583
Mining and energy	733	795
Financial services	330,478	263,495
Transport	1,385	7,442
Real estate	54,059	119,257
Individuals	5,334,085	4,990,921
Tourism	6,762	14,700
Other	52,930	25,783
Total	**6,123,729**	**5,899,757**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.3 Loans and advances at amortised cost by stage

The table below presents an analysis of financial instruments amortised cost by gross exposure, impairment allowance and coverage ratio by stage allocation and products as at 31 December 2018. Also included are off-balance sheet items and financial guarantee contracts.

The ECLs were calculated based on actual credit loss experience over the past years. The Group performed the calculation of ECL rates separately for Corporate and Retail customers.

	31 December 2018 Balance			
In thousands of Pula	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage lending	585,464	24,004	65,624	675,092
Instalment finance	14,571	651	6,022	21,244
Corporate lending	573,292	38,895	66,728	678,915
Commercial and property finance	4,138	-	-	4,138
Retail and SME lending	4,461,726	72,002	198,757	4,732,485
Total Loans And Advances	**5,639,191**	**135,552**	**337,131**	**6,111,874**
Balances Due From Related Parties	529,312	-	-	529,312
Credit Off Balance Sheet items	498,084	-	-	498,084
Financial Assets at amortised cost	1,162,721	-	-	1,162,721
Total	**7,829,308**	**135,552**	**337,131**	**8,301,991**

	1 January 2018 Balance			
In thousands of Pula	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage lending	487,860	17,336	55,895	561,091
Instalment finance	30,581	1,150	8,878	40,609
Corporate lending	789,762	211	75,662	865,635
Commercial and property finance	425	-	-	425
Retail and SME lending	4,190,059	51,058	180,576	4,421,693
Total Loans And Advances	**5,498,687**	**69,755**	**321,011**	**5,889,453**
Balances Due From Related Parties	579,462	-	-	579,462
Credit Off Balance Sheet items	566,861	-	1,233	568,094
Financial Assets at amortised cost	632,673	-	-	632,673
Total	**7,277,683**	**69,755**	**322,244**	**7,669,682**

* ECL coverage ratio is calculated as the total ECL to the gross exposure

	31 December 2018 Impairment				Net exposure				31 Dec 2018 ECL Coverage Ratio*
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	(2,234)	(65)	(7,942)	(10,241)	583,230	23,939	57,682	664,851	1.52%
	(379)	(27)	(2,899)	(3,305)	14,192	624	3,123	17,939	15.56%
	(3,874)	(47)	(8,483)	(12,404)	569,418	38,848	58,245	666,511	1.83%
	(340)	-	-	(340)	3,798	-	-	3,798	8.22%
	(90,035)	(22,808)	(163,618)	(276,461)	4,371,691	49,194	35,139	4,456,024	5.84%
	(96,862)	**(22,947)**	**(182,942)**	**(302,751)**	**5,542,329**	**112,605**	**154,189**	**5,809,123**	**4.95%**
	(532)	-	-	(532)	528,780	-	-	528,780	0.10%
	(3,328)	-	-	(3,328)	494,756	-	-	494,756	0.67%
	(21)	-	-	(21)	1,162,700	-	-	1,162,700	0.00%
	(100,743)	**(22,947)**	**(182,942)**	**(306,632)**	**7,728,565**	**112,605**	**154,189**	**7,995,359**	**3.69%**

	1 January 2018 Impairment				Net exposure				1 Jan 2018 ECL Coverage Ratio*
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	(7,123)	(165)	(17,617)	(24,905)	480,737	17,171	38,278	536,186	4.44%
	(933)	-	(3,008)	(3,941)	29,648	1,150	5,870	36,668	9.70%
	(15,470)	-	(35,221)	(50,691)	774,292	211	40,441	814,944	5.86%
	(28)	-	-	(28)	397	-	-	397	6.59%
	(117,093)	(21,159)	(157,510)	(295,762)	4,072,966	29,899	23,066	4,125,931	6.69%
	(140,647)	**(21,324)**	**(213,356)**	**(375,327)**	**5,358,040**	**48,431**	**107,655**	**5,514,126**	**6.37%**
	(115)	-	-	(115)	579,347	-	-	579,347	0.02%
	(6,223)	-	(915)	(7,138)	560,638	-	318	560,956	1.26%
	(15)	-	-	(15)	632,658	-	-	632,658	0.00%
	(147,000)	**(21,324)**	**(214,271)**	**(382,595)**	**7,130,683**	**48,431**	**107,973**	**7,287,087**	**4.99%**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Renegotiated loans

A renegotiated loan shall return to performing status only after its renegotiated terms are no longer considered to be past due and is treated as new loan.

Loans and advances renegotiated are loans which have been refinanced, rescheduled, rolled-over, or otherwise modified on such terms and conditions as may have been agreed by the parties thereto because of the weakened financial condition of the borrower resulting in the borrower's inability to repay in accordance with the original terms of the loan. The debtor would have defaulted in meeting the original terms and conditions for at least 90 days.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. The renegotiated loans are then monitored more strictly than the performing loans with advice of performance being reported to credit committees submitted on a monthly basis.

The following table shows renegotiated loans and advances to customers at amortised cost per stage allocation under IFRS 9 treatment:

Renegotiated loans as at 31 December 2018

In thousands of Pula	Stage 1	Stage 3	Total
Gross carrying amount			
Retail and SME lending	3,045	2,813	**5,858**
At 31 Dec 2018	**3,045**	**2,813**	**5,858**
Allowance for ECL			
Retail and SME lending	(37)	(2,075)	**(2,112)**
At 31 Dec 2018	**(37)**	**(2,075)**	**(2,112)**
Net renegotiated loans	**3,008**	**738**	**3,746**

The carrying amount of renegotiated loans is as follows:	Consolidated and Company
	2017
	P'000
Retail and SME lending	22,629
Corporate lending	22,976
Total loans and advances	**45,605**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances by credit classification

The table below shows the differences between IFRS 9 staging and loan book classification for regulatory purposes as at 31 December 2018.

Loan book Classification for regulatory purposes	Consolidated and Company			
	IFRS 9 Stage			
In thousands Pula	**1**	**2**	**3**	**Grand Total**
Performing	5,639,191	-	66,326	**5,705,517**
Special Mention	-	135,552	33,317	**168,869**
Sub Standard	-	-	43,666	**43,666**
Doubtful	-	-	,436	**75,436**
Loss	-	-	118,386	**118,386**
Total	**5,639,191**	**135,552**	**337,131**	**6,111,874**

The table below shows the differences between IFRS 9 staging and loan book classification for regulatory purposes as at 1 January 2018.

Loan book Classification for regulatory purposes	Consolidated and Company			
	IFRS 9 Stage			
In thousands Pula	**1**	**2**	**3**	**Grand Total**
Peforming	5,497,936	-	63,419	**5,561,355**
Special Mention	137	69,755	44,569	**114,461**
Sub Standard	614		73,787	**74,401**
Doubtful	-	-	50,357	**50,357**
Loss	-	-	88,879	**88,879**
Total	**5,498,687**	**69,755**	**321,011**	**5,889,453**

3.1.6 Movement in expected credit losses

Changes in expected credit losses includes the impacts of transfers between stages, changes made to parameters (such as probability of default, exposure at default and loss given default), changes in macroeconomic variables, drawdowns, repayments and other movements.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.6 Movement in expected credit losses (continued)

The following table shows movement in expected credit losses from 1 January 2018 to 31 December 2018:

In thousands of Pula		**Expected credit losses**		
Loans and Advances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening Balance	**(140,647)**	**(21,324)**	**(213,357)**	**(375,328)**
New loans	(31,481)	(1,091)	(17,519)	**(50,091)**
Liquidated loans	54,723	846	57,317	**112,886**
Transfer to stage 1	14,358	(1,404)	(36,435)	**(23,481)**
Transfer to stage 2	2,672	(2,207)	(9,365)	**(8,900)**
Transfer to stage 3	3,513	2,233	36,417	**42,163**
Closing Balance	**(96,862)**	**(22,947)**	**(182,942)**	**(302,751)**
Changes in expected credit losses (ECL) during the year	43,785	(1,623)	30,415	**72,577**
write-offs	-	-	(59,932)	**(59,932)**
ECL recovery/(charge) for the period	**43,785**	**(1,623)**	**(29,517)**	**12,645**
Off balance sheet and Financial assets				
Opening Balance	**(6,353)**	**-**	**(915)**	**(7,268)**
New off balance sheet items	(1,974)	-	-	**(1,974)**
Liquidated off balance sheet items	1,407	-	915	**2,322**
Transfer to stage 1	3,039	-	-	**3,039**
Closing Balance	**(3,881)**	**-**	**-**	**(3,881)**
Changes in expected credit loss	**2,472**	**-**	**915**	**3,387**
Recoveries				**2,874**
Total ECL for the period (Income statement) (Refer to Note 6)				**18,906**

3.1.7 Management Overlays

The inputs and assumptions into the IFRS 9 model are carefully considered by management for completeness and relevance. The inputs and assumptions are reviewed on an annual basis and adjusted accordingly to reflect changing macro-economic environment and vintages in the loan book. ECL calculations are reviewed for accuracy and consistency and reasonableness on a regular basis. The results for the year have been consistent with management expectations. Management overlays are only instituted in cases where the model results are not reflective of underlying customer behavior and economic conditions. For December 2018 management performed an out of model adjustment on a significant customer whose expected credit loss (ECL) was out of line with the normal and market expectation of the credit risk profile of the customer. The group's loan book include significant exposure to government related institutions. The institutions are treated as normal corporates in the model which skews the ECL calculations for this particular segment. Management performed an out of model adjustment to reflect the government of Botswana's credit rating which is the ultimate owner of the instituition. Moody's last rated Government of Botswana in 2018 as A2 with a stable outlook.

The exposure as at 31 December 2018 relating to this customer was P27 672 430 with an ECL of P9 685 351 which is an ECL coverage ratio of 35%.

The impact of management overlay on an exposure of P276 million with an ECL of P9.6 million and a coverge ratio of 35% was to reduce the coverage ratio to 6.1%.

3 Financial risk management (continued)
3.1 Credit risk (continued)

3.1.8 Loans and advances by credit quality

Selected credit notes for 2017
Distribution of loans and advances by credit quality

	Consolidated and Company
	2017
	P'000
Neither past due nor impaired	5,571,659
Past due but not impaired	114,461
Individually impaired	213,637
Gross loans and advances	**5,899,757**
Less: Unearned fee income	(10,304)
Net loans and advances after unearned fee income	**5,889,453**
Less: allowance for impairment	(94,081)
Net loans and advances after allowance for impairments	**5,795,372**

(a) Distribution of loans and advances neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the group below:

	Consolidated and Company
	2017
	P'000
Internal grade: Performing	
Mortgage lending	501,695
Instalment finance	33,554
Corporate lending	813,731
Commercial and property finance	423
Retail and SME lending	4,222,256
Total	**5,571,659**

(b) Loans and advances past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Loans and advances past due but not impaired: by class

	Consolidated and Company
	2017
	P'000
Internal Grade: Special Mention	
Instalment finance	1,450
Corporate lending	21,498
Retail and SME lending	65,660
Mortgage lending	25,853
Total	**114,461**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.8 Loans and advances by credit quality (continued)

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, are as follows:

As at 31 December 2017	Consolidated and Company		
	Gross loans P'000	Fair value of collateral P'000	Exposure P'000
Mortgage lending	30,096	32,283	(2,187)
Instalment finance	5,604	4,393	1,211
Corporate lending	30,408	90,632	(60,224)
Retail and SME lending	147,529	13,092	134,437
Total	**213,637**	**140,400**	**73,237**

3.1.9 Impaired customer loans and impairment allowance by geographical region

The following table provides an analysis of the Group's impaired assets at their carrying amounts, according to geographical region as of 31 December. For this table, the Group has allocated impaired assets to regions based on the country in which counterparties are domiciled.

	Consolidated and Company	
	2017	
	Impaired loans P'000	Allowance P'000
Botswana	213,637	94,081
	213,637	**94,081**

3.2 Age analysis of loans and advances

The following tables show an age analysis of the gross loans and advances:

	Consolidated and Company					
	Neither past due nor impaired P'000	1 - 30 days P'000	31 to 60 days P'000	61 to 90 days P'000	Individually impaired P'000	Total P'000
Mortgage lending	501,695	231	965	24,657	30,096	557,644
Instalment finance	33,554	1,370	81	-	5,604	40,609
Corporate lending	813,731	15,240	-	6,256	30,408	865,635
Commercial and property finance	423	-	-	-	147,529	147,952
Retail and SME lending	4,222,256	8,164	35,434	22,063	-	4,287,917
Total	**5,571,659**	**25,005**	**36,480**	**52,976**	**213,637**	**5,899,757**

3.3 Liquidity risk

Liquidity risk is the risk of the group not being able to meet its commitments due to shortage of funds. Liquidity risk may arise in situations where there are mismatches between maturities of assets and liabilities. The group's exposure to the risk is managed by the maturity profiles of the assets and liabilities.

The analysis of assets and liabilities of the group into relevant maturity groupings is based on the remaining period at reporting date to the contractual maturity date. The matching and controlled mismatching of the maturities is fundamental to the management of the risk. An unmatched position potentially enhances profitability, but can increase the risk of loss.

Liquidity risk management process

The group holds liquidity reserves in highly tradable instruments or money market placements which are immediately available if required. Liquidity is assessed by currency as well as by time bracket. The group's liquidity management is dependent upon accurate cash flow projections and the monitoring of it's future funding requirements. The group's liquidity management process, is monitored by Treasury and includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The group maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing single counterparty and sector depositor's concentration and profile of debt maturities to minimize liquidity shocks. The bank has put in place single counterparty and sector concentration as a means of managing liquidity risk.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, as these are key periods for liquidity management. The starting point for those projections is an analysis of contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group manages large depositor and sectorial concentrations through limits on the amounts to be accepted from an individual depositors and exposures to various sectors. The limits are reviewed at ALCO on a regular basis.
ALCO also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Maturity analysis based on contractually undiscounted amounts

The table below analyses the group's non-derivative financial assets and liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.
The amounts disclosed in the table are the contractual undiscounted cash flows.

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

Consolidated
Non-derivative cash flows

31 December 2018	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Assets							
Cash and balances with the Central Bank	424,734	-	-	-	424,734	-	**424,734**
Balances due from related parties (receivables)	453,724	75,056	-	-	528,780		**528,780**
Balances with other banks	845,788	-	-	-	845,788	-	**845,788**
Financial assets held at amortised cost	299,878	517,358	297,567	72,123	1,186,926	(24,226)	**1,162,700**
Loans and advances to customers	1,202,848	1,122,084	2,244,169	5,580,101	10,149,202	(4,340,080)	**5,809,123**
Total	**3,226,972**	**1,714,498**	**2,541,736**	**5,652,224**	**13,135,431**	**(4,364,306)**	**8,771,126**
Liabilities							
Deposits from banks	5,590	10,731	-	-	16,321	-	**16,321**
Deposits from customers	3,336,500	2,446,814	1,425,994	49,076	7,258,385	(65,933)	**7,192,452**
Borrowed funds	4,786	7,698	96,397	718,785	827,666	(84,786)	**742,880**
Balances due to related parties	46,638	-	-	8,422	55,060	(859)	**54,201**
Other liabilities	92,787	-	-	-	92,787	-	**92,787**
Total	**3,486,301**	**2,465,243**	**1,522,391**	**776,283**	**8,250,219**	**(151,578)**	**8,098,641**

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

Consolidated

Non-derivative cash flows

31 December 2017	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Assets							
Cash and balances with the Central Bank	369,567	-	-	-	369,567	-	**369,567**
Balances due from related parties (receivables)	357,566	324,708	-	-	682,274	(53,871)	**628,403**
Balances with other banks	425,038	-	-	-	425,038	-	**425,038**
Financial assets held for trading	392,306	-	248,250	15,593	656,149	(23,476)	**632,673**
Loans and advances to customers	478,162	1,214,805	2,669,288	5,011,945	9,374,200	(3,578,828)	**5,795,372**
Total	**2,022,639**	**1,539,513**	**2,917,538**	**5,027,538**	**11,507,228**	**(3,656,175)**	**7,851,053**
Liabilities							
Deposits from banks	130,703	-	-	-	130,703	-	**130,703**
Deposits from customers	2,591,023	1,985,276	1,454,615	91,076	6,121,990	(62,055)	**6,059,935**
Borrowed funds	150	5,087	420,546	336,156	761,939	(78,033)	**683,906**
Balances due to related parties	33,545	-	-	-	33,545	(859)	**32,686**
Other liabilities	79,707	-	-	-	79,707	-	**79,707**
Total	**2,835,128**	**1,990,363**	**1,875,161**	**427,232**	**7,127,884**	**(140,947)**	**6,986,937**

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

Company

Non-derivative cash flows

31 December 2018	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Assets							
Cash and balances with the Central Bank	424,734	-	-	-	424,734	-	**424,734**
Balances due from related parties	453,724	75,056	-	-	528,780	-	**528,780**
Balances with other banks	845,788	-	-	-	845,788	-	**845,788**
Financial assets held at amortised cost	299,878	517,358	297,567	72,123	1,186,926	(24,226)	**1,162,700**
Loans and advances to customers	1,202,848	1,122,084	2,244,169	5,580,102	10,149,203	(4,340,080)	**5,809,123**
Total	**3,226,972**	**1,714,498**	**2,541,736**	**5,652,225**	**13,135,431**	**(4,364,306)**	**8,771,125**
Liabilities							
Deposits from banks	5,590	10,731	-	-	16,321	-	**16,321**
Deposits from customers	3,336,500	2,446,814	1,554,591	49,076	7,386,981	(65,933)	**7,321,048**
Borrowed funds	4,786	7,698	96,397	718,785	827,666	(84,786)	**742,880**
Balances due to related parties	46,638	-	-	8,422	55,060	(859)	**54,201**
Other liabilities	77,370	-	-	-	77,370	-	**77,370**
Total	**3,470,884**	**2,465,243**	**1,650,988**	**776,283**	**8,363,398**	**(151,578)**	**8,211,820**

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

Company

Non-derivative cash flows

31 December 2017	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Assets							
Cash and balances with the Central Bank	369,567	-	-	-	369,567	-	**369,567**
Balances due from related parties	357,566	324,708	-	-	682,274	(53,871)	**628,403**
Balances with other banks	425,038	-	-	-	425,038	-	**425,038**
Financial assets held for trading	173,238	219,068	248,250	15,593	656,149	(23,476)	**632,673**
Loans and advances to customers	478,162	1,214,805	2,669,288	5,011,945	9,374,200	(3,578,828)	**5,795,372**
Total	**1,803,571**	**1,758,581**	**2,917,538**	**5,027,538**	**11,507,228**	**(3,656,175)**	**7,851,053**
Liabilities							
Deposits from banks	130,703	-	-	-	130,703	-	**130,703**
Deposits from customers	2,599,946	1,985,276	1,507,580	91,076	6,183,878	(62,055)	**6,160,530**
Borrowed funds	150	5,087	420,546	336,156	761,939	(78,033)	**683,906**
Balances due to related parties	33,545	-	-	-	33,545	(859)	**32,686**
Other liabilities	71,470	-	-	-	71,470	-	**71,470**
Total	**2,835,814**	**1,990,363**	**1,928,126**	**427,232**	**7,181,535**	**(140,947)**	**7,079,295**

Off balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities as disclosed in note 32, are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees as disclosed in note 32, are also included below based on the earliest contractual maturity date.

(c) Operating lease commitments

Where the group is the lessee, the future minimum lease payments under non-cancelable operating leases, as disclosed in note 33, are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment as disclosed in note 33, are summarised in the table below.

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

31 December 2018	Total P'000	Not later than 1 year P'000	1-5 years P'000	Over 5 years P'000
Financial guarantees, acceptances and other financial facilities	109,330	109,330		
Operating lease commitments	28,655	1,343	22,793	4,519
Capital commitments	12,174	12,174	-	-
Loan commitments and other credit related liabilities	530,519	250,252	280,267	-
Total	**680,678**	**373,099**	**303,060**	**4,519**
31 December 2017				
Financial guarantees, acceptances and other financial facilities	149,851	33,152	105,652	11,047
Operating lease commitments	32,625	8,926	23,699	-
Capital commitments	35,647	35,647	-	-
Loan commitments and other credit related liabilities	588,591	471,184	117,407	-
Total	**806,714**	**548,909**	**246,758**	**11,047**

3.3.1 Maturity profile

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to the remaining contractual maturity date.

Consolidated

As at 31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	424,734	-	-	-	**424,734**
Balances with other banks	845,788	-	-	-	**845,788**
Balances due from related parties	453,724	75,056	-	-	**528,780**
Derivative financial assets	2,322	-	-	60,433	**62,755**
Financial assets held amortised cost	299,878	517,358	297,567	47,897	**1,162,700**
Loans and advances to customers	346,314	170,032	250,637	5,042,140	**5,809,123**
Other assets	53,100	-	-	-	**53,100**
Current income tax assets	-	-	12,544	-	**12,544**
Deferred tax asset	-	-	50,553	-	**50,553**
Intangible assets	-	-	-	110,833	**110,833**
Property and equipment	-	-	-	69,705	**69,705**
Total assets	**2,425,860**	**762,446**	**611,301**	**5,331,008**	**9,130,615**
Deposits from banks	5,590	10,731	-	-	**16,321**
Derivative financial liabilities	765	-	-	58,408	**59,173**
Deposits from customers	3,336,500	2,446,814	1,360,062	49,076	**7,192,452**
Balances due to related parties	46,638			7,563	**54,201**
Borrowed funds	4,786	7,698	30,105	700,291	**742,880**
Other liabilities	92,787	-	-	-	**92,787**
Total liabilities	**3,487,066**	**2,465,243**	**1,390,167**	**815,338**	**8,157,814**
Net maturity gap 31 December 2018	**(1,061,206)**	**(1,702,797)**	**(778,866)**	**4,515,670**	**972,801**

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.1 Maturity profile (continued)

Consolidated

As at 31 December 2017	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	369,567	-	-	-	**369,567**
Balances with other banks	425,038	-	-	-	**425,038**
Balances due from related parties	329,334	299,069	-	-	**628,403**
Derivative financial assets	-	-	-	63,967	**63,967**
Financial assets held for trading	149,762	219,068	248,250	15,593	**632,673**
Loans and advances to customers	412,434	114,380	256,611	5,011,947	**5,795,372**
Other assets	37,305	-	-	-	**37,305**
Current income tax assets	-	-	17,020	-	**17,020**
Intangible assets	-	-	-	90,341	**90,341**
Property and equipment	-	-	-	68,033	**68,033**
Total assets	**1,723,440**	**632,517**	**521,881**	**5,249,881**	**8,127,719**
	-				
Deposits from banks	130,703	-	-	-	**130,703**
Derivative financial liabilities	1,322	-	-	60,255	**61,577**
Deposits from customers	2,579,383	1,980,282	1,417,580	82,690	**6,059,935**
Balances due to related parties	6,312	19,729	-	6,645	**32,686**
Borrowed funds	150	5,087	420,546	258,123	**683,906**
Other liabilities	79,707	-	-	-	**79,707**
Deferred tax liabilities	-	-	13,900	-	**13,900**
Total liabilities	**2,797,577**	**2,005,098**	**1,852,026**	**407,713**	**7,062,414**
Net maturity gap 31 December 2017	**(1,074,137)**	**(1,372,581)**	**(1,330,145)**	**4,842,168**	**1,065,305**

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.1 Maturity profile (continued)

Company

As at 31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	424,734	-	-	-	**424,734**
Balances with other banks	845,788	-	-	-	**845,788**
Balances due from related parties	453,724	75,056	-	-	**528,780**
Derivative financial assets	2,322	-	-	60,433	**62,755**
Financial assets held at amortised cost	299,878	517,358	297,567	47,897	**1,162,700**
Loans and advances to customers	346,314	170,032	250,637	5,042,140	**5,809,123**
Other assets	49,680	-	-	-	**49,680**
Deferred tax Asset	-	-	50,553	-	**50,553**
Current income tax assets	-	-	12,733	-	**12,733**
Intangible assets	-	-	-	110,833	**110,833**
Property and equipment	-	-	-	69,705	**69,705**
Total assets	**2,422,440**	**762,446**	**611,490**	**5,331,008**	**9,127,384**
Deposits from banks	5,590	10,731	-	-	**16,321**
Deposits from customers	3,336,500	2,446,814	1,488,658	49,076	**7,321,048**
Balances due to related parties	46,638	-	-	7,563	**54,201**
Borrowed funds	4,786	7,698	30,105	700,291	**742,880**
Other liabilities	77,370	-	-	-	**77,370**
Derivative financial liabilities	765	-	-	58,408	**59,173**
Total liabilities	**3,471,649**	**2,465,243**	**1,518,763**	**815,338**	**8,270,993**
Net maturity gap 31 December 2018	**(1,049,209)**	**(1,702,797)**	**(907,273)**	**4,515,670**	**856,391**

3 Financial risk management (continued)
3.3 Liquidity risk (continued)
3.3.1 Maturity profile (continued)

Company

As at 31 December 2017	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	369,567	-	-	-	**369,567**
Balances with other banks	425,038	-	-	-	**425,038**
Balances due from related parties	329,334	299,069	-	-	**628,403**
Derivative financial assets	-	-	-	63,967	**63,967**
Financial assets held for trading	149,762	219,068	248,250	15,593	**632,673**
Loans and advances to customers	412,434	114,380	256,611	5,011,947	**5,795,372**
Other assets	35,201	-	-	-	**35,201**
Current income tax assets	-	-	17,669	-	**17,669**
Intangible assets	-	-	-	90,341	**90,341**
Property and equipment	-	-	-	68,033	**68,033**
Total assets	**1,721,336**	**632,517**	**522,530**	**5,249,881**	**8,126,264**
Deposits from banks	130,703	-	-	-	**130,703**
Deposits from customers	2,589,977	1,980,282	1,507,580	82,691	**6,160,530**
Balances due to related parties	6,312	19,729	-	6,645	**32,686**
Borrowed funds	150	5,087	420,546	258,123	**683,906**
Other liabilities	71,470	-	-	-	**71,470**
Deferred tax liabilities	-	-	13,900	-	**13,900**
Derivative financial liabilities	1,322	-	-	60,255	**61,577**
Total liabilities	**2,799,934**	**2,005,098**	**1,942,026**	**407,714**	**7,154,772**
Net maturity gap 31 December 2017	**(1,078,598)**	**(1,372,581)**	**(1,419,496)**	**4,842,167**	**971,492**

3.4 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market and foreign currency exposures related to dealing positions are managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. The currency exposure that arises is managed through ALCO.

3.4.1 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Assets and liabilities carrying variable rate interest are classified under 'up to one month' bracket.

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.1 Interest rate risk (continued)

Loans and advances are of a floating rate nature, since as per the Group's and Company's loan agreements, the Group reserves the right to change the rate of interest at any time in the event of market fluctuations and/or credit/banking considerations which may be set out from time to time by the Group and/or any government or regulatory authority. The Group also reserve the right to change the interest rates on deposits in line with the market fluctuations and/or change in credit/banking considerations.

The Asset and Liability Committee (ALCO) is responsible for managing interest rate and liquidity risk in the group. The Asset and Liability Committee has been established on this mandate and meets on a monthly basis. They operate within the prudential guidelines and policies established by Group ALCO. In order to reduce interest rate risk, the majority of the Group's lending is on a variable interest rate. This approach has been adopted as a result of the scarcity of term deposits in the market region which limits the Groups ability to build a substantial stable pool of fixed rate funding.

The tables below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Assets and liabilities carrying variable interest rates are classified under the ' up to 1 month' bracket.

Consolidated

31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	117,589	-	-	-	307,145	**424,734**
Balances with other banks	845,788	-	-	-	-	**845,788**
Balances due from related parties	453,724	75,056	-	-	-	**528,780**
Derivative financial assets	2,322	-	-	60,433	-	**62,755**
Financial assets held at amortised cost	299,877	517,358	297,567	47,898	-	**1,162,700**
Loans and advances to customers	5,809,123	-	-	-	-	**5,809,123**
Other assets	-	-	-	-	53,100	**53,100**
Current tax asset	-	-	-	-	12,544	**12,544**
Deferred tax asset	-	-	-	-	50,553	**50,553**
Property and equipment	-	-	-	-	69,705	**69,705**
Intangible assets	-	-	-	-	110,833	**110,833**
Total assets	**7,528,423**	**592,414**	**297,567**	**108,331**	**603,880**	**9,130,615**
Liabilities						
Deposits from banks	5,590	10,731	-	-	-	**16,321**
Deposits from customers	3,336,500	2,446,814	1,360,062	49,076	-	**7,192,452**
Balances due to related parties	46,638	-	-	7,563	-	**54,201**
Other liabilities	-	-	-	-	92,787	**92,787**
Borrowed funds	4,786	7,698	96,397	633,999	-	**742,880**
Derivative financial liabilities	765	-	-	58,408	-	**59,173**
Total liabilities	**3,394,279**	**2,465,243**	**1,456,459**	**749,046**	**92,787**	**8,157,814**
Total interest repricing gap	**4,134,144**	**(1,872,829)**	**(1,158,892)**	**(640,715)**	**511,093**	**972,801**

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.1 Interest rate risk (continued)

Consolidated

31 December 2017	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	80,167	-	-	-	289,400	**369,567**
Balances with other banks	425,038	-	-	-	-	**425,038**
Balances due from related parties	329,334	299,069	-	-	-	**628,403**
Financial assets held for trading	149,761	219,068	248,250	15,594	-	**632,673**
Derivative financial assets	-	-	-	63,967	-	**63,967**
Loans and advances to customers	5,795,372	-	-	-	-	**5,795,372**
Other assets	-	-	-	-	37,305	**37,305**
Current tax asset	-	-	-	-	17,020	**17,020**
Property and equipment	-	-	-	-	68,033	**68,033**
Intangible assets	-	-	-	-	90,341	**90,341**
Total assets	**6,779,672**	**518,137**	**248,250**	**79,561**	**502,099**	**8,127,719**
Liabilities						
Deposits from banks	130,703	-	-	-	-	**130,703**
Deposits from customers	2,589,633	1,970,032	1,417,580	82,690	-	**6,059,935**
Balances due to related parties	32,686	-	-	-	-	**32,686**
Other liabilities	-	-	-	-	79,707	**79,707**
Deferred tax liability	-	-	-	-	13,900	**13,900**
Borrowed funds	150	5,087	423,317	255,352	-	**683,906**
Derivative financial liabilities	1,322	-	-	60,255	-	**61,577**
Total liabilities	**2,754,494**	**1,975,119**	**1,840,897**	**398,297**	**93,607**	**7,062,415**
Total interest repricing gap	**4,025,178**	**(1,456,982)**	**(1,592,647)**	**(318,736)**	**408,492**	**1,065,305**

3 Financial risk management (continued)

3.4 Market risk (continued)

3.4.1 Interest rate risk (continued)

Company

31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	117,589	-	-	-	307,145	**424,734**
Balances with other banks	845,788	-	-	-	-	**845,788**
Balances due from related parties	453,724	75,056	-	-	-	**528,780**
Derivative financial assets	2,322	-	-	60,433	-	**62,755**
Financial assets held at amortised cost	299,878	517,358	297,567	47,897	-	**1,162,700**
Loans and advances to customers	5,809,123	-	-	-	-	**5,809,123**
Other assets	-	-	-	-	49,680	**49,680**
Current tax asset	-	-	-	-	12,733	**12,733**
Deferred tax asset	-	-	-	-	50,553	**50,553**
Property and equipment	-	-	-	-	69,705	**69,705**
Intangible assets	-	-	-	-	110,833	**110,833**
Total assets	**7,528,424**	**592,414**	**297,567**	**108,330**	**600,649**	**9,127,384**
Liabilities						
Deposits from banks	5,590	10,731	-	-	-	**16,321**
Deposits from customers	3,336,500	2,446,814	1,488,658	49,076		**7,321,048**
Balances due to related parties	46,638	-	-	7,563	-	**54,201**
Other liabilities	-	-	-	-	77,370	**77,370**
Borrowed funds	4,786	7,698	96,397	633,999	-	**742,880**
Derivative financial liabilities	765			58,408	-	**59,173**
Total liabilities	**3,394,279**	**2,465,243**	**1,585,055**	**749,046**	**77,370**	**8,270,993**
Total interest repricing gap	**4,134,145**	**(1,872,829)**	**(1,287,488)**	**(640,716)**	**523,279**	**856,391**

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.1 Interest rate risk (continued)

Company

31 December 2017	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	80,167	-	-	-	289,400	**369,567**
Balances with other banks	425,038	-	-	-	-	**425,038**
Balances due from related parties	329,334	299,069	-	-	-	**628,403**
Derivative financial assets	-	-	-	63,967	-	**63,967**
Financial assets held for trading	149,762	219,068	248,250	15,593	-	**632,673**
Loans and advances to customers	5,795,372	-	-	-	-	**5,795,372**
Other assets	-	-	-	-	35,201	**35,201**
Current tax asset	-	-	-	-	17,669	**17,669**
Property and equipment	-	-	-	-	68,033	**68,033**
Intangible assets	-	-	-	-	90,341	**90,341**
Total assets	**6,779,673**	**518,137**	**248,250**	**79,560**	**500,644**	**8,126,264**
Liabilities						
Deposits from banks	130,703	-	-	-	-	**130,703**
Deposits from customers	1,980,626	1,970,031	1,507,581	702,292	-	**6,160,530**
Balances due to related parties	32,686	-	-	-	-	**32,686**
Other liabilities	-	-	-	-	71,470	**71,470**
Borrowed funds	150	5,087	423,317	255,352	-	**683,906**
Derivative financial liabilities	1,322	-	-	60,255	-	**61,577**
Current tax liability	-	-	-	-	13,900	**13,900**
Total liabilities	**2,145,487**	**1,975,118**	**1,930,898**	**1,017,899**	**85,370**	**7,154,772**
Total interest repricing gap	**4,634,186**	**(1,456,981)**	**(1,682,648)**	**(938,339)**	**415,274**	**971,492**

Interest rate - sensitivity analysis

A principal part of management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios. The group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income.

Sensitivity of net interest income	2018	2017
Change in net interest income arising from a shift in yield curves of +50 basis points (P'000)	4,864	5,327
As a percentage of total Shareholders equity	0.50%	0.50%
Change in net interest income arising from a shift in yield curves of -50 basis points (P'000)	(4,864)	(5,327)
As a percentage of total shareholders equity	(0.50%)	(0.5%)

3 Financial risk management (continued)

3.4 Market risk (continued)

3.4.2 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board and the ALCO set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group and Company's exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency:

Concentration of currency risk: on-and-off balance sheet financial instruments

All amounts in thousands of pula

Consolidated

31 December 2018	**EUR**	**USD**	**BWP**	**ZAR**	**Other**	**Total**
Cash and balances with the Central Bank	621	18,965	402,302	2,553	293	**424,734**
Balances due from related parties	274	505,804	16,172	6,530	-	**528,780**
Balances with other banks	55,317	352,419	390,059	34,311	13,682	**845,788**
Derivative financial assets	-	-	60,443	2,312	-	**62,755**
Financial assets held at amortised cost	-	-	1,162,700	-	-	**1,162,700**
Loans and advances to customers	-	12,696	5,796,427	-	-	**5,809,123**
Other assets	-	-	53,100	-	-	**53,100**
Current tax asset	-	-	12,544	-	-	**12,544**
Deferred tax asset	-	-	50,553	-	-	**50,553**
Property and equipment	-	-	69,705	-	-	**69,705**
Intangible assets	-	-	110,833	-	-	**110,833**
Total	**56,212**	**889,884**	**8,124,838**	**45,706**	**13,975**	**9,130,615**
Deposits from banks	899	15,422	-	-	-	**16,321**
Deposits from customers	43,635	391,134	6,715,817	32,433	9,433	**7,192,452**
Balances due to related parties	-	42,218	11,981	2	-	**54,201**
Other liabilities	-	-	92,787	-	-	**92,787**
Borrowed funds	-	431,735	311,145	-	-	**742,880**
Derivative financial liabilities	264	501	58,408	-	-	**59,173**
Total	**44,798**	**881,010**	**7,190,138**	**32,435**	**9,433**	**8,157,814**
Net on-balance sheet position	**11,414**	**8,874**	**934,700**	**13,271**	**4,542**	**972,801**
Net off-balance sheet position	**-**	**3,445**	**15,184**	**(18,629)**	**-**	**-**
Net position	**11,414**	**12,319**	**949,884**	**(5,358)**	**4,542**	**972,801**

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.2 Foreign exchange risk (continued)

All amounts in thousands of pula
Consolidated

31 December 2017	EUR	USD	BWP	ZAR	Other	Total
Cash and balances with the Central Bank	990	11,594	354,313	2,382	288	**369,567**
Balances due from related parties	-	594,658	28,655	5,090	-	**628,403**
Balances with other banks	63,874	240,929	102,010	17,088	1,137	**425,038**
Derivative financial assets	-	-	63,967	-	-	**63,967**
Financial assets held for trading	-	-	632,673	-	-	**632,673**
Loans and advances to customers	-	14,254	5,781,117	1	-	**5,795,372**
Other assets	-	4,081	33,224	-	-	**37,305**
Current tax asset	-	-	17,020	-	-	**17,020**
Property and equipment	-	-	68,033	-	-	**68,033**
Intangible assets	-	-	90,341	-	-	**90,341**
Total	**64,864**	**865,516**	**7,171,353**	**24,561**	**1,425**	**8,127,719**
Deposits from banks	-	2,316	128,387	-	-	**130,703**
Deposits from customers	6,845	452,599	5,516,314	30,830	53,347	**6,059,935**
Balances due to related parties	-	30,424	2,228	34	-	**32,686**
Other liabilities	-	-	79,707	-	-	**79,707**
Borrowed funds	-	495,362	188,544	-	-	**683,906**
Deferred tax liability	-	-	13,900	-	-	**13,900**
Derivative financial liabilities	-	-	61,577	-	-	**61,577**
Total	**6,845**	**980,701**	**5,990,657**	**30,864**	**53,347**	**7,062,414**
Net on-balance sheet position	**58,019**	**(115,185)**	**1,180,696**	**(6,303)**	**(51,922)**	**1,065,305**
Net off-balance sheet position	**-**	**3,445**	**15,184**	**(18,629)**	**-**	**-**
Net position	**58,019**	**(111,740)**	**1,195,880**	**(24,932)**	**(51,922)**	**1,065,305**

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.2 Foreign exchange risk (continued)

All amounts in thousands of pula
Company

31 December 2018	EUR	USD	BWP	ZAR	Other	Total
Cash and balances with the Central Bank	621	18,965	402,302	2,553	293	**424,734**
Balances due from related parties	274	505,804	16,172	6,530	-	**528,780**
Balances with other banks	55,317	352,419	390,059	34,311	13,682	**845,788**
Derivative financial assets	-	-	62,755	-	-	**62,755**
Financial assets held amortised cost	-	-	1,162,700	-	-	**1,162,700**
Loans and advances to customers	-	12,696	5,796,427	-	-	**5,809,123**
Other assets	-	-	49,680	-	-	**49,680**
Current tax asset	-	-	12,733	-	-	**12,733**
Deferred Tax asset	-	-	50,553	-	-	**50,553**
Property and equipment	-	-	69,705	-	-	**69,705**
Intangible assets	-	-	110,833	-	-	**110,833**
Total	**56,212**	**889,884**	**8,123,919**	**43,394**	**13,975**	**9,127,384**
Deposits from banks	899	15,422	-	-	-	**16,321**
Deposits from customers	43,635	391,134	6,844,413	32,433	9,433	**7,321,048**
Balances due to related parties	-	42,218	11,981	2	-	**54,201**
Other Liabilities	-	-	77,370	-	-	**77,370**
Borrowed funds	-	431,735	311,145	-	-	**742,880**
Derivative financial assets	-	-	59,173	-	-	**59,173**
Total	**44,534**	**880,509**	**7,304,082**	**32,435**	**9,433**	**8,270,993**
Net on-balance sheet position	**11,678**	**9,375**	**819,837**	**10,959**	**4,542**	**856,391**
Net off-balance sheet position	**-**	**8,852**	**5,600**	**(14,452)**	**-**	**-**
Net position	**11,678**	**18,227**	**825,437**	**(3,493)**	**4,542**	**856,391**

3 Financial risk management (continued)
3.4 Market risk (continued)
3.4.2 Foreign exchange risk (continued)

All amounts in thousands of pula

Company

31 December 2017	EUR	USD	BWP	ZAR	Other	Total
Cash and balances with the Central Bank	990	11,594	354,313	2,382	288	**369,567**
Balances due from related parties	-	594,658	28,655	5,090	-	**628,403**
Balances with other banks	63,874	240,929	102,010	17,088	1,137	**425,038**
Derivative financial assets	-	-	63,967	-	-	**63,967**
Financial assets held for trading	-	-	632,673	-	-	**632,673**
Loans and advances to customers	-	14,254	5,781,117	1	-	**5,795,372**
Other assets	-	-	35,201	-	-	**35,201**
Current tax asset	-	-	17,669	-	-	**17,669**
Property and equipment	-		68,033	-	-	**68,033**
Intangible assets	-	-	90,341	-	-	**90,341**
Total	**64,864**	**861,435**	**7,173,979**	**24,561**	**1,425**	**8,126,264**
Deposits from banks	-	2,316	128,387	-	-	**130,703**
Deposits from customers	6,845	452,599	5,616,909	30,830	53,347	**6,160,530**
Balances due to related parties	-	30,424	2,228	34	-	**32,686**
Other Liabilities	-	-	71,470	-	-	**71,470**
Borrowed funds	-	495,362	188,544	-	-	**683,906**
Derivative financial assets	-	-	61,577	-	-	**61,577**
Current tax liability	-	-	13,900	-	-	**13,900**
Total	**6,845**	**980,701**	**6,083,015**	**30,864**	**53,347**	**7,154,772**
Net on-balance sheet position	**58,019**	**(119,266)**	**1,090,964**	**(6,303)**	**(51,922)**	**971,492**
Net off-balance sheet position	**-**	**8,852**	**5,600**	**(14,452)**	**-**	**-**
Net position	**58,019**	**(110,414)**	**1,096,564**	**(20,755)**	**(51,922)**	**971,492**

Sensitivity of currency

The following sensitivity analysis is monitored on the following major currencies of non-equity instruments, had a 5% increase or decrease arose on the various currencies.

	2018 Impact on profit or loss and equity	2017 Impact on profit or loss and equity
5% movement in US Dollar/BWP exchange rate (P'000)	616	(5,587)
As a percentage of total Shareholders equity	0.1%	(0.5%)
5% movement in ZAR/BWP exchange rate (P'000)	(268)	(1,247)
As a percentage of total Shareholders equity	(0.0)	(0.0)
5% movement in EURO/BWP exchange rate (P'000)	571	2,901
As a percentage of total Shareholders equity	0.06%	0.27%

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities

Financial instruments not measured at fair value

The tables below summarise the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's statement of financial position.

Consolidated

	Fair value- analysis	
31 December 2018	**Carrying amount P'000**	**Norminal amount P'000**
Fair value of borrowed funds recognised at amortised cost		
Borrowed funds	742,880	742,880
Total borrowed funds	**742,880**	**742,880**
The estimated fair value of borrowed funds is the amount repayable on demand.		
Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	16,321	16,321
Deposits from customers	7,192,452	7,192,452
Balances due to related parties	54,201	54,201
Other liabilities	92,787	92,787
Total deposits and other liabilities	**7,355,761**	**7,355,761**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	424,734	424,734
Balances due from related parties	528,780	528,780
Balances with other banks	845,788	845,788
Financial assets held at amortised cost	1,162,700	1,162,700
Loans and advances (Gross)	6,123,729	6,123,729
Total loans and advances and other assets	**9,085,731**	**9,085,731**

3 Financial risk management (continued)
3.5 Fair value of financial assets and liabilities (continued)
Financial instruments not measured at fair value (continued)

Consolidated

31 December 2017	Fair value- analysis Carrying amount P'000	 Norminal amount P'000
Borrowed funds	683,906	683,906
Total borrowed funds	**683,906**	**683,906**

The estimated fair value of borrowed funds is the amount repayable on demand.

Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	130,703	130,703
Deposits from customers	6,059,935	6,059,935
Balances due to related parties	32,686	32,686
Other liabilities	79,707	79,707
Total deposits and other liabilities	**6,303,031**	**6,303,031**

Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	369,567	369,567
Balances due from related parties	628,403	628,403
Balances with other banks	425,038	425,038
Loans and advances (Gross)	5,899,757	5,899,757
Total loans and advances and other assets	**7,322,765**	**7,322,765**

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

Company

31 December 2018	Fair value- analysis Carrying amount P'000	Norminal amount P'000
Fair value of financial liabilities recognised at amortised cost		
Borrowed funds	742,880	742,880
Total borrowed funds	**742,880**	**742,880**

The estimated fair value of borrowed funds is the amount repayable on demand.

Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	16,321	16,321
Deposits from customers	7,321,048	7,321,048
Balancess due to related parties	54,201	54,201
Other liabilities	77,370	77,370
Total deposits and other liabilities	**7,468,940**	**7,468,940**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	424,734	424,734
Balances due from related parties	528,780	528,780
Balances with other banks	845,788	845,788
Financial assets held at amortised cost	1,162,700	1,162,700
Loans and advances (Gross)	6,123,729	6,123,729
Total loans and advances and other assets	**9,085,731**	**9,085,731**

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

Company

	Fair value- analysis	
December 2017	**Carrying amount P'000**	**Norminal amount P'000**
Fair value of financial liabilities recognised at amortised cost		
Borrowed funds	683,906	683,906
Total long term liabilities	**683,906**	**683,906**

The estimated fair value of borrowed funds is the amount repayable on demand.

Fair value of deposits and current accounts recognised at amortised cost

Deposits from banks	130,703	130,703
Deposits from customers	6,160,530	6,160,530
Balances with related parties	32,686	32,686
Other liabilities	71,470	71,470
Total deposits and current accounts	**6,395,389**	**6,395,389**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	369,567	369,567
Balances due from related parties	628,403	628,403
Balances with other banks	425,038	425,038
Loans and advances (Gross)	5,899,757	5,899,757
Total loans and advances and other assets	**7,322,765**	**7,322,765**

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value

Fair value hierarchy

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Valuation Framework

Each Credit default swap (CDS) is BWP denominated and is valued by discounting the expected payments of the CDS to the valuation date of 31 December 2018. The discount factors for the BWP denominated cash flows for each future payment date are calculated off a BWP Bond curve. This is the most liquid-risk-free curve available for Botswana.

In addition to the calculation of the risk-neutral value, the Group also calculates a credit and debt value adjustment for each CDS, as is required by IFRS 13, when calculating the fair value of financial instruments. A semi-analytical approach was used to generate the various potential fair values of the CDS margin payments to their maturity, based on option pricing theory. In this approach, volatilities are used to calculate future fair values, which in turn are used to approximate the Expected Positive Exposures (EPE) and Expected Negative Exposure (ENE). These are then used in calculation of fair value balances.

There was no observable credit rating for Atlas Mara, thus credit ratings were sourced from Global Credit Rating Company for its subsidiaries. The conservative average credit rating was used for Atlas Mara. The Group calculated results for a range of possible recovery rates for all counterparties (20%, 30% and 40%). Volatility is measured as the annualised standard deviation of the continuosly compounded daily returns of the underlying share/FX rate under the assumption that the share price and exchange rates are log-normally distributed. This is in line with market practice.

The Group therefore decided to use a more prudent recovery rate of the 3 previously indicated above.

Consolidated

31 December 2018	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Assets				
Forward foreign exchange contracts	-	2,322	-	**2,322**
Collateralised default swap	-	-	60,433	**60,433**
	-	**2,322**	**60,433**	**62,755**
Liabilities				
Forward foreign exchange contracts	-	765	-	**765**
Collateralised default swap	-	-	58,408	**58,408**
	-	**765**	**58,408**	**59,173**

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

Consolidated

31 December 2017	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Assets				
Financial assets held for trading	-	632,673	-	**632,673**
Collateralised default swap	-	-	63,967	**63,967**
	-	**632,673**	**63,967**	**696,640**
Liabilities				
Forward foreign exchange contracts	-	1,322	-	**1,322**
Collateralised default swap	-	-	60,255	**60,255**
	-	**1,322**	**60,255**	**61,577**

Total gains or losses for the period included in profit or loss as well as total gains or losses relating to assets/liabilities held at the end of the reporting period are presented in 'Net gains/(losses) on financial instruments classified as held for trading'. The Bank of Botswana Certificates (BOBCs) are valued on a present value basis. However, for mark to market purposes the Group uses the Relative Price approach where the BOBCs will be priced relative to a benchmark, usually a Treasury Bill or other outstanding BoBCs. This required return is then used to discount the BoBC cash flows as above to obtain the price.

Level 3 Fair value movements

The following table shows a reconciliation of the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierachy:

Consolidated

	Trading derivatives P'000	Total assets at fair value P'000	Derivative financial liabilities P'000	Total liabilities at fair value P'000
31 December 2018				
Opening balance	63,967	63,967	60,255	**60,255**
-in profit and loss	(3,534)	(3,534)	(1,847)	**(1,847)**
Closing balance	**60,433**	**60,433**	**58,408**	**58,408**
31 December 2017				
Opening balance	64,230	64,230	61,117	**61,117**
-in profit and loss	(263)	(263)	(862)	**(862)**
Closing balance	**63,967**	**63,967**	**60,255**	**60,255**

3 Financial risk management (continued)

3.6 Capital management

African Banking Corporation of Botswana is a subsidiary of ABC Holdings Limited and manages it's capital in the context of approved Bank capital, which determines levels of risk weighted asset growth and the optimal amount and mix of capital required to support planned business growth. If capital falls below the required threshold, the Group injects capital either by way of tier 1 or Tier 2 capital.

The principal forms of capital included in the statement of financial position are stated capital, other reserves, retained earnings and subordinated loans.

In complying with the Bank of Botswana banking regulation each bank is required to maintain a prescribed ratio of total capital to risk weighted assets and off balance sheet transactions. The Bank's capital is divided into two tiers. Tier 1 capital comprises of shareholders funds and Tier 2 comprises qualifying subordinated debt capital. The prescribed capital adequacy ratio is 15% and Tier 1 capital should be at least 50% of total capital. Refer to note 30 for quantitative disclosures about the Group's capital position.

The Group's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:

- To comply with the capital requirements of Bank of Botswana
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management, employing techniques based on the guidelines developed by the Basel Committee and the relevant Bank of Botswana Authority. The required information is filed with the authorities on a monthly basis.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. As at 31 December 2018, the bank complied with all externally imposed capital requirements.

There have been no material changes to the Group's management of capital during the year.

4 Significant estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgment about varying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is reviewed if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have a significant effect on the financial statements have been disclosed wherever applicable.

4 Significant estimates and judgments (continued)

4.1 Impairment losses on loans and advances 2017

The Group reviews individual loans and loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan or a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The historical loss experience is based on a 12 month observation period of loans in arrears moving into default, with default defined as loans in arrears greater than 90 days or loans which have been classified as non-performing.

The projected future cash flows of the loans which reflect objective evidence of default are based on the historical recovery experience of a representative sample of non-performing loans. The projected future cash flows are discounted at the ruling contract rate of the particular loan.

Recovery rate experience is the average duration that a classified account is expected to be recovered over a specified amount of time. The recovery rate experience is dependent on the nature of security and duration of the original loan granted.

The security percentage realisable is calculated using the value as at the reporting date. Where a recent valuation is not held, either external data may be used to validate the difference, i.e. movements in the Price Indices or justification should be provided to demonstrate that the value used is still an accurate reflection of the security value.

Sensitivity analysis on impairment losses on managements estimates is shown as follows:

31 December 2017	Existing impairment provision	Impact on changes in roll rates		Impact on changes in recovery experience	
		(2%)	2%	(5%)	5%
Portfolio (P'000)	**17,387**	**(348)**	**348**	**(869)**	**869**

4.2 Measurement of expected credit loss - 2018 only

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses.

Judgement is applied in determining significant increase in credit risk, the following are considered when assessing changes in credit risk;

- significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.
- Changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date.
- significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- an actual or expected significant change in the financial instrument's external credit rating.

4 Significant estimates and judgments (continued)

4.2 Measurement of expected credit loss - 2018 only (continued)

- an actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- an actual or expected significant change in the operating results of the borrower.
- significant increases in credit risk on other financial instruments of the same borrower.
- actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring.
- a significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
- significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group
- changes in the entity's credit management approach in relation to the financial instrument.

3 Stage approach

Stage 1 - As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses.

Stage 2 - If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit lossesare recognised. Lifetime expected credit losses are only recognised if the credit risk increases significantly from when the entity originates or purchases the financial instrument.

Stage 3 - If the credit risk of a financial asset increases to the point that it is considered credit-impaired, full lifetime expected credit losses are still recognised on these financial assets. Interest revenue however is calculated based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance). Financial assets in this stage will generally be individually assessed.

Probability of Default

Probability of default (PD), is defined as a probability-weighted estimation of the likelihood that a customer will default over a given time horizon.The Probability of Default model estimates the probability of default across various product segments with PD term structures being developed for each segment. The base term structures are calculated empirically based on one monthly hazard rates. Harzard rates being the proportion of the default balances for a given time on the book across all origination cohorts in the data, to the balance of the accounts at risk. Different fits to these base term structures are then assessed to determine the best fit for each term structure.

4 Significant estimates and judgments (continued)

4.2 Measurement of expected credit loss - 2018 only (continued)

Loss given Default

Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cashflows due and those that the lender would expect to receive, including from any collateral.The Secured LGD approach was applied to all Retail Secured, Corporate and Government segments. Due to collateral being shared on a client level, the unsecured segment is also split up into unsecured loans within collateralised portfolio and unsecured loans within uncollateralised portfolio. The secured LGD is also applied to unsecured accounts within a collateralised portfolio.

Sensitivity analysis on impairment losses on managements estimates is shown as follows:

31 December 2018	Existing impairment provision	Impact on changes in probabily of default		Impact on changes in loss given default	
		(2%)	2%	(5%)	5%
Stage 1	96,862	(1,937)	1,937	(4,843)	4,843
Stage 2	22,947	(459)	459	(1,147)	1,147
	119,809	**(2,396)**	**2,396**	**(5,990)**	**5,990**

Retail

For retail exposure, the assessment of the credit risk is made on a collective basis, incorporating all relevant credit information. For this purpose, the bank groups its exposures on the basis of shared credit risk characteristics.

Wholesale

For larger exposures such as corporate and commercial, the assessment is driven by the internal credit rating of the exposure and other factors, that are specific to the individual borrower, to the extent such information has not been already reflected in the rating process.

Management Overlays

The inputs and assumptions into the IFRS 9 model are carefully considered by management for completeness and relevance. The inputs and assumptions are reviewed on an annual basis and adjusted accordingly to reflect changing macro-economic environment and vintages in the loan book. ECL calculations are reviewed for accuracy and consistency and reasonableness on a regular basis. The results for the year have been consistent with management expectations. Management overlays are only instituted in cases where the model results are not reflective of underlying customer behavior and economic conditions. For December 2018 management performed an out of model adjustment on a significant customer whose expected credit loss (ECL) was out of line with the normal and market expectation of the credit risk profile of the customer. The group's loan book include significant exposure to government related institutions. The institutions are treated as normal corporates in the model which skews the ECL calculations for this particular segment. Management performed an out of model adjustment to reflect the government of Botswana's credit rating which is the ultimate owner of the instituition. Moody's last rated Government of Botswana in 2018 as A2 with a stable outlook.

A single default definition is applied throughout the modelling with no curing, except for settlement cures. If an account goes into stage 3 in a given month, all other accounts for the respective customer are assigned to stage 3.

4.3 Residual values of property and equipment

Residual values are based on expected future circumstances measured at current prices.

4.4 Basis for determining fair values of investments- Applicable for 2017 only

The fair values of investments where there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

		Consolidated and Company	
		2018 P'000	2017 P'000
5	**Net interest income**		
	Interest and similar income		
	Cash and short-term funds	47,110	47,969
	Investment securities	13,971	9,508
	Loans and advances to customers	687,842	709,704
		748,923	**767,181**
	Interest expense and similar charges		
	Deposits from banks and customers	275,437	227,346
	Borrowed funds	55,494	50,884
		330,931	**278,230**
	Net interest income	**417,992**	**488,951**
	Applicable in 2018		
6	**Changes in expected credit losses**		
	Expected credit losses on loans and advances	12,645	-
	Expected credit losses on off balance sheet and financial assets at amortised cost	3,387	-
	Recoveries	2,874	-
	Total change in expected credit losses (income statement)	**18,906**	**-**

The change in expected credit losses emanated from improvements in expected credit loss coverage ratios since intial recognition of IFRS 9. Generally all lending products experienced improvements in coverage ratios. The improvements were generally as a result of continued efforts during the year to improve quality of model inputs.

	Consolidated and Company	
	2018 P'000	2017 P'000
Applicable in 2017		
Changes in expected credit losses/Loan impairment charges		
Specific impairment	-	(57,067)
Portfolio impairment	-	8,370
Loan impairment charges	**-**	**(48,697)**
Movement in specific impairments		
Balance at the beginning of the year	-	114,416
Impairment during the year	-	57,067
	-	**171,483**
Write-offs during the year	-	(94,789)
Balance at the end of the year	**-**	**76,694**
	-	
Movement in portfolio impairments		
Balance at the beginning of the year	-	25,757
Impairment during the year	-	(8,370)
Balance at the end of the year	-	17,387
Total specific and portfolio impairment at end of the year	**-**	**94,081**

		Consolidated and Company	
		2018 P'000	2017 P'000
7	**Net trading income**		
	Forex trading profits	11,995	37,577
	Currency revaluations	2,870	(1,145)
	Net trading income	**14,865**	**36,432**
8	**Net fee and commission income**		
	Consolidated		
	Fee and commission income		
	Fees	79,790	52,496
	Commission income	55,460	41,928
	Other income	21,541	12,731
		156,791	**107,154**
	Fee and commission expense		
	Commission expense	38,653	30,679
		38,653	30,679
	Net fee and commission income	**118,138**	**76,476**

		2018 P'000	2017 P'000
	Company		
	Fee and commission income		
	Fees	79,790	52,496
	Commission income	26,505	21,627
	Other income	21,541	11,513
		127,836	**85,636**
	Fee and Commission expense		
	Commission expense	38,653	30,679
		38,653	30,679
	Net fee and commission income	**89,183**	**54,957**
9	**Personnel expenses**		
	Consolidated		
	Salaries and wages	120,153	109,972
	Pension contributions - defined contribution plans (note 15)	13,999	8,724
	Other employee expenses	10,827	7,902
		144,979	**126,598**
	The average number of persons employed by the group during the year was 425 (2017:392).		
	Company		
	Salaries and wages	119,377	109,245
	Pension contributions - defined contribution plans (note 15)	13,999	8,724
	Other employee expenses	10,827	7,902
		144,203	**125,871**

		2018 P'000	2017 P'000
10	**General and administrative expenses**		
	Consolidated		
	IT and software costs	30,715	26,330
	Office expenses	6,283	6,165
	Repairs and maintenance	1,804	1,049
	Operating lease rentals	10,918	11,150
	Marketing and public relations	10,493	10,143
	Travel and entertainment	2,875	2,599
	Telecommunication and postage	14,501	14,811
	Stationery	6,384	6,680
	Shared service costs	52,210	55,877
	Other administrative expenses	23,208	2,777
		159,391	**137,581**
	Company		
	IT and software costs	30,715	26,330
	Office expenses	6,283	6,165
	Repairs and maintenance	1,804	1,049
	Operating lease rentals	10,918	11,150
	Marketing and public relations	10,493	10,143
	Travel and entertainment	2,875	2,599
	Telecommunication and postage	14,501	14,811
	Stationery	6,384	6,680
	Shared service costs	50,603	54,270
	Other administrative expenses	21,584	2,736
		156,160	**135,933**
11	**Depreciation and amortisation expenses**		
	Consolidated		
	Depreciation of property, and equipment (note 29)	12,216	12,074
	Amortisation of intangible assets (note 28)	14,206	10,224
		26,422	**22,298**
12	**Other operating expenses**		
	Consolidated		
	Audit fees (refer to note 12.1)	3,491	1,760
	Consulting costs	9,795	7,236
	Professional fees	5,209	8,095
	Legal expenses	1,125	861
	Commission expenses	54,073	69,611
		73,693	**87,563**

		Consolidated and Company	
		2018 P'000	2017 P'000
12	**Other operating expenses (continued)**		
12.1	**Auditor's Remuneration**		
	Statutory audit related charges		
	- Group statutory audit fees	2,830	1,760
	- Prior year under accrual	661	-
	Year end 31 December	3,491	1,760
	Non-statutory audit related charges		
	- audit related assurance service fees (included under consultancy costs)	486	91
	- taxation advisory services (included under consultancy costs)	-	114
	Total Non statutory audit related charges	**486**	**205**
	Total fees paid/ total remuneration paid	**3,977**	**1,965**

		2018 P'000	2017 P'000
13	**Income tax expense**		
13.1	**Consolidated**		
	Current taxes on income for the reporting year	39,191	22,033
	Total current tax	**39,191**	**22,033**
	Prior year overprovision	-	(38)
	Deferred taxation (note 27.2)	(1,957)	17,965
	Tax expense per statement of comprehensive income	**37,234**	**39,960**
	Company		
	Current taxes on income for the reporting year	32,802	17,821
	Total current tax	**32,802**	**17,821**
	Prior year overprovision	-	(38)
	Deferred taxation (note 27.2)	(1,957)	17,965
	Tax expense per statement of comprehensive income	**30,845**	**35,748**

The effective tax rate for 2018 is 22.50% (2017: 22.30%).

Further information about deferred tax is presented in note 27. The calculated tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Group as follows:

		2018 P'000	2017 P'000
13.2	**Taxation reconciliation**		
	Consolidated		
	Profit before tax	**165,416**	**179,122**
	Taxation calculated at the rate of 22% (2017 : 22%)	36,392	39,407
	Non-deductible expenses	842	553
	Tax expense per statement of comprehensive income	**37,234**	**39,960**
	Effective tax rate	**22.5%**	**22.3%**

13 Income tax expense (continued)

13.2 Company

The effective tax rate for 2018 is 22.50% (2017: 22.30%).

Further information about deferred income tax is presented in note 27. The tax calculated on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the company as follows:

	2018 P'000	2017 P'000
Profit before tax	**136,430**	**159,978**
Taxation calculated at the rate of 22.61% (2017 : 21.95%)	30,015	35,195
Non-deductible expenses	830	553
Tax expense per statement of comprehensive income	**30,845**	**35,748**
Effective tax rate	**22.6%**	**22.3%**

13.3 Consolidated and Company

	2018 P'000	2017 P'000
Deferred tax (Loss)/gain on revaluation of property	**(977)**	**330**

14 Earnings per share

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

	2018 P'000	2017 P'000
Consolidated		
Basic and diluted earnings per share		
Profit attributable to equity holders of the Company (P'000)	128,182	139,162
Weighted average number of ordinary shares in issue ('000)	62,833	29,000
Basic and diluted earnings per share (thebe)	**204**	**480**

The Group undertook a share split of one share for 25 shares resulting in an increase in the number of ordinary shares in issue. The number of ordinary shares increased to 725,000,000 by the end of the year. This was in preparation for the Group's listing on the Botswana Stock Exchange (BSE).

	2018 P'000	2017 P'000
Number of shares ('000s)		
Shares in issue at beginning and end of the period	29,000	29,000
Increase in shares as a result of share split(1:25)	696,000	-
Number of ordinary shares in issue	**725,000**	**29,000**

		2018 P'000	2017 P'000
14	**Earnings per share (continued)**		
	Company		
	Basic and diluted earnings per share		
	Profit attributable to equity holders of the Company (P'000)	105,585	124,230
	Weighted average number of ordinary shares in issue ('000)	62,833	29,000
	Basic and diluted earnings per share (thebe)	**168**	**428**
	Number of shares ('000s)		
	Shares in issue at beginning and end of the period	29,000	29,000
	Increase in shares as a result of share split(1:25)	696,000	-
	Number of ordinary shares in issue	**725,000**	**29,000**

15 Pensions

A defined contribution pension scheme was introduced with effect from 1 January 2002. Eligible employees and the Group contribute 6 percent and 12 percent of pensionable salaries respectively.

		Consolidated and Company	
		2018 P'000	2017 P'000
16	**Cash and balances with the Central Bank**		
	Notes and coins	89,515	53,350
	Unrestricted bank balances	28,074	26,817
	Cash and cash equivalent	**117,589**	**80,167**
	Restricted balance: statutory reserve	307,145	289,400
		424,734	**369,567**

Balances with Central Bank includes the statutory reserve account of P307,145 (2017: P289,400) which is a restricted minimum statutory reserve balance not available for the bank's daily operations.

17 Related party transactions

Related parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other, in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business. These transactions are carried out under normal commercial terms and conditions at market rates.

The bank is a majority owned subsidiary of ABC Holdings Limited. The bank has a related party relationship with its parent company and with the ABC Holdings Limited subsidiaries. A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out under normal commercial terms and conditions at market rates. These include loans, deposits, and foreign currency transactions. The volumes of related party transactions, outstanding at year end, and related expense and income for the year are as follows:

	Consolidated and Company	
	2018	2017
	P'000	P'000
17 Related party transactions (continued)		
17.1 Balances due from related parties:		
ABC Holdings Ltd	342,424	477,241
African Banking Corporation Zimbabwe Ltd	74,257	49,195
African Banking Corporation Zambia Ltd	1,143	376
African Banking Corporation Mozambique Ltd	785	292
Edfund	-	1,911
African Banking Corporation Tanzania Ltd	108,103	99,386
Atlas Mara Ltd	2,068	2
	528,780	**628,403**
Interest income		
ABC Holdings Ltd	27,636	28,027
African Banking Corporation Zimbabwe Ltd	1,323	1,109
African Banking Corporation Zambia Ltd	-	199
African Banking Corporation Tanzania Ltd	8,417	6,684
	37,376	**36,019**

The tenor on the above balances ranges from 3 months -2 years and interest is payable quarterly. Interest rates range between 6% to 8%.

	Consolidated and Company	
	2018	2017
	P'000	P'000
17.2 Balances due to related parties:		
ABC Holdings Ltd	38,919	4,569
African Banking Corporation Mozambique Ltd	7,563	6,645
African Banking Corporation Zimbabwe Ltd	7,359	1,706
African Banking Corporation Zambia Ltd	40	19,766
African Banking Corporation Tanzania Ltd	320	-
	54,201	**32,686**
Interest expense		
ABC Holdings Ltd	-	68
African Banking Corporation Mozambique Ltd	-	36
African Banking Corporation Zimbabwe Ltd	25	-
African Banking Corporation Zambia Ltd	1,547	76
	1,572	**180**

The tenor on the above balances ranges from 3 months -2 years and interest is payable quarterly. Interest rates range between 6% to 8%.

		Consolidated and Company 2018 P'000	2017 P'000
17	**Related party transactions (continued)**		
17.3	**Loans and advances to other related parties:**		
	Executive Management	27,413	13,113
		27,413	**13,113**
	Interest income	**968**	**605**

These loans and advances have been included in loans and advances to customers as per note 20.

The Group assists officers and employees in respect of housing, motor vehicle and personal loans repayable over a maximum period of between 5 to 25 years at subsidised interest rates, ranging between 4% and 6.5%.

		Consolidated and Company 2018 P'000	2017 P'000
17.4	**Other related party transactions**		
	Deposits held by BancABC directors and their entities:		
	Deposits held by directors	41	196
	Interest expense	**-**	**-**
17.5	**Key management compensation**		
	Salaries and other short term employee benefits	**21,907**	**14,846**
17.6	**Directors' fees**		
	Fees paid to directors during the year		
	Mr Adams Chilisa Dambe	787	454
	Mr Leonard Musa Makwinja	-	286
	Mrs Lorato Nthando Mosetlhanyane	808	490
	Mr Jacob Mooketsi Motlhabane	685	470
	Mr Elias Magosi	371	111
	Mr Joshua Benjamin Galeforolwe	446	-
	Mr Boiki Matema Wabo Tema	126	-
	Mrs Ntoti Mosetlhe	126	-
		3,349	**1,811**
17.7	**Payments made to Directors for services rendered**		
	Mrs Lorato Nthando Mosetlhanyane	289	120
		289	**120**
17.8	**Shared service costs paid to holding company**		
	ABC Holdings Ltd	52,210	55,877
		52,210	**55,877**

		Consolidated and Company	
		2018 P'000	2017 P'000
18	**Balances with other banks**		
	Cash and short-term funds	**845,788**	**425,038**
19	**Financial instruments at amortised cost/ held for Trading**		
	Bank of Botswana Certificates	598,991	149,762
	Government Bonds	44,877	15,593
	Treasury Bills	518,832	467,318
		1,162,700	**632,673**
19.1	**Financial assets qualifying to be included as part of cash and cash equivalents**		
	Bank of Botswana Certificates	598,991	149,762
	Treasury Bills	216,449	219,068
		815,440	**368,830**

At 31 December 2018, Treasury bills amounting to P219,100 000 (2017: P219,100,000) were pledged as security for the use of secured and Intraday Lending facilities. Government Bonds have a maturity of more than three months and therefore do not qualify to be included as part of cash and cash equivalents.

		Consolidated and Company	
		2018 P'000	2017 P'000
20	**Loans and advances to customers**		
	Loans and advances	6,080,589	5,859,148
	Installment sales and finance leases (note 20.1)	43,140	40,609
		6,123,729	**5,899,757**
	Less: Changes in expected credit losses/loan impairments (note 6)	(302,751)	(94,081)
		5,820,978	**5,805,676**
	Unearned fee income	(11,855)	(10,304)
	Loans and advances after unearned fee income	**5,809,123**	**5,795,372**
	Maturity analysis:		
	On demand to one month	346,314	412,435
	One month to three months	170,032	114,380
	Three months to one year	250,637	256,611
	Greater than one year	5,356,746	5,116,331
		6,123,729	**5,899,757**
	Less: Changes in expected credit losses/loan impairments (note 6)	(302,751)	(94,081)
		5,820,978	5,805,676
	Unearned fee income	(11,855)	(10,304)
	Loan and advances after unearned fee income	**5,809,123**	**5,795,372**
	Loans and advances include the following amounts that were advanced to related parties (note 17.3)	**27,413**	**13,113**

20 Loans and advances to customers (continued)

Leases are secured by assets being financed, whilst cash advances and term loans are secured by either cash security, mortgage and surety bonds or any equipment of value. The carrying amount and fair value of loans pledged as security for borrowing as at 31 December 2018 is P442,320,885. (Refer to note 23.3).

	Consolidated and Company	
	2018 P'000	2017 P'000
20.1 Installment sales and finance lease receivables		
Gross loans and advances to customers include finance lease receivable as follows:		
Less than one year	8,084	13,171
More than one year but less than five years	35,056	27,438
	43,140	**40,609**
21 Other assets		
Consolidated		
Prepayments	20,140	18,853
Sundry debtors and deposits	32,711	18,214
Other	249	238
	53,100	**37,305**

Included in above Sundry debtors and deposits balance is amounts due from contracts with customers of P17.5 million.

	Consolidated and Company	
	2018 P'000	2017 P'000
Company		
Prepayments	20,140	18,853
Sundry debtors and deposits	29,291	16,110
Other	249	238
	49,680	**35,201**

Included in above Sundry debtors and deposits balance is amounts due from contracts with customers of P17.5 million.

	Consolidated and Company	
	2018 P'000	2017 P'000
22 Deposits from banks and customers		
Consolidated		
Deposits from banks	16,321	130,703
Deposits from customers	7,192,452	6,059,935
	7,208,773	**6,190,638**
Maturity analysis:		
On demand to one month	3,342,090	2,710,086
One month to three months	2,457,545	1,980,282
Three months to one year	1,360,062	1,417,580
Greater than one year	49,076	82,690
	7,208,773	**6,190,638**
Company		
Deposits from other banks	16,321	130,703
Deposits from customers	7,321,048	6,160,530
	7,337,369	**6,291,233**
Maturity analysis:		
On demand to one month	3,342,090	2,720,680
One month to three months	2,457,545	1,980,282
Three months to one year	1,488,658	1,507,580
Greater than one year	49,076	82,691
	7,337,369	**6,291,233**
23 Borrowed funds		
Balances without accrued interest		
ABC Holdings Ltd - subordinated loan	-	129,425
Botswana Development Corporation Limted - subordinated loan	150,000	-
Kgori Capital Proprietary Limited -subordinated debt	55,000	55,000
Botswana Building Society - long term loan	9,741	11,790
European Investment Bank(EIB)- long term loan	88,727	88,727
Overseas Private Investment Corporation (OPIC)	428,037	393,901
	731,505	**678,843**

	Consolidated and Company	
	2018	2017
	P'000	P'000
23 Borrowed funds (continued)		
Accrued interest		
ABC Holdings Ltd - subordinated loan	-	689
Botswana Development Corporation Limted - subordinated loan	5,324	-
Kgori Capital Proprietary Limited -subordinated debt	906	355
Botswana Building Society - long term loan	844	403
European Investment Bank(EIB)- long term loan	603	643
Overseas Private Investment Corporation (OPIC)	3,698	2,973
	11,375	**5,063**
Balances with accrued interest		
ABC Holdings Ltd - subordinated loan	-	130,114
Botswana Development Corporation Limted - subordinated loan	155,324	-
Kgori Capital Proprietary Limited -subordinated debt	55,906	55,355
Botswana Building Society - long term loan	10,585	12,193
European Investment Bank(EIB)- long term loan	89,331	89,370
Overseas Private Investment Corporation (OPIC)	431,734	396,874
	742,880	**683,906**
Fair value		
ABC Holdings Ltd - subordinated loan	-	130,114
Botswana Development Corporation Limited - subordinated loan	155,324	-
Kgori Capital Proprietary Limited -subordinated debt	55,906	55,355
Botswana Building Society - long term loan	10,585	12,193
European Investment Bank (EIB)- long term loan	89,331	89,370
Overseas Private Investment Corporation (OPIC)	431,734	396,874
	742,880	**683,906**
Maturity analysis:		
On demand to one month	4,786	150
One to three months	7,698	5,087
Three months to one year	30,105	420,546
Over one year	700,291	258,123
	742,880	**683,906**

23.1 Botswana Development Corporation Limited - subordinated loan

The bank concluded a facility with Botswana Development Corporation Ltd (BDC) for BWP 150 million during the year. The facility is for 10 years at an interest rate of bank rate (currently 5%) and a margin of 4%. The facility qualifies as tier 2 capital. The proceeds were used to re-pay the two ABC holdings Ltd Tier II capital instruments of USD10 million and BWP 31 million. The balance was applied to grow the banks loan book.

23 Borrowed funds (continued)

23.2 Kgori Capital Proprietary Limited

The bond with Kgori Capital Proprietary Limited was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenor of 7 years. Interest is paid bi-annually. The loan was due for call up on or before the 19 of October 2018. The Group did not exercise its right to call up the facility.

Qualification for Tier II Capital inclusion

The above stated loans (23.1 and 23.2) have met or exceeded the following minimum set criteria by Basel II Capital Framework in order for them to qualify as Tier II Capital:

(i) They are subordinated to depositors and general creditors of the bank;

(ii) They are neither secured or covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors;

(iii) Maturity:
- Their original maturity is more than five years.
- All the instruments have no step ups or other incentives to redeem.

(iv) The instruments are not callable at the initiative of the issuer before five years:
- The Group will not exercise a call option on the instruments prior to Bank of Botswana approval
- the Group will not do anything that creates an expectation that the call on the instruments will be exercised;
- the Group will not exercise a call option unless :
  (a) It replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
  (b) It demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

(v) The Group will not accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;

(vi) The instruments do not have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing;

(vii) Neither the Group nor the related party over which the Group exercises control or significant influence have purchased the instruments, nor have the Group have directly or indirectly have funded the purchase of the instrument.

(viii) The instruments have been issued out of operating entities or holding company in a consolidated group, therefore proceeds are not required to be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all the other criteria for inclusion in Tier II Capital.

23.3 Overseas Private Investment Corporation ("OPIC")

On 7 March 2017 BancABC Botswana finalised a USD 40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation ("OPIC"). The debt facility was used to provide access to finance for SMEs, individuals and to support the Bank's efforts to accelerate its digital finance initiatives, which are key areas of the Bank's strategy. The loan has a 7 year tenor with a 3 year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year 3. The rate is three month Libor plus a margin of 4.45%. The value of loans pledged as security as at 31 December 2018 is P442,320,885 (Refer to note 20).

23.4 Botswana Building Society

The term loan from Botswana Building Society was obtained on 31 December 2008. The loan bears interest at prime less 0.75%, at reporting date at 5.75% (2017:6.5%). The loan is secured by land and buildings with a market value of P33 539 999 (note 29). Principal plus interest are repayable monthly. The loan matures on 30 December 2022. (Refer to note 29).

23.5 European Investment Bank

The Group obtained a loan facility of EUR25 million, which is available in three currencies i.e. Euro, US Dollar and Botswana Pula. As at 31 December 2016, the Group drew down two tranches , first tranche as at November 2015 of P77 million bearing interest at a fixed rate of 6.32%, the second tranche as at June 2016 of P12.4 million bearing interest at a fixed rate of 6.14%. Interest is paid bi-annually.The undrawn balance has been cancelled,and is no longer available for drawdown.

		Consolidated and Company	
		2018 P'000	2017 P'000
24	**Stated capital**		
	725 million Ordinary shares issued and fully paid at the start and end of the year: (2017: 29 million)	**222,479**	**222,479**
25	**Reserves and retained earnings**		
25.1	**Other Reserves**		
	As at 31 December	**6,091**	**6,091**

The reserve represents the excess of the general provision against risk weighted assets as required by the Bank of Botswana in addition to the impairment provision required by IFRS.

		Consolidated and Company	
		2018 P'000	2017 P'000
25.2	**Revaluation reserve**		
	At 1 January	4,982	6,152
	Gain/(Loss) on revaluation of property	4,440	(1,500)
	Income tax on gain on revaluation of property	(977)	330
	At 31 December	**8,445**	**4,982**

The revaluation reserve comprises the net cumulative increase in the fair value of land and buildings owned by the bank as disclosed under note 29.

		2018 P'000	2017 P'000
25.3	**Retained earnings**		
	Consolidated		
	At 1 January	831,753	692,591
	IFRS 9 day one impact	(224,149)	-
	Profit for the year	128,182	139,162
	At 31 December	**735,786**	**831,753**
	Company		
	At 1 January	737,940	613,710
	IFRS 9 day one impact	(224,149)	-
	Profit for the year	105,585	124,230
	At 31 December	**619,376**	**737,940**

		2018 P'000	2017 P'000
26	**Other liabilities**		
	Consolidated		
	Accruals	16,119	57,541
	Deferred lease liabilities	1,504	1,053
	Clearing accounts	5,371	2,306
	Unclaimed funds	-	548
	Settlement accounts	38,035	3,498
	Other	31,758	14,761
		92,787	**79,707**
	Company		
	Accruals	16,119	48,473
	Deferred lease liabilities	1,504	1,053
	Clearing accounts	5,371	2,306
	Unclaimed funds	-	548
	Settlement accounts	38,035	3,498
	Other	16,341	15,592
		77,370	**71,470**
27	**Taxation**		
27.1	**Current tax (assets)/liabilities**		
	Consolidated		
	Current tax assets (to be recovered within 12 months)	(12,544)	(17,020)
	Net current tax (assets)/liabilities	**(12,544)**	**(17,020)**
	Company		
	Current tax assets (to be recovered within 12 months)	(12,733)	(17,669)
	Net current tax (assets)/liabilities	**(12,733)**	**(17,669)**
	Consolidated		
	Income tax brought forward	(17,020)	(3,003)
	Under/(over) provision in prior years	-	(38)
	Charge for the year	39,191	22,033
	Taxation paid (refer to note 27.1.1)	(34,715)	(36,012)
	Net income tax carried forward	**(12,544)**	**(17,020)**

	2018 P'000	2017 P'000
27 Taxation (continued)		
27.1.1 Reconcilliation of taxation paid		
Consolidated		
Receipts during the year	14,128	-
Payments during the year	(48,843)	(36,012)
Total taxation paid	**(34,715)**	**(36,012)**
Company		
Income tax brought forward	(17,669)	(3,049)
Under/(over) provision in prior years	-	(38)
Charge for the year	32,802	17,821
Taxation paid (refer to note 27.1.1)	(27,866)	(32,403)
Net income tax carried forward	**(12,733)**	**(17,669)**
Receipts during the year	14,128	-
Payments during the year	(41,994)	(32,403)
Total taxation paid	**(27,866)**	**(32,403)**

27.1.2 Deferred taxation

Deferred taxes are calculated on all temporary differences using a principal tax rate of 22% (2017: 22%). The movements in the deferred tax account, which are attributable to timing differences are as follows.

	Consolidated and Company	
	2018 P'000	2017 P'000
Deferred tax brought forward	13,900	(3,735)
Gain on revaluation of property	977	(330)
Charge per profit or loss (note 13.1)	(1,957)	17,965
Deferred tax on ECL adjustment on initial application of IFRS 9 at 1 January 2018	(63,473)	-
Deferred tax (assets) / liabilities	**(50,553)**	**13,900**

Consolidated and Company	Net balance as at 1 January 2018 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 December 2018 P'000
Property and equipment	13,947	(1,360)	977	**13,564**
Financial instruments	119	(1,264)	-	**(1,145)**
Prepayments and impairments	(2,697)	404	(63,473)	**(65,766)**
Other	2,531	263	-	**2,794**
	13,900	**(1,957)**	**(62,496)**	**(50,553)**

27 Taxation (continued)

27.1.2 Deferred taxation (continued)

Consolidated and Company	Net balance as at 1 January 2017 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 December 2017 P'000
Property and equipment	9,971	4,306	(330)	**13,947**
Financial instruments	(139)	258	-	**119**
Prepayments and impairments	(13,589)	10,892	-	**(2,697)**
Other	22	2,509	-	**2,531**
	(3,735)	**17,965**	**(330)**	**13,900**

	Consolidated and Company	
	2018 P'000	**2017 P'000**
28 Intangible assets		
Software		
Cost		
Balance at the beginning of the year	136,241	94,802
Work in progress	-	5,996
Additions	34,698	35,443
Balance at the end of the year	**170,939**	**136,241**
Accumulated amortisation		
Balance at the beginning of the year	(45,900)	(35,676)
Amortisation charge (note 11)	(14,206)	(10,224)
Balance at the end of the year	**(60,106)**	**(45,900)**
Carrying amount at the end of the year	**110,833**	**90,341**

29 Property and equipment

Consolidated and Company

2018	Land and buildings P'000	Motor vehicles P'000	Furniture P'000	Computer and office equipment P'000	Total P'000
Cost/revaluation					
At 1 January 2018	29,100	1,710	61,241	46,910	**138,961**
Additions	-	-	7,300	2,148	**9,448**
Revaluation	4,440	-	-	-	**4,440**
At 31 December 2018	**33,540**	**1,710**	**68,541**	**49,058**	**152,849**
Accumulated depreciation					
At 1 January 2018	-	(1,485)	(32,377)	(37,066)	**(70,928)**
Charge for year (note 11)	-	(120)	(6,607)	(5,489)	**(12,216)**
At 31 December 2018	**-**	**(1,605)**	**(38,984)**	**(42,555)**	**(83,144)**
Net book value at 31 December 2018	**33,540**	**105**	**29,557**	**6,503**	**69,705**
2017					
Cost/revaluation					
At 1 January 2017	30,600	1,710	59,794	43,911	**136,015**
Additions	-	-	1,447	3,312	**4,759**
Revaluation	(1,500)	-	-	-	**(1,500)**
Disposals	-	-	-	(313)	**(313)**
At 31 December 2017	**29,100**	**1,710**	**61,241**	**46,910**	**138,961**
At 1 January 2017	-	(1,255)	(26,249)	(31,663)	**(59,167)**
Disposals during the period	-	-	-	313	**313**
Charge for year	-	(230)	(6,128)	(5,716)	**(12,074)**
At 31 December 2017	**-**	**(1,485)**	**(32,377)**	**(37,066)**	**(70,928)**
Net book value at 31 December 2017	**29,100**	**225**	**28,864**	**9,844**	**68,033**

The Group's commercial Land and buildings situated at Plot 62433, Fairgrounds Gaborone were revalued on the 31 December 2018 by Knight Frank Botswana (Pty) Ltd, an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was made on the basis of recent market transactions on arm's length terms. The carrying amount is P33.5 million (2017: P29.1million).

Land and building with a market value of P33,539,999 million has been pledged as security for the Botswana Building Society loan.(note 23).

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The fair value measurements of land and building has been categorised as a level 3 fair value based on inputs on the valuation techniques used.

29 Property and equipment (continued)

Valuation technique and significant unobservable inputs:

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

Valuation technique	Significant observable inputs	Inter-relationship between key unobservable inputs and fair value measurements
- Market capitalisation method (investment method) - Comparable method	Market yield of between 8-10% - Prime rentals of office space between P90/sq.m to P105/sq.m	The estimated fair value would increase/(decrease) if: - Higher/lower market yields - Increase/decrease in rental per sq.m

	Capital composition under Basel II Framework Consolidated and Company	
	2018 P'000	**2017 P'000**
30 Capital adequacy		
Core capital (Tier 1)		
Stated capital	222,479	222,479
Statutory credit risk reserve and other reserves	14,536	11,073
Retained earnings	735,785	831,753
IFRS 9 Impairment Transitional Adjustments	119,176	-
Regulatory adjustments applied in the calculation of CET 1 Capital (intangible asset)	(66,500)	(36,137)
	1,025,476	**1,029,168**
Supplementary capital (Tier 2)		
General provision/ general loan-losss reserves eligible for inclusion in Tier II	77,116	17,387
Subordinated loan	194,000	184,425
	271,116	**201,812**
Total capital (Tier 1 and Tier 2)	**1,296,592**	**1,230,980**
Market risk	532,421	114,438
Operational risk	648,910	595,765
On Balance sheet assets/ credit risk weighted assets	5,915,756	5,192,446
Off Balance sheet assets	253,489	322,562
Total risk weighted assets	**7,350,576**	**6,225,211**
Core capital ratio	13.95%	16.53%
Capital adequacy ratio	17.64%	19.77%
Bank of Botswana preferred minimum risk asset ratio	15%	15%

The Bank is supervised by the Bank of Botswana and is required to maintain a minimum capital ratio, known as the Capital Adequacy Ratio, expressed in terms of the ratio of total capital to the risk weighted value of assets and off balance sheet items. The ratio as at 31 December 2018 meets the minimum requirement of 15% set by Bank of Botswana.

31 Subsidiary

Kaleu (Pty) Ltd trading as BancABC Insurance is a 100% owned subsidiary company of African Banking Corporation of Botswana Limited and was incorporated in Botswana on 22 February 2011 and started trading on 18 January 2012. The Company does not have any regulatory restrictions to use its subsidiary's assets and its cash balances.

		2018 P'000	2017 P'000
32	**Contingent liabilities and loan commitments**		
	Financial guarantees	109,331	149,851
	Loan commitments and other credit related liabilities	530,519	588,591
		639,850	**738,442**
	Changes in expected credit loss	(3,328)	-
		636,522	**738,442**
33	**Capital commitments**		
	Commitments in respect of capital expenditure:		
	Approved and contracted for	12,174	-
	Approved but not contracted for	67,129	35,647
	Operating lease commitments	28,656	32,934
	Total commitments	**107,959**	**68,581**
33.1	**Deferred lease liabilities**		
	Long-term accrual	570	627
	Short-term accrual	924	426
	Total commitments	**1,494**	**1,053**
	Minimum lease payments		
	Cashflow within 1 year	8,136	6,545
	Cashflow between 2- 5 years	19,301	26,389
	Future expenses	**27,437**	**32,934**

34 Derivative financial instruments:

Forward foreign exchange contracts represents commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected transactions .

The two Credit Derivative entered into between BancABC Botswana and African Alliance Pty Ltd for the amount of P32.7 million on 29 April 2016, schedule termination date on or around December 2020, at a coupon rate of 7.2%.The other Credit Derivative between BancABC Botswana and Kgori Capital Proprietary Limited for the amount of P21.8 million on 29 April 2016, schedule termination date on or around December 2020, at a fixed rate of 11%.

34 Derivative financial instruments (continued):

Derivative financial instruments 31 December 2018	Assets P'000	Liabilities P'000	Notional amount P'000
	Consolidated and Company		
Derivatives held for trading			
Foreign exchange contracts	2,322	765	1,557
Derivatives designated at fair value through profit or loss			
Collaterilised default swap	60,433	58,408	2,025
	62,755	**59,173**	**3,582**
Derivative financial instruments 31 December 2017			
Derivatives held for trading			
Foreign exchange contracts	-	1,322	(1,322)
Derivatives designated at fair value through profit or loss			
Collaterilised default swap	63,967	60,255	3,712
	63,967	**61,577**	**2,390**

34.1 Derivative financial instruments-cash flows:

Derivative financial liabilities-cash flows	Up to 1 month P'000	1-3 months P'000	3-12 months P'000	Greater than 1 year P'000	Total P'000
	Consolidated and Company				
31 December 2018					
Value on initial recognition					
Collaterilised default swap	765	-	-	58,408	**59,173**
	765	**-**	**-**	**58,408**	**59,173**
Derivative financial liabilities-cash flows 31 December 2017					
Value on initial recognition					
Collaterilised default swap	1,322	-	-	60,255	**61,577**
	1,322	**-**	**-**	**60,255**	**61,577**

35 Segmental Reporting

Basis of Segmenting

The Managing Director, supported by the rest of the Management Committee (MANCO), is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Group's reportable segements. The Group's business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. The Group has three reportable segments being Retail, Commercial Banking and Global Markets.All operating segments used by the group meet the definition of reportable segments and the results presented are in line with reports used internally to assess each reportable segment.

Reportable segments	Operations
Retail Banking	The retail banking segment offers lending and transactional banking services to individuals. The predominant aspect of its retail offering comes from BancABC's partnerships with unions and small corporate enterprises (SME's) who provide a steady stream of retail customer base who require secured and unsecured loans. The segment also offers savings, payroll accounts, call and fixed deposit products as well as insurance products via bancassurance.
Commercial Banking	Commercial banking segment provides investment solutions to corporates, financial institutions, government entities and international organisations. The segment provides short-term fixed deposit investment products that collectively providethe Bank with funding for the retail loan book.
Global Markets	The Global Markets segment provides foreign exchange solutions to commercial clients,while supporting the branch network's retail foreign exchange service. The Group's treasury division plays an important role in managing the Bank's funding and liquidity and assists with sourcing interbank lines and supporting complex transactions. This business unit is facilitated and benefits from the Atlas Mara' coordination and efforts within the Atlas Mara Group centre that specializes in global markets and treasury operations.

35 Segmental Reporting (continued)

Segmental Reporting December 2018	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Statement of comprehensive income				
Net interest income	301,403	66,622	49,967	**417,992**
Non- interest income	107,493	14,865	10,645	**133,003**
Total income	**408,896**	**81,487**	**60,612**	**550,995**
Movement in impairment	(5,443)	-	24,349	**18,906**
Net income	**403,453**	**81,487**	**84,961**	**569,901**
Operating expenditure	(310,674)	(38,532)	(55,279)	**(404,485)**
Profit before taxation	**92,779**	**42,955**	**29,682**	**165,416**
Taxation	-	-	-	**(37,234)**
Profit after tax	**92,779**	**42,955**	**29,682**	**128,182**
Statement of financial position				
Financial assets held at amortised cost	-	1,162,700	-	**1,162,700**
Loans and advances to customers	5,179,787	-	629,336	**5,809,123**
Total assets for reportable segments	**5,179,787**	**1,162,700**	**629,336**	**6,971,823**
Deposits from customers	1,033,451	1,598,655	4,560,346	**7,192,452**
Deposits from banks	-	16,321	-	**16,321**
Total liabilities for reportable segments	**1,033,451**	**1,614,976**	**4,560,346**	**7,208,773**

Segmental Reporting December 2017				
Statement of comprehensive income				
Net interest income	350,892	50,423	87,636	**488,951**
Non- interest income	67,061	36,432	9,415	**112,908**
Total income	**417,953**	**86,855**	**97,051**	**601,859**
Movement in impairment	(46,397)	-	(2,300)	**(48,697)**
Net income	**371,556**	**86,855**	**94,751**	**553,162**
Operating expenditure	(309,704)	(28,488)	(35,848)	**(374,040)**
Profit before taxation	**61,852**	**58,367**	**58,903**	**179,122**
Taxation	-	-	-	**(39,960)**
Profit after tax	**61,852**	**58,367**	**58,903**	**139,162**
Statement of financial position				
Financial assets held for trading	-	632,673	-	**632,673**
Loans and advances to customers	4,815,409	-	979,963	**5,795,372**
Total assets for reportable segments	**4,815,409**	**632,673**	**979,963**	**6,428,045**
Deposits from customers	1,052,084	1,023,085	3,984,766	**6,059,935**
Deposits from banks	-	130,703	-	**130,703**
Total liabilities for reportable segments	**1,052,084**	**1,153,788**	**3,984,766**	**6,190,638**

36 Events after reporting date

On 17 January 2019 BancABC Botswana finalised a USD 10 million debt facility with Microfinance Enhancement Facility SA, SICAV-SIF,an investment company with variable capital established as a Luxembourg specialised Investment fund, organised and existing under the laws of Luxembourg, registered with the Luxembourg Trade and Companies Register. The debt facility will be used to finance the bank's asset growth as well as to manage any potential liquidity mismatches. The facility was partially utilised by the time these financial statements were authorised for issue.

The debt facility has a 3 year tenor. Interest is paid half yearly during the three years. The facility is priced at Libor plus a margin of 4.25bps.

AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED

FOR COMPLETION IN BLOCK LETTERS BY HOLDERS OF ORDINARY SHARES

I/We ____

of (Address) ____
____ being a shareholder of AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED hereby appoint,

1. ____of failing him / her,
2. ____

As my/our proxy to vote/act for me/us at the ……………..………………… ....General Meeting to be held at ………………………………………………………………………….. on ………………………………………………………………..
to consider proposed resolutions and to vote for or against or abstain from voting for their endorsement / amendment and if deemed fit endorsing such resolution with / without amendment / modification.

Signed at: _________________________ on ________________________2019

Signature: ___________________________

Witness: ____________________________

Note:

1. Each shareholder is entitled to attend and vote at this meeting and to appoint one or more proxies to act in the alternative to attend, vote and speak in his/her stead/place, at the General Meeting who need not be a member of the Company.

BancABC
part of
atlasmara