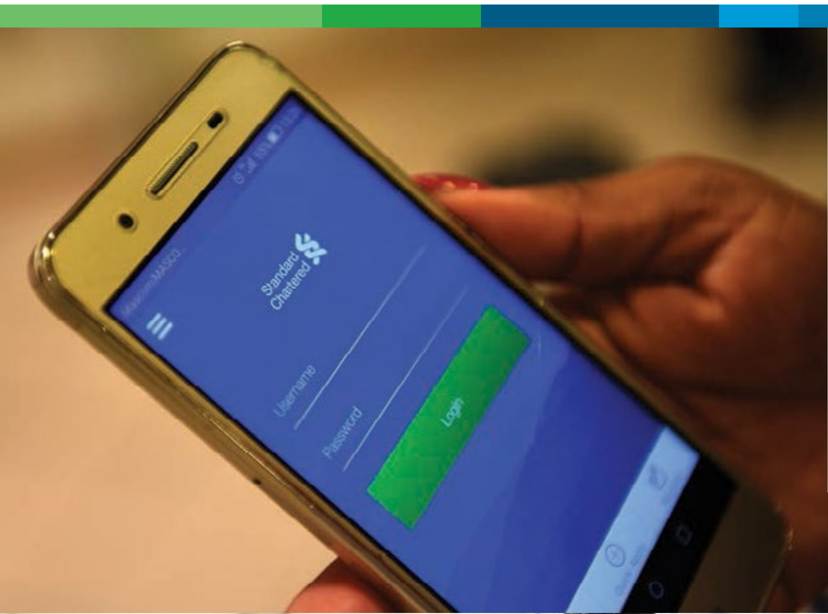
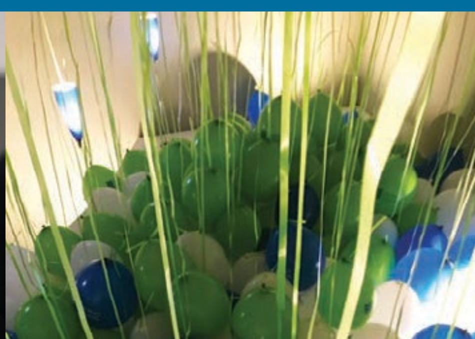
Standard Chartered



Annual Report 2017

Driving commerce and prosperity through our unique diversity



Who we are

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

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

Today, with approximately 800 employees, we operate a network of 21 branches, agencies and a Priority Banking centre, all of which are supported by a Loan Centre and 24-hour Customer Call Centre. With a wide branch network, large sales force, and award-winning digital banking platforms, the Bank offers clients in the Retail, Commercial and Corporate segments international standards of customer service and excellence.

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

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

About this report

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

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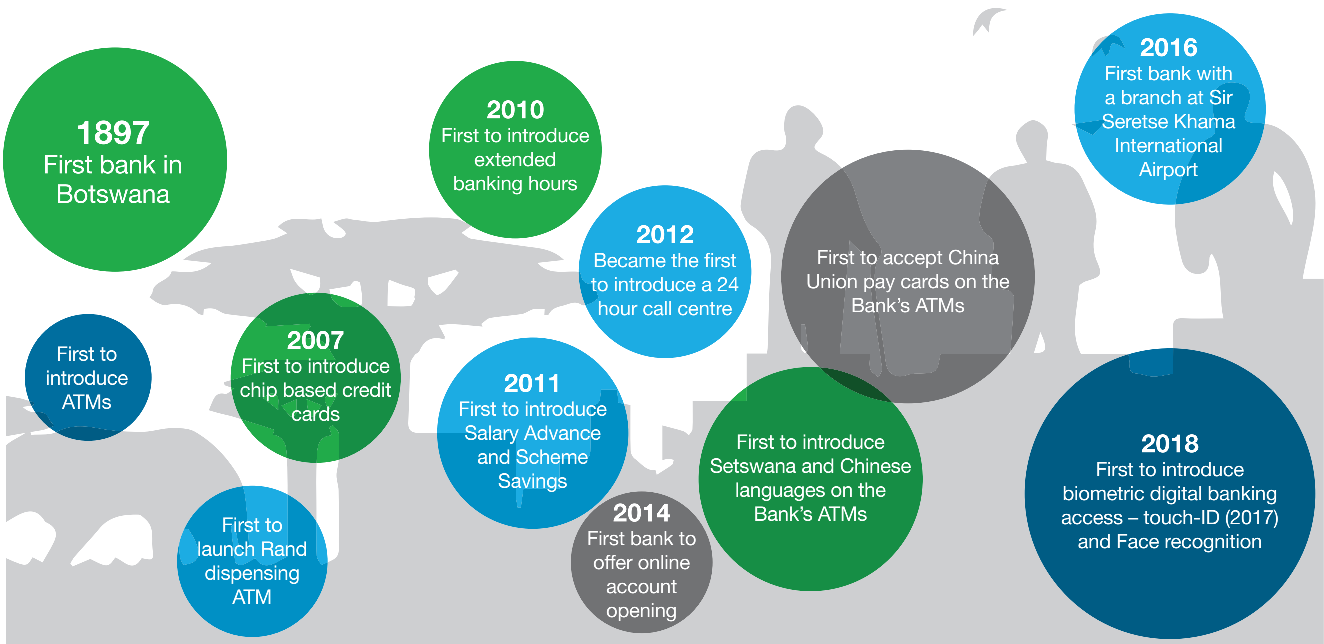


OUR PURPOSE AND PROGRESS

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

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

FINANCIAL KPIs

Loans and advances to customers dropped by

0.9%

Customers deposits grew by

9%

Capital ratios

16%

Operating expenses excluding impairment up by

15%

NON FINANCIAL KPIs

Female

65%

A network of

21

Branches

OTHER FINANCIAL MEASURES

Operating income

P853m

Profit before tax

(P233)m

Earnings per share

(63.50) thebe

Contents

What we do

Serving client segments with differentiated expertise

Corporate & Institutional Banking

Serving large corporations, government, banks and investors.

Commercial Banking

Supporting local corporations and medium sized enterprises.

Retail Banking

Serving individuals and small businesses.

Support functions

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

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

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

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

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

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

Finance
Responsible for the Bank's operations, systems development and technology infrastructure

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

Chairman's statement

Focused on unlocking potential while strengthening culture and resilience

On behalf of Standard Chartered Bank Botswana Limited's Board of Directors I am pleased to present the Company's Annual Report for the 2017 financial year. It goes without saying that the Board regrets that we are reporting a net annual loss for 2017. We did not achieve our target for the year due to a tough operating environment and a once off loan impairment which affected our overall profits. Nonetheless, a great deal was achieved in the year.

We have made positive steps on our journey to improve our financial strength, culture and conduct agenda, and ensure these remain on a sustainable footing for the future. This work is ongoing as external trends impacting the banking sector continue to evolve.

Botswana's Economic Environment

The outlook for the Botswana economy is one of modest improvement, particularly with the rise in international commodity prices, which are expected to be sustainable over the medium term. The economy finished 2017 on a strong note, with annual GDP growth accelerating to 6.5% in the fourth quarter from 1.1% in the previous quarter thanks to a sharp rebound in the retail trade, hotels and restaurants sector. Full-year growth, however, came in at a modest 2.4%, down from the solid 4.3% recorded in 2016. The mining sector performance is expected to benefit from the recovery in the global economy, while that of non-mining sectors reflects the impact of Government of Botswana efforts in influencing policies and strategies to diversify the country's sources of growth. The Bank rate of 5%, and the projected rate remaining at 5% for the short term, should have a stabilising effect and lead to a steady improvement in sentiment, which in turn should gradually feed positively into the business environment.

On the back of the stable macro-economic environment, it is my view that the Company is well positioned to return to profitability in 2018.

Business Review

Our 2017 full year results reflect the challenging operating environment we faced. Sharp decline in market liquidity and persistent low interest rates have impacted income that is down 6% from full year 2016.

We have seen a material increase in loan impairments primarily on the back of one exposure in Corporate and Institutional Banking from the Diamond and Jewellery sector. The Company has finally completed its exit from the sector and therefore no expected risks exit.

The Bank has complied with all capital and primary reserve ratios despite the loss position reported for the year 2017.

The Board has maintained its oversight of the execution of the Company's strategy throughout the year and we remain confident that it will deliver sustainable shareholder value and a stronger organisation for our clients. We had the pleasure of hosting the Standard Chartered Bank Group CEO, Mr Bill Winters, in September 2017 who graciously launched our new purpose statement, 'Driving commerce and prosperity through our unique diversity'. I believe this typifies the essence of what we stand for and who we are.

I remain convinced that Standard Chartered is a force for good in Botswana and it is therefore incumbent on the Board to ensure that the Bank's unique culture and values are further strengthened.

Importantly, on behalf of the Board, I would like to express our gratitude to the valued shareholders of the Company. Whilst the company will not be issuing a dividend for the 2017 financial year we remain committed to returning to our usual attractive dividend policy in the very near future.

I also, once again, want to extend my thanks to every staff member of the Company. I know it's been a tough year on many fronts, but Standard Chartered Bank Botswana Limited remains a great business on the back of your hard work and commitment.

Professor Bojosi Otlhogile
Chairman


Professor Bojosi Otlhogile
Chairman


Standard
Chartered

Driving Commerce & Prosperity through our unique Diversity

Bridging the financial inclusion gap
in support of the Bankers Association

Financial education is one of the key Sustainability pillars at the Bank, it is part of how we ensure that our presence in Botswana is indeed Here for good. In the 2014 commissioned study on financial inclusion in Botswana, it was revealed that 24% of the adult population is currently completely excluded from financial systems meaning that they have no access to or do not use formal or informal financial products and services. Contributing towards a financially included society is a contribution to a more empowered population which in turn is part of our continued contribution to sustainable economic growth.

In November 2017, through employee-led workshops and participation, the Bank proudly supported the Bankers Association of Botswana to promote Financial Literacy at the Banking and Wealth EXPO under the theme – Bridging the inclusion gap through financial literacy.

Chief Executive's review

A milestone year
and the path to sustainable future growth

In 2017, the Group celebrated its 120 year anniversary in Botswana. This milestone provided an opportunity to reflect on the close relationship that the Bank has proudly had with the growth of the nation's economy and financial development of its citizens. Senior management from across the Standard Chartered global network, including the Group Chief Executive Officer, whilst visiting Botswana, emphasised that Africa remains a priority market for the Bank and reaffirmed their full commitment to the revised Botswana strategy. The team now refocuses the journey to building a solid foundation that will support the drive towards another 120 years.

The Bank's performance in 2017 faced significant challenges from within an already stretched banking environment. Subdued top line growth and increased costs slowed performance. Whilst a reduction in the bank rate by the regulator put pressure on interest margins, it was, ultimately, a single big loan impairment in the Corporate and Institutional Banking (CIB) segment that caused the greatest attrition to performance. These collective factors contributed to the Bank recording a loss for the year.


Mpho Masupe
Chief Executive Officer

The Bank suffered from diminishing margins as net interest income declined by 3 percentage points/300 bps. The margin compression is led mainly by the increasing cost of deposits. Operational expenses excluding impairment increased by 15% due to continuing technical support and investment in staff. Notwithstanding the low momentum on the operating profit for the year, the Bank has shown resilience for growth and overall deposits grew by over 9%, to over BWP13 billion, while loans and advances to customers declined marginally by 0.9%. The growth in advances is despite the continued de-risking of the diamond and jewellery sector from Global Banking. Retail Banking rallied the advances balance sheet with over 14% growth to just over BWP6 billion.

Our management team are confident that the new strategy and laid out objectives going forward will pull the franchise through the difficult time and return the business to good growth. The Bank will draw from its vast emerging market expertise and experience that the Standard Chartered Bank Group offers across its network.

As we embark on the journey to return to sustainable growth and profitability, the guiding principle will remain to meet client's needs and demands, which are convenient banking and excellent customer service. These will be underpinned by the recently launched purpose statement "Driving Commence and Prosperity Through our Unique Diversity". In 2018 management will roll out and drive the pillars that will cultivate a culture to bring the new purpose statement to life.

To support the vision, management seeks to:

- Use the Standard Chartered Bank global network to develop the people and retain talented individuals who will drive the strategy.
- Embed a differentiated service excellence across the organisation at all levels to ensure that customer service becomes a way of life.
- Improve responsiveness to market and highlight the best solutions Standard Chartered Bank has to offer to their clients.
- Cultivate a robust risk management culture; build a strong conduct compliant team.

All the Bank's business segments are poised for accelerated growth and are ready to execute the strategy.

Global Banking is carrying a cleaner balance sheet, Commercial Banking is almost breaking even following years of losses since establishment three years ago and can now concentrate on growing the top line. Retail Banking is well positioned to accelerate deposit growth and implement non-funded income initiatives through best in the market digital banking solutions.

Customer deposits grew by

9%

Liquidity Ratio

25%

The balance sheet grew by

8%

The Bank will accelerate plans to deliver convenient world-class digital solutions to its customers, while ensuring that the branches' look and feel continue to be consistent with the changing client needs.

Overall our balance sheet is well structured to accommodate good growth and take advantage of the promising opportunities offered by the promising economic activities in Botswana.

Thank you for your continued support.

Mpho Masupe
Managing Director

Management Team

1. **Mpho Masupe**
   Chief Executive Officer
2. **Gutu Kudzai**
   Chief Financial Officer (Acting)
3. **Pedzani Tafa**
   Head, Retail Banking
4. **Kesego Mokgetse**
   Head, Commercial Banking
5. **Benson Madisa**
   Head, Global Banking (Acting)
6. **Saone Balopi**
   Head, Corporate Affairs and Brand & Marketing
7. **Tuduetso Ntwaetsile**
   Head, Internal Audit
8. **Richard Ochieng**
   Country Chief Risk Officer
9. **John Kimani**
   Chief Information Officer
10. **Otsile Mabeo**
    Head, Wealth Management
11. **Esther Mokgatlhe**
    Head, Compliance
12. **Marang Morakaladi**
    Head, Human Resources
13. **Chazha Kgalemang**
    Head, Legal
14. **Maungo Sebonego**
    Head, Financial Markets (Acting)

Business model

A business model
built on long-term relationships

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

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

Our resources

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

Human capital

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

792 Employees

65% Female

Strong brand

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

International network

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

Local expertise

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

What makes us different

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

We drive commerce and prosperity through our unique diversity

Client focus

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

Robust risk management

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

Distinct proposition

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

Sustainable approach to business

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

What we deliver

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

Global

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

Corporate & Institutional Banking

Regional

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

Retail Banking

Commercial Banking

Products and services

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

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

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

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

Financial Markets
- Investment
- Risk management
- Debt capital markets

Financial performance

Income
- Net interest income
- Fee income
- Trading income

Profits

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

Return on equity

Profit generated relative to equity invested

Clients

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

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

Regulators and governments

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

Investors

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

Colleagues

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

Society

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

Our strategy

A strategy addressing long-term trends

Our strategy was developed against the backdrop of long-term trends, which will continue to significantly shape the character of the economy and broader landscape of the market. We believe that each of these long-term trends presents opportunities that we are uniquely positioned to capture

1 Rise of urban middle class

Our clients are becoming more consumption-led, driving rapid growth in demand for wealth and financing solutions

Our strategic response: Focus on the affluent, emerging affluent as well as wealth offerings

2 Digital revolution

Digitisation offers an opportunity for us to deliver more convenient and efficient solutions to clients and thus to increase our client reach and engagement in a cost-effective manner

Our strategic response: Accelerate pace of our digitisation

3 Increasing regional connectivity

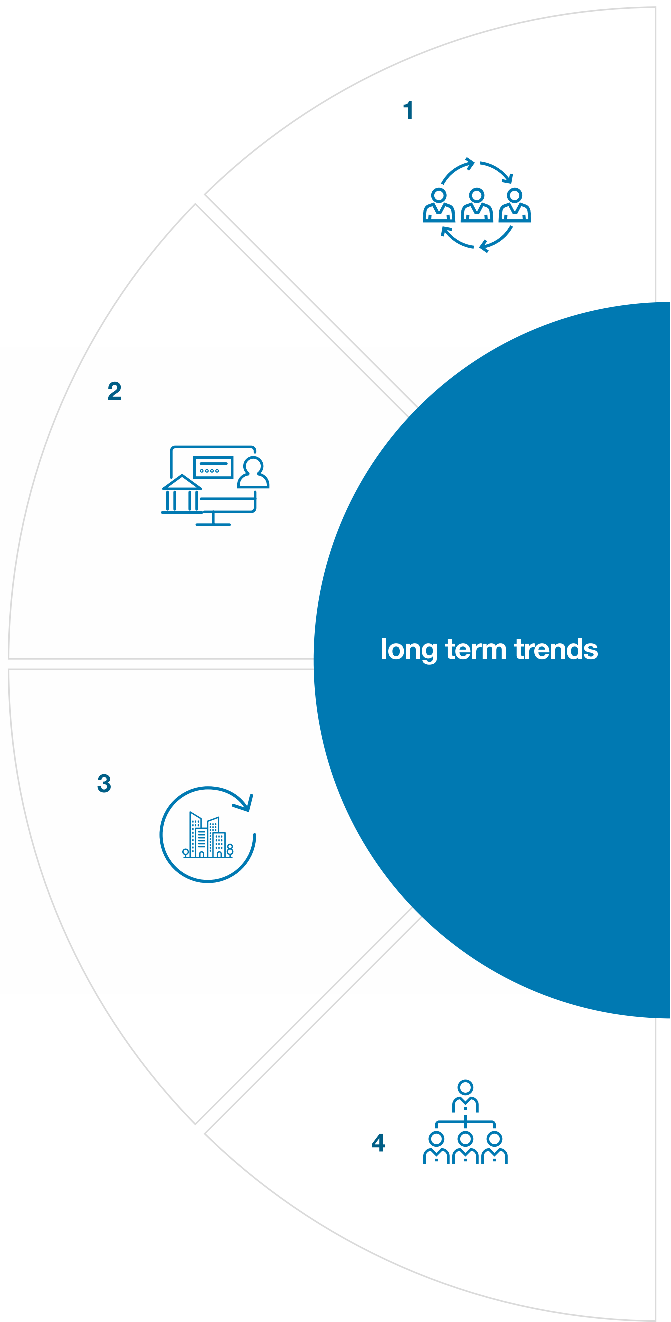
Despite a rise in anti-globalisation sentiment in several parts of the world, we are witnessing in the long term the emergence of complex supply chains, combined with new frameworks for cooperation, such as the Belt and Road initiative and other economic corridors. With our long history in this and global markets that are driving these trends, we are uniquely positioned to capture the benefits they bring

Our strategic response: Leverage our network capabilities

4 Financial deepening and evolving regulation

Clients are increasingly looking for innovative cross-border funding, cash management and investment solutions, coupled with local hedging instruments to better manage risks. This, along with the growing sophistication of the financial services sector, and ongoing government-led reform, is driving the deepening of local capital markets in our footprint

Our strategic response: Strengthen our capital markets capabilities



Three strategic objectives

1
Secure the foundations

Ensure that we have a strong capital position, with a balanced client and product portfolio

2
Get lean and focused

Drive the shift towards sustainable, profitable growth in returns-accretive businesses, and improve productivity

3
Invest and innovate

Invest in improvements to drive better client experience, meet clients' demands, and drive growth and cross-bank collaboratinon

Our Strategy is focused on capturing the existing growth opportunities in our footprint, by developing deep, long-term relationships with our clients and helping them connect across our markets

Retail Banking

Segment overview

Profit before taxation

P123m

Impairment down by

80.4%

UNDERSTANDING CLIENTS' BANKING NEEDS

Building relationships through technology

We are constantly enhancing our products and services to take advantage of digital advances. This includes our new voice recognition platforms and cross-border payment options on mobile and tablet devices for clients who need to bank anytime, anywhere. Every innovation is based on insights: we spend time getting to know our clients and understanding their banking needs and financial goals.

Segment overview

In 2017 we celebrated an unprecedented milestone of our 120 year anniversary in Botswana. As the oldest retail bank we continue to demonstrate our commitment to sustainability and long term support for our client's financial welfare, a reflection of being truly Here for Good.

Despite a challenging environment with strong headwinds, we remained consistent in the execution of our strategy to expand and deepen relationships with our customers across segments delivering our Here for Good brand promise, ensuring that it underpins every aspect of our business.

We launched refreshed Bancassurance products: Life Cover, Hospital Cash Back and Funeral Plan all of which are aimed at protecting the wellbeing of our customers in society. Protection is the foundation for customers when creating and growing wealth and it complements the service philosophy of wealth management: 'create-grow-protect'. The launch of the refreshed Bancassurance products not only extends the financial products portfolio but, combined with other product offerings, customers of the Bank will be able to access more diversified and integrated one-stop financial investment solutions.

Strategic priorities

- Continue to enhance our products and services to take advantage of digital innovations
- Continue to build on our client ecosystem and alliance initiatives
- Improve our customers' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of customers in our markets

Progress

- Increased share of income from Priority customers to 7%, up from 4% in 2016
- Investment in technology is showing results, with nearly 83% of customers now actively using online or mobile banking

Corporate & Institutional Banking

Segment overview

Revenue down by

P57.8m

Expenses increased by

40.5%

LOCAL MARKET EXPERTISE AND GLOBAL REACH

Your success is our business

We leverage our well-established reputation across the local and international markets to assist multinationals and institutions to structure and finance innovative deals. Our real value lies in how we combine advisory and financing solutions with our wider industry and structuring expertise to arrive at fully customised solutions that meet your unique financial objectives. We also offer organisations solutions to make the most of opportunities in global financial markets. From capital markets and commodities to foreign exchange, rates and credit.

Corporate & Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs. Our clients include large corporations, State Owned Enterprises, Banks and Asset Managers.

Segment Overview

2017 was a challenging year for Corporate and Institutional Banking largely due to a huge impairment that was recorded during the year relating to a specific client. In addition, subdued economic activity coupled with low interest environment meant that there was a decline in revenue by 22.6% while costs for the year also escalated by 40.5%. Loans and advances also declined year-on-year as result of exiting the Diamond and Jewellery sector and low utilisation of facilities.

Achievements

Credit quality of our loan book has improved significantly following a deliberate plan to exit certain sectors.

During the year the revised Relationship Manager led model was successfully implemented.

The business continues to on board new clients mainly from our international network who, are undertaking some of the major projects in Botswana.

Strategic Priorities

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice, and strengthening leadership in flow solutions
- Manage our balance sheet to grow income and returns by driving balance sheet velocity, improving funding quality and maintaining strengthened risk controls
- Improve our efficiency, innovate and digitise to enhance the client experience
- Continue to focus on developing our people
- Focus on growing Non Funded Income (NFI) through introduction of various products to our corporate clients such as liquidity

Commercial Banking

Segment review

Loss before taxation

P4.6m

Operating expenses down by

49%

CROSS-BORDER RELATIONSHIPS

Helping clients grow their businesses

We constantly support clients in the small and mid-sized segments to capture opportunities and grow their businesses locally and internationally.

The Commercial Banking unit stabilised in terms of operating model and cost structure during the course of the year. Since inception, a lot of focus had been around investing in systems and people to ensure that the unit had a strong base to be able to compete with the industry. As a result this saw an increase in the costs. Over and above the cost structure attributable to investments, the unit was also launched during a period when the economy was going through a downturn and as a result some clients faced credit strain, leading the unit to consequently realise an increase in loan impairments. By virtue of the credit profile of the clients and their size on the medium enterprises end, they are prone to economic downturns in larger magnitude relative to larger corporates.

There was a thus a need for the unit to step back and appreciate the challenges that were being faced by the clients and address them accordingly. This process involved handholding clients that had challenges and restructuring facilities in some instances to ensure that the businesses perform appropriately in the challenging economic environment. As a result our loan impairment improved significantly year-on-year. This improvement in loan impairment coupled with a reduction in costs, saw the unit improving in the loss-making position.

Notwithstanding the above improvement in the bottom line, the business had subdued growth on topline growth as a result of a slow economy and a cautious approach in terms of the credit process. Focus going forward is now around ensuring that topline grows year–on-year in order to get the business into a profitable position. This will require a lot of change in terms of the revenue mix for the unit in order to align to the current market conditions. Key to these changes will be ensuring that there are some new product launches in the market to gain a competitive edge relative to competition and achieve an upswing in non-funded income. The unit will thus be coming to the market with new products that will assist our clients efficiently both on the transaction banking end and in terms of supply chain financing.

In line with our intention to be Here for Good, our staff is key to ensuring that we meet all the plans in 2018 and training will also continue to be a key part of our strategy in order to ensure that we align with the rapidly changing industry.

Driving Commerce & Prosperity through our unique Diversity

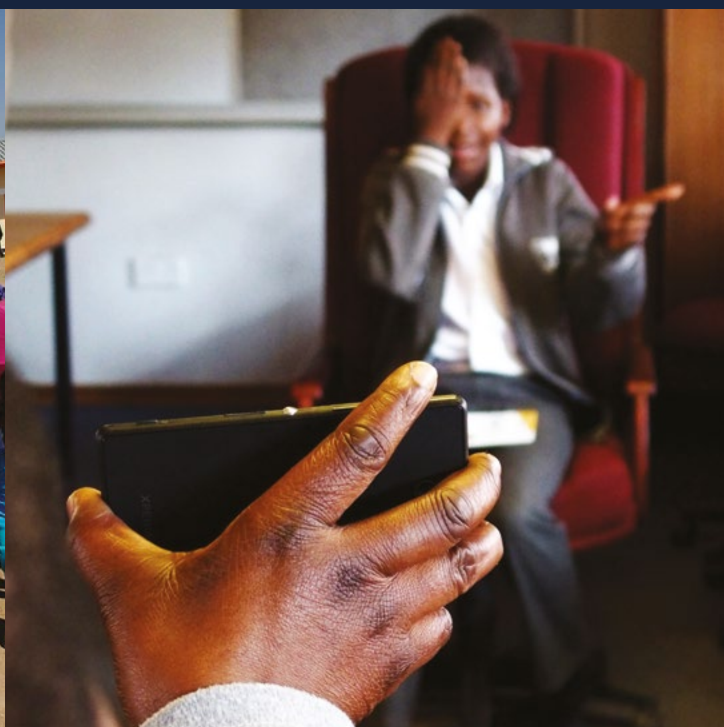
Supporting children's eye health

through smartphone technology

Through our flagship community social responsibility initiative – Seeing is Believing, we supported PEEK Vision Botswana to roll out eye screening to community primary school students through innovative yet accessible smartphone technology.

PEEK Vision Botswana in conjunction with the Ministries of Health and Wellness and Basic Education with the support of Seeing is Believing successfully screened over 12,000 primary school children across 49 schools in the Good Hope district identifying over 800 children that needed and received spectacles that greatly enhance their quality of learning and positively impact their communities.

The success of the pilot programme has offered Botswana the opportunity to be the World's first to offer eye screening to its entire primary school population when the Pono Yame programme is adopted. The ambitious nationwide programme aims to screen over 500,000 school children and nearly 26,000 teachers by 2020. By being able to identify the eye health needs of a generation, the programme partners have identified tangible long-term social and economic gains for the economy.



People

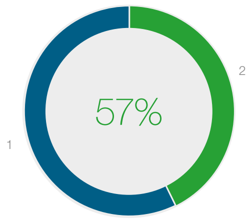
A milestone year
and the path to sustainable future growth

Diversity and Inclusion

1 Female **65%**
2 Male **35%**

Women in Country Management team

1 Female **8**
2 Male **6**



Standard Chartered Bank Botswana Pension Fund

1.88%

(Real Return)

New valued behaviours

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

Our team of people who come from diverse backgrounds are not only our greatest asset but also an important source of sustainable competitive advantage. They are an integral part of Botswana's society and have, therefore, gained immense knowledge and understanding of its market dynamics. Our people simply "get" the needs and aspirations of our clients.

Diversity and Inclusion

Diversity and Inclusion is one of our strategic priorities in the Bank. The Bank employed a total of 792 people as at 31 December 2017.

65% (518 individuals) of the total staff compliment are women, 26 of the women that make up the 65%of staff are classified in senior management (Grade 5 or above), this compares to the 14 men who are in the same senior management classification.

Key Achievements for 2017

Leadership Development

As part of its succession planning strategies, the Bank launched the Extended Leadership Team (ELT) which is constituted of employees who report directly to the Bank's Executive Committee (EXCO) members. The initiative is aimed at building a succession pipe line – ensuring that the bank has a credible pool of professionals who are ready to assume executive management roles at any point in time. In the course of all this, the ELT was able to add value in terms of helping EXCO achieve the bank's corporate objectives and driving the overall bank's strategy execution. In addition to these, the programme improved employee engagement as well as retention of talent. Both employee engagement and retention of talent were identified as key enablers for business performance in 2017.

Long Term and Short Term Assignments (LTAs and STAs respectively) continue to be channels by which the Bank embraces talent exchange. In 2017, we had three (3) STAs, and one (1) LTA.

Staff Engagement

The 2017 human resources strategy sought to place significant focus on employee engagement as a tool for building a high performance business environment. To this end, the corporate strategy was shared with all employees of the Bank.

This was done with the assistance of the ELT. Furthermore, the Group CEO, who also visited Botswana, re-enforced the strategy communication efforts. This ensured that there was a common vision, unity of purpose and pursuit of our objectives with one mind.

Staff Pension

Over a period of 12 months the Standard Chartered Bank Pension Fund returned 5.08%, ahead of inflation which was published as 3.2% as at 31 December 2017 (Real Return of 1.88%). There were no operational losses.

Conduct and Culture

The Bank has enjoyed a controlled environment with good employee conduct. Employees maintained the culture of living the values and upholding their brand promise of Here for Good. As a sign of our belief in ourselves to deliver bigger and better, the Bank was inspired to formulate and launch new valued behaviors to be lived in the upcoming year.

Talent Management

The Bank launched the "If I Were" programme for Information Technology and Operations (ITO) and Retail Banking (RB) employees. The Bank identified talent to 'idolise' several of the ITO and RB senior management roles. The project aimed to expose employees to the business at that level, at the end of which the selected talent made presentations on what they would do to improve the business if they were in that position. These presentations were termed 'If I Were…'

It is worth noting that the chosen talent contributed to the business strategy for the year. The initiative also served to broaden the minds and stretch the comfort zones of those involved in the programme.

Change Management

The Bank had changes in different areas of its businesses, for example Transaction Banking, ITO and others. The businesses were supported to manage the change effectively. The HR Team ensured that there was change readiness across the entire bank. As a result the risks normally associated with the types of changes that took place were effectively mitigated.

Employee Value

As part of demonstrating how it values its employees, the Bank continuously conducts remuneration surveys through which it is able to assess its position in relation to other players in the external labor market. In light of the identified gaps, the Bank adjusted salaries in 2017 in line with its remuneration strategy so as to positively impact on the morale of all staff members.

The Year Ahead

Culture

- Ingrain the valued behaviors into every aspect of our business: recruitment and selection, performance management, rewards and employee benefits, learning and development
- Embed the valued behaviors through leaders, managers and teams in order for the Bank to win the future.

HR Investment Plan

- Invest in a simpler, faster, better HR that empowers the organisation on a journey for growth.

Diversity and Inclusion

- Create a workforce that reflects and embraces the unique diversity of the markets we operate in and drive inclusive management behaviors.

Driving the Country Talent Management

- Revitalising our leadership pipeline and talent pools.

Conduct

- Delivering robust conduct initiatives that include key elements of Identification, control, monitoring and governance underpinned by creating the right environment and culture for good conduct.

Sustainability

A milestone year
and the path to sustainable future growth

120 Years of being Here for good

2017 was a milestone year for the Bank in Botswana as we celebrated 120 years of existence in the country. This significant milestone served as a proud reminder that the Bank was the first and is the oldest bank to be in operation in Botswana – an achievement that brings with it great pride but also great responsibility. The Bank chose to ensure that 2017 was given every opportunity to celebrate and commemorate the 120 year anniversary across engagements and initiatives telling the story of the side-by-side relationship that Standard Chartered Bank has had with the evolution and sustained growth of Botswana's economy. The Botswana franchise welcomed Standard Chartered Bank's Group CEO, Mr Bill Winters on his inaugural visit to Botswana to officially launch the 120 year commemorations at a gala dinner event hosted for clients.

A fundamental component to the Bank's sustainability and contribution to the country, its economy and its people has been the lasting relationships that the Bank has forged. The Bank chose to honour its longest standing loyal customers presenting them with awards during the gala dinner with one corporate client having banked with us since 1897.

Seeing is Believing

The Bank's flagship community investment programme, Seeing is Believing (SiB) continues to be a phenomenal success globally showcasing the power of partnership including in Botswana. Following the success of the PEEK Botswana pilot school screening project in conjunction with the Ministries of Health and Wellness and Basic Education, plans continue to progress to roll out free eye screening to primary school children across the country in an effort to detect and prevent curable blindness. This initiative has the potential to make Botswana the first country in the world to offer this life-changing opportunity to its citizens.

Financial Education

We strongly believe that banks have a crucial role to play in fostering financial education in our communities. The Bank participated in the inaugural Banking and Wealth EXPO in partnership with the Bankers Association of Botswana under the banner of bridging the financial inclusion gap. The Bank has lots of wonderful and impactful financial education initiatives – for youth and micro and small businesses – and going into 2018 will continue to explore ways we can deepen our impact and contribute to financial capability and inclusion.

Liverpool FC and Standard Chartered Bank

Leveraging on the strength of our international network and our continued partnership with Liverpool FC, the Bank hosted the Standard Chartered Trophy 2017 giving amateur five-a-side football teams the opportunity to win a money-can't -buy experience of playing on the Anfield pitch in Liverpool. A selection of client and general public teams participated with a team from Botswana emerging as Southern Africa winners that made the trip to Liverpool narrowly missing out on being global champions.

Employee Volunteering

Our staff through our Employee Volunteering (EV) initiatives championed the celebration of our 120 year anniversary electing to target engagements that left a lasting positive impact as we spread the message of being Here for Good. Amongst the projects that were undertaken were the rehabilitation of the Gamodubo Orphanage Centre, the 120 books for 120 years book drive to fill the Bokaa Primary school library, and the 120 pints blood-drive in conjunction with the National Blood Transfusion Service supporting the well-publicised need for blood across the country.

Living our purpose into 2018 and beyond

In 2017 we launched our revised purpose statement which, in eight words, defines what we as an organisation are focused on to deliver the very best to our clients and stakeholders – Driving Commerce and Prosperity Through our Unique Diversity.

As we look towards 2018, our purpose coupled with our brand promise of being Here for Good will build on the momentum that enables the Bank to continue seeking ever more impactful partnerships to drive sustainable and lasting projects in communities across the country in line with Vision 2036's mandate of Prosperity for All. Targeted efforts through our Employee Volunteering, Financial Education, Seeing is Believing and Education Trust, we look forward continuing our close side-by-side relationship with the growth of our economy.

Country Chief Risk Officer's review

A refreshed approach to managing risk

Enterprise Risk Management Framework

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

Through our Enterprise Risk Management Framework, we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within the boundaries of our risk appetite.

In 2017 we completed a thorough review of our Enterprise Risk Management Framework and we will be making the following key changes for approval by the Board in 2018:

- Refreshing our risk culture and risk appetite statements for our principal risk types
- Changing our principal risk types including:
  - Elevating conduct, compliance, financial crime and information and cyber security to principal risk types
  - Pension risk is now a risk sub-type of Market risk
  - Integrating Strategy risk as part of the overall Framework.
  - Consolidating capital and liquidity risk types into one principal risk type
- Strengthening risk assessment by introducing a dynamic risk identification process
- Further clarity on accountability and responsibility by strengthening of the three lines of defence and alignment with the objectives of relevant senior managers

Risk Culture

The Group's risk culture provides guiding principles for the behaviours expected from our people when managing risk. The risk culture statement encourages the following behaviours and outcomes:

- An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner
- Everyone to be accountable for their decisions and feel safe using their judgement to make these considered decisions

We acknowledge that banking inherently involves risk-taking and undesired outcomes will occur from time to time; however, we shall take the opportunity to learn from our experience and formalise what we can do to improve. We expect managers to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic Risk Management

The Group approaches strategic risk management by:

- Including in the strategy review process an impact analysis on the risk profile from the growth plans, strategic initiatives and business model vulnerabilities with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved risk appetite and/or proposing additional risk appetite for Board consideration.

Richard Ochieng
Country Chief Risk Officer

Risk Appetite and Profile

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

- Risk capacity is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies

- Risk Appetite is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and associated thresholds. These directly constrain the aggregate risk exposures that the Group can take. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

Risk Appetite Principles

The Group Risk Appetite is in accordance with our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies.

We set our risk appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health and to manage our reputational risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

The Group will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs, policies and other operational control parameters are used to keep the Group's risk profile within risk appetite (and therefore also risk capacity). The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types.

Status against Risk Appetite is reported to the Board Risk Committee and the Board.

Principal Risk Types

Principal risks are those risks that are inherent in our strategy and our business model. These risks are managed through distinct Risk Type Frameworks (RTF). The principal risks and associated Risk Appetite Statements are approved by the Board.

As part of the overall risk management framework review in 2017 we also reviewed our Principal Risk Types. The table overleaf shows the Group's principal risks in 2018.

Compliance

Our mission is to support the Bank's purpose sustainably, and protect the Bank from the material adverse consequences of non-compliance, by providing advice, independent challenge and infrastructure.

Complying with relevant laws, regulations and Bank standards is a fundamental component of the Code of Conduct. All Staff are personally responsible for keeping to the spirit, and not just the letter, of local laws, regulations and standards. The prompt identification of, dissemination of and compliance with regulations is a key component of the Bank's compliance framework.

Over the years we have worked on enhancing the compliance management framework and improved the capability of our compliance resources. We have strengthened our efforts to promote awareness of, and confidence in the Speaking Up Programme including extending our Speaking Up channels to the public.

As a big player in the market, we are committed to playing our part in the fight against financial crime. We continued to enhance our controls, systems and processes in 2017 as well as continuing to educate and engage all of our people on financial crime risk and the human and social harm of such crimes. The financial crime landscape continues to evolve, and we recognise the need to be vigilant against new and transforming threats as well as adapting to changes in relevant regulation and sanctions regimes.

Principal Risk Types Definition

Principal risks	What these risks are
Credit risk	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group
Country risk	Potential for default or losses due to political or economic events in a country
Market risk	Potential for loss of economic value due to adverse changes in financial market rates or prices
Capital and liquidity risk	Capital: potential for insufficient level or composition of capital to support our normal activities Liquidity: potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.
Operational risk	Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events
Reputational risk	Potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions
Compliance	Potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations
Conduct	Potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework
Information and cyber security	Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber attack, insider activity, error or control failure
Financial crime	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption

Our Risk Profile in 2017

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

We continue to take action to reposition the Group's corporate portfolio, exiting weaker credit or lower-returning clients and adding new clients selectively. The Group's portfolio remains well diversified across dimensions such as industries, geographies and products.

Overall, the credit quality for the Group deteriorated in 2017 due to stresses in some sectors in the Corporate and Institutional Banking portfolio. The Group's loan impairment and non-performing loans ratio are materially higher than last year as a result. Whilst non-performing loans (NPL) inflows in Corporate and Institutional Banking have increased, these were mainly accounts that had been closely monitored over a period of time and do not signal any new areas of stress.

We have addressed the volatility concerns in the portfolio through deliberate strategic actions on weaker credits in the portfolio. Exposures to these volatile segments are no longer considered material.

Our Retail Banking portfolio recovered quickly from the impact of the material external events in 2016. The NPL and delinquency buckets in the retail banking portfolio closed the year materially better than the last year. We rolled out a robust risk decision framework for the Personal Loans portfolio in 2017 that continues to deliver the right risk reward balance for the product.

The material growth in loan impairment in 2017 did pile pressure on our capital position which fell below our risk appetite as at end of the year. We have put in place robust corrective actions to rebuild our capital position from 2018 going forward.

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

Board of Directors

Professor Bojosi Otlhogile
Chairman

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

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

Mpho Masupe
Chief Executive Officer

Member: Risk committee

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

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

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

Nathan Kgabi
Independent Non-Executive Director

Member: Audit committee

Nathan Kgabi was appointed to the board as an Independent Non-Executive Director in January 2016. He is currently the Managing Director of Thito Holdings (Pty) Ltd, an Employee Benefits company. He served as Managing Director of numerous Institutions such as, Metropolitan Life of Botswana Ltd; CBET (Pty) Ltd; publishers of Botswana Guardian and Midweek Sun Newspapers including Botswana Institute of Accountants (now BICA). He has served in Senior Management positions for Standard Chartered Bank as Company Secretary and Public Relations Manager; Botswana National Productivity Centre as Corporate Services Manager and later as non Executive Director. He cut his career at BOCCIM (Business Botswana) where he set up and served as Industrial Relations Manager.

He has served as Deputy Chairman at Botswana Savings Bank, Sun International (Avani) as non Executive Director and Botswana Post, as well as other private company Boards. He served in the Board of Red Cross; Cheshire Foundation and Masiela Trust Fund.
He currently serves on the boards of ProComm Technologies (Pty) Ltd as Chairman, Directors Institute of Botswana, Thito Holdings (Pty) Ltd. amongst others.
Mr. Kgabi holds a Bachelors degree in Economics from the University of Botswana and has partially completed associate Diploma from the Botswana Institute of Bankers.

John Stevens
Independent Non-Executive Director

Chairman: Audit Committee

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

Richard Etemesi
Non-Executive Director

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

Rish Kumar Handa
Independent Non-Executive Director

Chairman: Risk Committee

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

Chazha Kgalemang
Company Secretary

Chazha was admitted as an Attorney of the High Court of Botswana in 2006. She has gained extensive experience on corporate, commercial, banking and finance law through working as a practising attorney and as in-house counsel for the past 7 years. Chazha holds a Masters of Laws, majoring in Corporate and Commercial Law (University of Melbourne) and a Bachelor of Laws (Rhodes University).

Strategic report

DIRECTORS' REPORT

Financial statements

Corporate Governance

For the year ended at 31 December 2017

The Standard Chartered Bank Botswana Limited Board

The Board is responsible for providing leadership and oversight by setting the strategic direction of the Company and monitoring the management for effectiveness. It is the primary decision-making body for all matters considered as material to the Company.
The non-executive directors have access to information and management staff at all levels. The non-executive directors are fully supported by the Company Secretary who provides legal advice and guidance to the Directors. Further, the Board is entitled to seek independent professional advice at the Company's expense.

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

Board Skills and Experience

The Board is composed of a total of six Directors who are individuals of high calibre and credibility with the necessary skills and experience. The background and qualifications of the Directors are disclosed under the Board of Directors section.

The Board has a comprehensive development programme. The annual plan for on-going training focuses on the governance of risk and the needs identified during the annual assessment process. The training programme has been designed in such a way that training is facilitated by in-house experts on various areas of the business, coupled with training provided by external service providers.

The Board has the primary responsibility for ensuring adherence to the code of corporate governance.

The Board members are required to disclose any potential area of conflict that may compromise or undermine their position or service as directors.

Induction and ongoing development

The Company has a very comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company.
Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and these are addressed through training and board presentations.
The Board Committees also receive specialist presentations on key issues where required. The Board and Committees received training in 2017 on Internal Capital Adequacy Assessment Process (ICAAP), Operational Risk and macroeconomic changes in the business environment and the general banking environment among others.

Board Changes during the Financial Period

Mr Moatlhodi K Lekaukau resigned as a Director effective 31st March 2017.

Board effectiveness evaluation

The annual Board evaluation was conducted in November 2017 in a process led by the Board Chair and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. Following the evaluation exercise, areas were identified areas that required further consideration by the Board and these issues have been actioned. Some have been incorporated in the rolling agenda while others have been addressed through training and board presentations.

Board meetings and attendance

The full Board meets regularly, with at least four formal meetings a year and a strategy session. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, risk, compliance and governance issues.
A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The following table shows the number of Board meetings held during the year and the attendance by the directors:

Director	Main Board	Board Audit Committee	Board Risk Committee
Bojosi Otlhogile	4/4	n/a	n/a
Ish Handa	4/4	n/a	3/4
John Stevens	4/4	4/4	n/a
Nathan Kgabi	3/4	3/4	n/a
Richard Etemesi	3/4	3/4	n/a
Moatlhodi Lekaukau	1/1	n/a	1/1
Mpho Masupe	2/2	n/a	2/2

Board Committees

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

The respective Chairpersons present their reports to the Board at each scheduled meeting.

The Board has further delegated authority for credit approvals to the Credit Approvals committee. In addition, there are two management committees that support the Board's decision making structures, increase efficiency and allow detailed deliberations in the specific areas. These management committees are the Asset and Liability Committee (ALCO), and the Executive Committee (EXCO).

Audit Committee

The Board appoints a minimum of three (3) members. In line with corporate governance best practice, a non-executive Director other than the Chairman of the Board - John Stevens has been appointed to chair the Committee.

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

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

Risk Committee

The Risk Committee comprises of three (3) Non-Executive Board members. The Managing Director and Chief Risk Officer are mandatory attendees of the Committee which meets quarterly.

The Committee's main objective is to ensure that the Bank has implemented and manages an effective risk management plan and set of policies that will support the Bank's ability to achieve its strategic objectives. The Committee further considers and recommends annually to the Board the Bank's risk appetite, as well as monitoring the levels of risk tolerance and appetite as approved by the Board.


120 years in Botswana
GBE>LIV
Southern Africa > Liverpool
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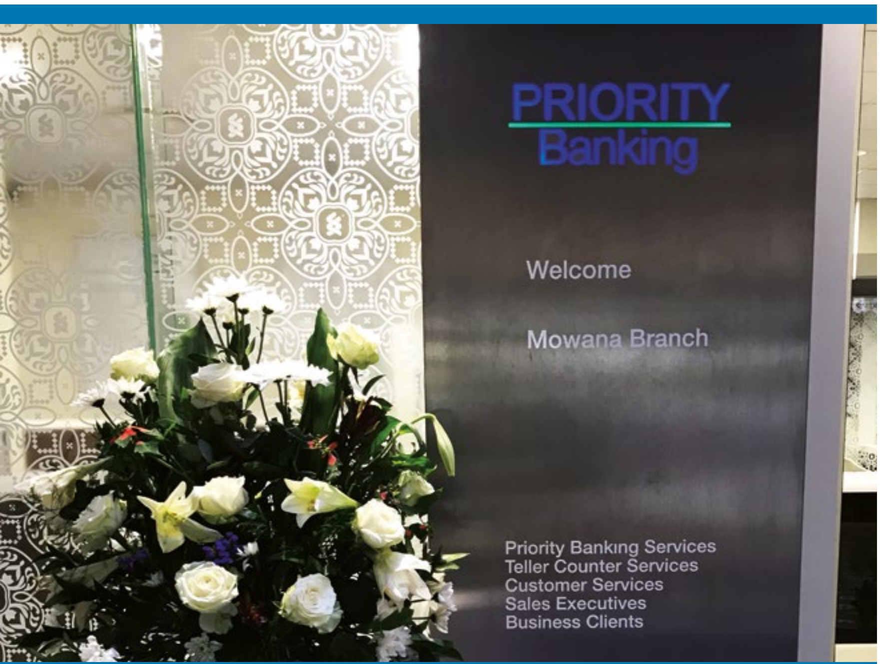
16 MAY 2017
4:00PM
Standard Chartered
Driving commerce & prosperity through our unique diversity
#PURPOSE
Standard Chartered
Standard Chartered
120 years in Botswana



Driving commerce and prosperity through our unique diversity

Consolidated and Separate Annual Financial statements

Directors' Report

For the year ended 31 December 2017

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Company for the year ended 31 December 2017.

Activities

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

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 34 and reflect the following:

- (Loss) / profit before taxation (P233 million) 2016: P104 million
- (Loss) / profit for the year (P189 million) 2016: P80 million

Dividends

During the year, P49.7 million dividends were declared and paid (2016: P120 million).

Stated capital

There has been no change to the Bank's stated capital during the year (2016: Nil).

Events after reporting date

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

Holding company

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

Directors

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

Executive Director:

M Masupe

Non executive Directors:

B Otlhogile (Chairman)
I Handa
N Kgabi
J Stevens
R Etemesi

Company Secretary:

C Kgalemang

Auditors

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

By order of the Board

Chazha Kgalemang
Secretary

Directors’ Responsibility Statement

For the year ended 31 December 2017

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited, which comprise the statements of financial position at 31 December 2017, the statements of profit or loss and other comprehensive income,the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards. In addition, the directors are responsible for preparing the directors’ report.

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

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

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

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the consolidated and separate annual financial statements:

The consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited, were approved by the board of directors on 05 March 2018 and are signed by:

Professor Bojosi Otlhogile
Chairman

Mpho Masupe
Managing Director

Independent Auditor's Report

For the year ended 31 December 2017

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

Independent Auditor's Report

To the members of Standard Chartered Bank Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited (the "group and company") as set out on pages 34 to 103, which comprise the statements of financial position at 31 December 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited at 31 December 2017, and of 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 consolidated and separate financial statements of the current period. This matter was 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 this matter.

Impairment of loans and advances to customers

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

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

Key audit matter	How the matter was addressed
Loans and advances to customers included in the statement of financial position, represent 51% of total assets and the associated impairment allowances are significant in the context of the consolidated and separate financial statements. The loans and advances referred to include those from the Corporate and Institutional Banking (CIB), Commercial Banking (CB) and Retail Banking (RB) segments. The assessment of impairment of loans and advances to customers on a collective basis requires the application of judgement and estimation of uncertainty as described in 3(i) and note 4.2. The impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows(excluding future credit losses that have not been incurred), discounted at the original effective interest rate. Given the significance of the loans and advances to customers and the judgement and estimation of uncertainty involved in the calculation of the impairment of loans and advances to customers was considered a key audit matter.	Our procedures included: We identified and evaluated the design and implementation, and where appropriate the operating effectiveness, of key controls over the loan impairment process, including: - the identification of impairment losses, - the governance processes in place in respect of the credit models used and the relevant inputs into these models, and - how Directors ensured they have appropriate oversight of loan impairment allowances. For the CIB and CB segments: - We selected a sample of performing loans and advances and critically assessed them for evidence of an incurred loss by performing a detailed independent assessment of the credit against loss events per the relevant accounting standard. - For a sample of loans and advances that had been individually assessed and impaired, we independently challenged the valuation of impairment losses that had been incurred, including developing our own expectation of the value of the allowance based on information available from third parties and market trends. - We selected a sample of loans and advances and performed a detailed credit assessments of loans and advances with higher risk credit grades and compared to observable industry knowledge. - We paid particular attention to the valuation of and rights to collateral that was performed by the specialists engaged by management and we: • evaluated the competence, independence and experience of the specialists and we evaluated management's controls in respect of the appointment of the specialist and • challenged the inputs used in the valuations to observable market information. For the RB segment: - We used our internal valuation specialists, as part of the audit team, to evaluate the appropriateness of the models used for each significant product type, and to perform an independent recalculation of the impairment allowance for selected portfolios using our independent challenger models. - Key assumptions including historical payment, default and recovery rates are used to estimate incurred losses in the RB portfolios. We performed detailed procedures on the completeness and accuracy of the information used, and also used our own valuation specialists to compare key data and assumptions to market data and assumptions used by other market participants. We evaluated the disclosures for the loans and receivables in the financial statements, to ensure compliance with requirements of the relevant

Independent Auditor's Report (continued)

For the year ended 31 December 2017

Other Information

The directors are responsible for the other information. The other information comprises the rest of the information contained in the annual report,but does not include the financial statements or our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.

Independent Auditor's Report (continued)

For the year ended 31 December 2017

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG
Certified Auditors
Practicing member: AG Devlin 19960060
24 April 2018
Gaborone

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		P'000	P'000	P'000	P'000
Interest income	5	809 719	807 467	809 719	807 467
Interest expense	6	(292 244)	(273 345)	(289 500)	(268 297)
Net interest income		**517 475**	**534 122**	**520 219**	**539 170**
Fee and commission income	7	296 854	291 551	245 357	242 277
Fee and commission expense		(51 046)	(41 380)	(51 046)	(41 380)
Net fee and commission income		**245 808**	**250 171**	**194 311**	**200 897**
Net trading income	8	89 968	123 561	89 582	122 628
Dividend income		-	-	31 612	34 375
Net other income		**89 968**	**123 561**	**121 194**	**157 003**
Revenue		**853 251**	**907 854**	**835 724**	**897 070**
Operating expenses					
Net impairment loss on financial assets	9	(295 435)	(117 509)	(295 435)	(117 509)
Employee benefits	10	(261 401)	(227 498)	(261 401)	(227 498)
Operating lease expenses		(23 763)	(20 489)	(23 763)	(20 489)
Depreciation and amortisation		(23 195)	(23 582)	(23 195)	(23 582)
Administration expenses	11	(482 241)	(415 195)	(470 864)	(406 412)
Total expenses		**(1 086 035)**	**(804 273)**	**(1 074 658)**	**(795 490)**
(Loss) / profit before taxation		**(232 784)**	**103 581**	**(238 934)**	**101 580**
Income taxation	12	43 462	(23 863)	54 182	(14 947)
(Loss) / profit for the year		**(189 322)**	**79 718**	**(184 752)**	**86 633**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Change in fair value of available for sale investments, net of tax		(477)	(355)	(477)	(355)
Revaluation of property		-	17 364	-	17 364
Other comprehensive (loss) / income for the year		(477)	17 009	(477)	17 009
Total comprehensive (loss) / income for the year		**(189 799)**	**96 727**	**(185 229)**	**103 642**
Basic and diluted earnings per share (Thebe)	14	(63.50)	26.72		

The notes on pages 40 to 103 are an integral part of these financial statements.

Statements of financial position

For the year ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		P'000	P'000	P'000	P'00
Assets					
Cash and balances with central bank	15	969 846	1 066 099	967 275	1 063 914
Loans and advances to banks	16	2 577 528	2 092 855	2 626 767	2 058 304
Investment securities	17	3 364 689	2 783 872	3 364 689	2 783 872
Loans and advances to customers	18	7 589 863	7 659 996	7 589 863	7 659 996
Other assets	21	371 550	169 275	281 305	163 962
Taxation refundable	25	1 408	3 999	-	1 770
Property and equipment	19	64 430	56 213	64 430	56 213
Intangible assets and goodwill	20	34 253	42 895	34 253	42 895
Deferred taxation	26	71 476	-	71 476	-
Total assets		**15 045 043**	**13 875 204**	**15 000 058**	**13 830 926**
Liabilities					
Deposits from other banks	22	1 108 372	701 048	1 068 406	663 826
Deposits from customers	23	12 245 757	11 274 880	12 245 757	11 274 880
Other liabilities	27	208 670	184 919	196 771	175 553
Deferred taxation	26	-	10 115	-	10 115
Income tax liabilities	25	17 504	-	17 504	-
Senior and subordinated debt	24	686 260	686 260	686 260	686 260
Total liabilities		**14 266 563**	**12 857 222**	**14 214 698**	**12 810 634**
Equity					
Stated capital		179 273	179 273	179 273	17 9 273
Reserves		599 207	838 709	606 087	841 019
Total equity		**778 480**	**1 017 982**	**785 360**	**1 020 292**
Total liabilities and equity		**15 045 043**	**13 875 204**	**15 000 058**	**13 830 926**

The notes on pages 40 to 103 are an integral part of these financial statements

Statements of changes in equity

For the year ended 31 December 2017

Group	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Capital contribution P'000	Treasury share reserve P'000	Available for sale reserve P'000	Total P'000
Balance at 01 January 2016	**179 273**	**6 327**	**8 223**	**833 051**	**28 213**	**(31 566)**	**17 760**	**1 041 281**
Total comprehensive income								
Profit for the year	-	-	-	79 718	-	-	-	79 718
Other comprehensive income								
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(355)	(355)
Fair value adjustment:								
Property and equipment	-	17 364	-	-	-	-	-	17 364
Transactions with owners of the bank								
Dividends to equity holders – paid	-	-	-	(120 026)	-	-	-	(120 026)
Transfer from retained earnings to statutory credit risk reserve	-	-	10 929	(10 929)	-	-	-	-
Balance at 31 December 2016	**179 273**	**23 691**	**19 152**	**781 814**	**28 213**	**(31 566)**	**17 405**	**1 017 982**
Total comprehensive income								
Loss for the year	-	-	-	(189 322)	-	-	-	(189 322)
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(477)	(477)
Transactions with owners of the bank								
Dividends to equity holders – paid	-	-	-	(49 703)	-	-	-	(49 703)
Balance at 31 December 2017	**179 273**	**23 691**	**19 152**	**542 789**	**28 213**	**(31 566)**	**16 928**	**778 480**

The notes on pages 40 to 103 are an integral part of these financial statements

Statements of changes in equity (continued)

For the year ended 31 December 2017

Company	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Capital contribution P'000	Available for sale reserve P'000	Total P'000
Balance 01 January 2016	**179 273**	**6 327**	**8 223**	**796 880**	**28 213**	**17 760**	**1 036 676**
Total comprehensive income							
Profit for the year	-	-	-	86 633	-	-	86 633
Other comprehensive income							
Fair value adjustment:							
Available for sale securities	-	-	-	-	-	(355)	(355)
Fair value adjustment :							
Property, plant and equipment	-	17 364	-	-	-	-	17 364
Transactions with owners of the bank							
Dividends to equity holders – paid	-	-	-	(120 026)	-	-	(120 026)
Transfer from retained earnings							
statutory credit risk reserve	-	-	10 929	(10 929)	-	-	-
Balance at 31 December 2016	**179 273**	**23 691**	**19 152**	**752 558**	**28 213**	**17 405**	**1 020 292**
Total comprehensive income							
Loss for the year	-	-	-	(184 752)	-	-	(184 752)
Other comprehensive income							
Fair value adjustment:							
Available for sale securities	-	-	-	-	-	(477)	(477)
Transactions with owners of the bank							
Dividends to equity holders – paid	-	-	-	(49 703)	-	-	(49 703)
Balance at 31 December 2017	**179 273**	**23 691**	**19 152**	**518 103**	**28 213**	**16 928**	**785 360**

The notes on pages 40 to 103 are an integral part of these financial statements

Statements of changes in equity (continued)

For the year ended 31 December 2017

Stated capital

Authorised ordinary shares

The company's stated capital consists of 400 000 000 ordinary shares of no par value (2016: 400 000 000).

Issued ordinary shares

298 350 611 ordinary shares of no par value (2016: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares

As at 31 December 2017, unissued shares totalled 101 649 389 (2016: 101 649 389).

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

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

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

Revaluation reserve

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

Statutory credit risk reserve

This reserve represents the excess of the 1.25% general provision against risk weighted assets as required by the Bank of Botswana over the impairment provision required by International Financial Reporting Standards (IFRS).

Capital contribution

This represents the part of the consideration for the acquisition of the custody business paid by Standard Chartered PLC, the ultimate parent company of Standard Chartered Bank Botswana Limited. The contribution is a non – distributable capital with no diluting effect on ordinary shareholders.

Available for sale reserve

This represents the cumulative movement in fair value of available for sale securities.

Retained earnings

Retained earnings represents the cumulative net profit or loss made by the Group after deducting dividends to shareholders and other utilisation of the reserves.

Treasury share reserve

The reserve for the company's treasury shares comprises the cost of the company's shares held by the Group. As at the reporting date, the Group held 0.84% of the company's shares (2016: 0.84%).

Statements of cash flows

For the year ended 31 December 2017

	Note	Group		Company	
		2017	2016	2017	2016
		P'000	P'000	P'000	P'000
Cash flows from operating activities					
(Loss) / profit for the year		(189 322)	79 718	(184 752)	86 633
Adjustments for:					
- Taxation		(43 462)	23 863	(54 182)	14 947
- Depreciation	19	4 764	5 357	4 764	5 357
- Amortisation	20	18 431	18 225	18 431	18 225
- Impairment charge on loans and advances	9	179 490	117 509	179 490	117 509
- Movement in operating lease accrual	31	4 411	(1 869)	4 411	(1 869)
- Dividend income		-	-	(31 612)	(34 375)
		(25 688)	**242 803**	**(63 450)**	**206 427**
Change in investment securities		(581 429)	(475 511)	(581 429)	(475 511)
Change in loans and advances to customers		(109 357)	(589 496)	(109 357)	(589 496)
Change in other assets		(202 275)	(2 333)	(117 343)	2 980
Change in deposits from other banks		407 324	(583 490)	404 580	(587 912)
Change in deposits from customers		970 877	1 408 895	970 877	1 408 895
Change in other liabilities		19 341	(51 386)	16 807	(43 651)
Cash generated by / (utilised by) operations		**478 793**	**(50 518)**	**520 685**	**(78 268)**
Taxation refunded	25	-	18 297	-	18 297
Taxation paid	25	(17 900)	(34 362)	(8 000)	(25 150)
Net cash generated from / (used in) operating activities		**460 893**	**(66 583)**	**512 685**	**(85 121)**
Cash flows from investing activities					
Acquisition of property and equipment		(12 981)	(5 624)	(12 981)	(5 624)
Acquisition of intangibles		(9 789)	(14 907)	(9 789)	(14 907)
Dividends received		-	-	31 612	34 375
Net cash (used in)/generated from investing activities		**(22 770)**	**(20 531)**	**8 842**	**13 844**
Cash flows from financing activities					
Dividends paid		(49 703)	(120 026)	(49 703)	(120 026)
Net cash used in financing activities		**(49 703)**	**(120 026)**	**(49 703)**	**(120 026)**
Increase / (decrease) in cash and cash equivalents		388 420	(207 140)	471 824	(191 303)
Cash and cash equivalents at 1 January		3 158 954	3 366 094	3 122 218	3 313 521
Cash and cash equivalents at 31 December	**28**	**3 547 374**	**3 158 954**	**3 594 042**	**3 122 218**

The notes on pages 40 to 103 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2017

1. Reporting entity

Standard Chartered Bank Botswana Limited was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company's registered address is Standard Chartered Bank Botswana Limited, P.O Box 496 Gaborone, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company has four subsidiaries, namely an insurance agency company, an investment services company, custodial services company and the educational trust. For the purposes of presenting consolidated financial statement, only the results of the insurance agency subsidiary and education trust have been incorporated in the Group results, as the other two subsidiaries are dormant or immaterial subsidiaries. The Group is a subsidiary of Standard Chartered Bank PLC, incorporated in United Kingdom, and its ultimate holding company. These financial statements represent the Group's and Bank's statutory financial statements.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards.

These financial statements were approved by the board of directors on 05 March 2018.

(b) Functional and presentation currency

These financial statements are presented in Botswana Pula, which is also the functional currency. Except where indicated, otherwise financial information presented in Botswana Pula has been rounded to the nearest thousand.

(c) Basis of consolidation

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

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

Transactions eliminated on consolidation

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

Change in the group's interest in a subsidiary

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

2. Basis of preparation (continued)

(c) Basis of consolidation (continued)

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

(d) Segmental reporting

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

(e) Use of judgement and of estimation uncertainty

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

Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on how well these future cash flows for specific counterparty allowances are estimated and the accuracy of the model assumptions and parameters used in determining collective allowances.

Determining fair values

The determination of fair value for financial instruments for which there is no observable market price requires the use of valuation techniques as described in the accounting policy on financial instruments below. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies

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

(a) Changes in accounting policies

The group has adopted the following relevant new standards,including any consequential amendments to other standards, which were effective for the financial year beginning on 1 January 2017:

- Amendments to IAS 7 : Disclosure iniative
- Amendments to IAS 12 : Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 12 : Disclosure of Interest in other Entities

The adoption of these standards did not have significant effect on the group and company financial statements.

(b) Foreign currency transactions

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

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

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

(c) Interest

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

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis; and
- interest on available-for-sale investment securities calculated on an effective interest basis.

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

3. Significant accounting policies (continued)

(d) Fees and commission

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

(e) Net trading income

Net trading income comprises gains and losses from changes in the fair value through profit and lose and are included in the income statement in the period they arise.

(f) Dividend income

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

(g) Leases

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

(h) Loans and advances

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

(i) Financial instruments

The Group classifies its financial assets into the following measurement categories: a) loans and receivables and b) available-for-sale financial assets. Financial liabilities are classified at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where appropriate, at the time of reclassification.

(a) Loans and receivables

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

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than 3 months, which are subject to insignificant risks of changes in the fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(b) Available-for-sale financial assets

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

Initial recognition

Purchases and sales of available-for-sale financial instruments are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus directly attributable transaction costs. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss. The difference is amortised to profit or loss until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

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

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in profit or loss over the period of borrowings using effective interest method. Financial liabilities include deposits from other banks, deposits for customers, placements from other banks, senior and subordinated debt and other liabilities.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished. Loans whose original terms have been substantially modified will result in derecognition.

Impairment of financial assets

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 if, and 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 following factors are considered in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments;
- A counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation;
- The Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Impairment of financial assets (continued)

- The Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- The Group sells a credit obligation at a material credit-related economic loss; or
- There is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, 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 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 and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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. 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 which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets 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 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 exist currently.

To the extent a loan is irrecoverable, it is written off against the related allowance for loan impairment. 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 provided for decrease the amount of the allowance for loan impairment in profit or loss. 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 profit or loss.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Available-for-sale assets

A significant (greater than 20%) or prolonged (where the value has been below cost for more than 9 months) decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities. Where objective evidence of impairment exists for available for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Impairment losses recognised in equity are not reversed through profit or loss.

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liabilityin an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument, where available. A market is regarded as an active if transaction for the asset or liability take place with sufficient frequency of volume to provide pricing information on ongoing basis. If there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (continued)

(j) Investment securities

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

(k) Property and equipment

Recognition and measurement

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

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

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

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

Subsequent cost

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

Depreciation

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

Freehold property	Nil
Leasehold property	Shorter of useful life/unexpired period of lease
Buildings	50 years
Equipment	3 - 5 years
Motor vehicles	3 years
Furniture, fixtures and fittings	7 - 10 years

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

(l) Intangible assets

Goodwill

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

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

Acquired intangibles

At the date of acquisition of a subsidiary, intangible assets that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives (8 years). At each reporting date these assets are assessed for indicators of impairment. In the event that the asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Amortisation

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. At reporting date the intangible assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

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

(m) Impairment of non-financial assets

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

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

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

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

3. Significant accounting policies (continued)

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

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

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating units on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Financial guarantees

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Liabilities arising from financial guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

(o) Restructuring provision

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. It is not expected that restructuring will cause any future losses.

(p) Taxation

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

(p) Taxation (continued)

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

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

(q) Employee benefits

Retirement benefits

The Group operates a defined contribution pension plan. Contributions by the Group to the plan are charged to profit or loss. The liability of the Group is limited to the contributions made on behalf of the employees. There are no post-retirement medical funding obligations.

Short term employee benefits

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

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

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(s) New standards and interpretations not yet effective

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

Clarifying share-based payment accounting (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payments.

3. Significant accounting policies (continued)

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

The amendments cover three accounting areas:

- Measurement of cash-settled share-based payments –The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.
- Classification of share-based payments settled net of tax withholdings –The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.
- Accounting for a modification of a share-based payment from cash-settled to equity-settled – The amendments clarify the approach that companies are to apply.

The amendments are effective for annual periods commencing on or after 1 January 2018 and are not expected to have a significant impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Impact on the Group may include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9 Financial instruments

Impact of adoption of IFRS 9

IFRS 9 was issued in July 2014 and has an effective date of 1 January 2018.In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). This amendment is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

IFRS 9 replaces a number of elements of IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial instruments; the recognition and measurement of credit impairment provisions; and providing for a simplified approach to hedge accounting. The company has elected to continue hedge accounting in line with the IAS 39 requirements and has not therefore applied the IFRS 9 hedging requirements.

The changes in measurements arising on the initial adoption of IFRS 9 will be incorporated through an adjustment to the opening reserves position as at 1 January 2018. Although IFRS 9 will only be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight. The bank's adjustment is estimated at P64 million, after tax, the majority of which relates to the adoption of the expected credit loss (ECL) provisioning requirements.

Detailed transition disclosures setting out the impact of initial adoption of IFRS 9 will be provided in the company's 2018 financial statements in addition to the disclosure requirements set out in IFRS 7.

Explanation of specific adjustments to the balance sheet and statement of changes in equity are shown on page 56.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

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

Classification and measurement of financial assets – IAS 39

There are four asset classifications: fair value through profit or loss (FVTPL), incorporating trading and instruments designated at FVTPL; loans and receivables; held to maturity; and available-for-sale (AFS). The classification of assets into these categories was determined based on a mix of management intent and product characteristics. Only the AFS category has no restrictions on classification.

In respect of hybrid financial assets, the embedded derivative component must be separated and measured at fair value, unless closely related to the host contract. If this is not possible, the entire instrument can be designated at FVTPL. Other instruments may be designated at FVTPL if they are managed on a fair value basis or where the designation would eliminate or significantly reduce an accounting mismatch.

There are three measurement classifications under IFRS 9, amortised cost, FVTPL and, for financial assets, fair value through other comprehensive income (FVOCI). The existing IAS 39 financial asset categories are removed.

Financial assets are classified into these measurement classifications on the basis of the business model within which they are held, and their contractual cash flow characteristics. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flows ('hold to collect'), and where those contractual cash flows are solely payments of principal and interest (SPPI).

Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other basic lending risks and costs and a profit margin. Principal represents the fair value of the instrument at the time of initial recognition. Interest in this context represents compensation for the time value of money and associated credit risks together with compensation for other risks and costs consistent with a basic lending arrangement and a profit margin. This requires an assessment at initial recognition of the contractual terms to determine whether it contains a term that could change the timing or amount of cash flows in a way that is inconsistent with the SPPI criteria.

Assets may be sold out of hold to collect portfolios where there in an increase in credit risk. Disposals for other reasons are permitted but such sales should be insignificant in value or infrequent in nature.

Financial asset debt instruments where the business model objectives are achieved either by collecting the contractual cash flows or by selling the assets ('hold to collect and sell') and that have SPPI cashflows are held at FVOCI, with unrealised gains or losses deferred in reserves until the asset is derecognised. In certain circumstances, non-trading equity instruments can be irrevocably designated as FVOCI but both unrealised and realised gains or losses are recognised in reserves and no amounts other than dividends are recognised in the income statement.

Financial Assets may be designated at FVTPL only if there is an accounting mismatch. All other financial assets will be mandatorily held at FVTPL.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities. The Bank adopted the changes related to the presentation of fair value changes on own credit in its 2016 financial statements. The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the income statement and the gross carrying amount of the asset adjusted accordingly.

3. Significant accounting policies (continued)

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

IFRS 9 Financial instruments (continued)

Transition impact

The Bank has assessed the business models that it operates across the Group. In its assessment, the Bank considered the objectives of the business model, how performance is measured and how staff is remunerated amongst other factors.

Where the objective of a business is to manage financial assets on a fair value basis, the instruments within that business model are measured at FVTPL.

The majority of the Group's loans to banks and customers are held within a "hold to collect" business model. Investment debt securities held with Asset and Liability Management are held within a 'hold to collect and sell' portfolio.

For hold to collect portfolios, the level of sales and the reason for those sales is also monitored to ensure they are consistent with the characteristics of a hold to collect business model.

Where the assets are held within a 'hold to collect' or 'hold to collect and sell' business model, a further assessment has been undertaken to determine whether the cash flows of the assets are deemed to be SPPI.

Where the instruments have SPPI cash flows, the instruments were measured at amortised cost (for hold to collect business models) or FVOCI (for hold to collect and sell business models)

Instruments that do not have SPPI cash flows are measured at FVTPL regardless of the business model in which they are held. Other than hybrid financial assets, this primarily arises from prepayment clauses in certain loan contracts. Non-trading equity investments are measured at FVTPL except for a small portfolio of strategic equity investments which are irrevocably designated at FVOCI.

Assets designated at FVTPL under IAS 39 that are not as a result of an accounting mismatch have been de-designated and mandatorily classified as FVTPL either because they are managed on fair value basis or are hybrid financial assets. The Group has also elected to designate certain loans to customers at FVTPL on 1 January 2018 to mitigate an accounting mismatch.

There has been no change to the classification and measurement of financial liabilities. The Group adopted the changes related to the presentation of fair value changes on own credit in its 2017 financial statements.

Impairment of financial assets not held at FVTPL – IAS 39

For debt instruments held at amortised cost or available-for-sale, specific loss allowances are only recognised where there is objective evidence of mpairement as a result of one or more loss events occurring after the initial recognition of the instrument. This includes losses arising from credit related modifications to the contractual terms (such as forbearance).

For debt instruments held at amortised cost, where losses are known, by experience, to have been incurred but have not been separately identified, a portfolio impairment provision (PIP) is recognised. The calculation of PIP is based on regulatory expected loss models, after adjustments made to align the calculation with IFRS, together with adjustments to take into account factors not adequately covered in the underlying models.

A PIP is not, however, recognised for available-for-sale instruments. Impairment loss allowances are also not recognised for loan commitments and financial guarantees.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

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

IFRS 9 Financial instruments (continued)

Impairment of financial assets not held at FVTPL – IAS 39 (continued)

Where there is objective evidence of impairment for available-for-sale debt instruments, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

For equity shares classified as available-for-sale, a significant or prolonged decline in the fair value below its cost is considered, among other factors, in assessing objective evidence of impairment. On impairment, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

For equity shares classified as available-for-sale are considered impaired when there is a significant or prolonged decline in their value compared to initial recognition. On impairment, the entire unrealised loss held in reserves is transferred to the income statement and recognised as impairment.

The Bank primarily uses sophisticated models that utilise the probability of default (PD), loss given default (LGD) and exposure at default (EAD) metrics, discounted using the effective interest rate. For lower value, less complex portfolios in Retail Banking, the Bank uses roll rate or loss rate models.

A summary of the Company's approach to determining ECL is set out within note 40 to the 2016 Annual Report and Accounts. Expected credit losses are recognised for all financial debt instruments, loan commitments and financial guarantees that are classified as hold to collect / hold to collect and sell and have cash flows that are solely payments of principal and interest. Expected credit losses are not recognised for equity instruments designated at FVOCI.

An ECL allowance is recognised at the time of initial recognition for all financial assets that are in the scope of ECL in respect of default events that may occur over the next 12 months (so-called "stage 1 assets" with allowances equivalent to 12-months expected credit losses). ECL continues to be determined on this basis until there is either a significant increase in credit risk or the asset becomes credit impaired.

If a financial (or portfolio of financial assets) experiences a significant increase in credit risk since initial recognition, however, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset (so-called "stage 2 assets" with provisions equivalent to lifetime expected credit losses). A significant increase in credit risk is assessed in the context of an increase in the risk of a default occurring over the life of the financial instrument when compared to that expected at the time of initial recognition. It is not assessed in the context of an increase in the expected credit loss.

The Bank uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared to those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG12) or 30 days or more past due.

An asset is only considered credit impaired, and lifetime expected credit losses recognised, if there is observed objective evidence of impairment. These factors are similar to the indicators of objective evidence of impairment under IAS 39. This includes, amongst other factors, assets in default, experiencing significant financial difficulty or subject to forbearance actions credit-impaired (so-called 'stage 3 assets').Similar to the current IAS 39 requirements for individual impairment provisions, lifetime expected credit losses are recognised for loans that are in default or are otherwise credit-impaired (so-called "stage 3 assets").

3. Significant accounting policies (continued)

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

IFRS 9 Financial instruments (continued)

Impairment of financial assets not held at FVTPL – IAS 39 (continued)

The definition of default is aligned to the regulatory definition within CRR Article 178 and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held. To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired ('POCI). An ECL allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through 'Impairment'.

The measurement of ECL across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Bank uses a Monte Carlo approach to simulate a set of 50 scenarios around the Bank's central forecast to incorporate the potential non-linearity .The period considered when measuring expected credit loss is the contractual term of the financial asset. The expected life may be impacted by prepayments and the maximum contractual term by extention options.For certain revolving portfolios, including credit cards, are measured over the period that Standard Chartered Bank Botswana Limited is exposed to credit risk rather than the contractual term.

For assets measured at amortised cost, the balance sheet amount reflects the gross asset less the allowance for expected credit losses. For debt instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss held as a separate reserve within other comprehensive income. Expected credit loss allowances on off-balance sheet instruments are held as liability provisions to the extent they can be separately identified.

Impact

The initial adoption of the ECL approach impacted retained earnings by P64 million. This related to loans and advances to customers

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

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

IFRS 9 Financial instruments (continued)

Impact (continued)

The estimated impact of the remeasurement and reclassifications and the impact of the changes to the recognition and measurement of credit impairment loss allowances, net of the related tax impacts, is set out by category of reserve in the table below:

	Stated capital	Revaluation reserve	Statutory credit risk reserve	Retained earnings	Capital contribution	Available for sale reserve	Total
	P'000	P'000	P'000	P'000	P'000	P'000	**P'000**
As at 31 December 2017	179 273	23 691	19 152	542 789	28 213	16 928	**810 046**
Net impact of:							
IFRS9 Reclassifications	-	-	-	-	-	-	-
IFRS9 Re-measurements	-	-	-	-	-	-	-
Expected credit loss, net	-	-	-	-	-	-	-
Tax impact	-	-		18 179	-	-	**18 179**
Total estimated IFRS9 transition adjustments	-	-	-	(82 749)	-	(123)	**(82 871)**
As at 1 January 2018	**179 273**	**23 691**	**19 152**	**478 219**	**28 213**	**16 805**	**745 353**

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, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

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

IFRIC 22 Foreign Currency Transactions and Advance Considerations

When foreign currency consideration is paid or received in advance of the item it relates to- which may be an asset, expense or income – IAS 21 The Effects of Change s in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 claifies that the transaction date is the date on which the company initially recognies the prepayment or deferred income arising from the advance consideration . For transactions involving multiple payments or recipts, each payment or receipt give rise to a separate transaction date.

3. Significant accounting policies (continued)

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

IFRIC 22 Foreign Currency Transactions and Advance Considerations (continued)

The standard is effective for annual periods commencing on or after 1 January 2018 and are not expected to have significant impact on the Group's financial statements.

Applying IFRS 9 Financials Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The International Accounting Standards Board issued Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) on the 12 September 2016. The amendments address concerns arising from implementing the new financial instruments Standards, IFRS 9, before implementing IFRS17 Insurance Contracts; the amendments also supplement existing options in IFRS 4 to address those concerns.

The amendment is effective for annual periods commencing on or after 1 January 2018 and are not expected to have significant impact on the Group's financial statements.

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 Directors are in the process of assessing the impact of this amendment.

Prepayment Features with Negative Compensation (Amendments 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.

IFRS 17 Insurance Contracts

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Significant accounting policies (continued)

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

IFRS 17 Insurance Contracts (continued)

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

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

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

4. Financial risk management

4.1 Introduction and overview

The Group has exposure to the following risks from financial instruments:

- capital risk
- credit risk
- liquidity risk
- market risk
- country cross border risk
- operational risk

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

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

4.2 Credit risk

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

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

(a) Management of credit risk

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

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

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

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

(i) Corporate & Institutional Banking and Commercial Banking segments

In Corporate & Institutional Banking and Commercial Banking segments, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subject to a dedicated process with oversight involving the Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit. Loans are considered impaired and non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.2 Credit risk (continued)

(b) Problem credit management and provisioning

(i) Corporate & Institutional Banking and Commercial Banking segments

Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the recognition of an impairment provision, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Corporate & Institutional Banking and Commercial Banking segments, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

(ii) Retail Banking Segment

In the Retail Banking segment, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. Within the Retail Banking segments, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

The impairment assessment within the Retail Banking segment reflects the fact that the product portfolios (excluding Business Banking segment) consist of a large number of comparatively small exposures. As a result, much of the impairment assessment is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to Expected Loss of a product. The Expected Loss is derived from internally calculated Probability of Default (PD) and a proxy Loss Given Default (LGD) data from Internal Ratings Based ("IRB") portfolios. The Bank exercises judgmental overlays and business cycle adjustments based on the macro-environment, portfolio loss severity, collections and recovery performance trends.

The process used for recognising the impairment provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are recognised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

The procedures for managing problem credits for the Business Banking sub segment of Retail Banking segment are similar to those adopted for Corporate & Institutional Banking and Commercial Banking segments described above.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk – Group and Company

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Assets at amortised cost						
Individually impaired:						
Grade 12 & 13: Substandard	257 108	24 683	-	-	-	-
Grade 14: Loss	308 639	175 314	-	-	-	-
Gross carrying amount	565 747	199 997	-	-	-	-
Allowance for impairment	(366 295)	(159 245)	-	-	-	-
	199 452	**40 752**	-	-	-	-
Past due but not impaired comprises:						
01 – 30 days	284 732	333 774	-	-	-	-
31 – 60 days	61 478	190 090	-	-	-	-
61 – 90 days	43 887	34 129	-	-	-	-
Carrying amount	**390 097**	**557 993**	-	-	-	-
Neither past due nor impaired:						
Grade 1-11 -Low- fair risk	7 046 477	7 134 974	-	-	-	-
Gross carrying amount	7 046 477	7 134 974	-	-	-	-
Portfolio impairment provision	**(46 163)**	**(73 723)**	-	-	-	-
	7 000 314	**7 061 251**	-	-	-	-
Net loans and advances	**7 589 863**	**7 659 996**				
Available-for-sale assets						
Low to fair risk	-	-	2 577 528	2 092 855	3 364 689	2 783 872
Carrying amount – fair value	7 589 863	7 659 996	2 577 528	2 092 855	3 364 689	2 783 872
Total carrying amount	**7 589 863**	**7 659 996**	**2 577 528**	**2 092 855**	**3 364 689**	**2 783 872**

In addition to the above, the Group had entered into lending commitments of P916 846 thousand (2016 P988 892 thousand) with counter parties graded 1 to 3. Refer to note 32 for financial guarantee contracts in respect of debtors graded 1 to 9.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk (continued)

Impaired loans

Individually impaired loans are loans and advances (other than those carried at fair value through profit or loss) for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. These loans are graded 13 and 14 in the Group's internal credit risk grading system.

Past due but not impaired loans

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

Write off policy

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Collateral at fair value				
Against individually impaired:				
Property	53 745	51 529	53 745	51 529
Cash	26 404	1 253	26 404	1 253
Others	55 189	9 263	55 189	9 263
Total	**135 338**	**62 045**	**135 338**	**62 045**
Against past due but not impaired:				
Property	182 967	266 668	182 967	266 668
Cash	26 404	69 843	26 404	69 843
Other	1 381	467	1 381	467
Total	**210 752**	**336 978**	**210 752**	**336 978**
Against neither past due nor impaired:				
Property	1 274 626	1 320 957	1 274 626	1 320 957
Cash	27 975	21 834	27 975	21 834
Others	136 567	133 195	136 567	133 195
Total	**1 439 168**	**1 475 986**	**1 439 168**	**1 475 986**
Collateral not at fair value				
Breakdown of guarantees				
Government guarantees	407 426	411 584	407 426	411 584
Non - Government guarantees	1 461 104	1 184 762	1 461 104	1 184 762
Total	**1 868 530**	**1 596 346**	**1 868 530**	**1 596 346**
Total collateral held	**3 653 788**	**3 471 355**	**3 653 788**	**3 471 355**

The bank has taken possession of property held as security worth P23 744 501 (2016: P1 639 149) .

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.2 Credit risk (continued)

The bank monitors concentration of credit risk by sector. Analysis of concentration of credit risk as at the reporting date is disclosed below:

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Segmental analysis by industry				
Finance and insurance	532 123	348 581	532 123	348 581
Construction	65 250	243 053	65 250	243 053
Manufacturing	514 681	989 176	514 681	989 176
Trade, restaurant and bars	247 739	363 796	247 739	363 796
Community, social and personal services	156 222	380 564	156 222	380 564
Transport	22 043	5 936	22 043	5 936
Households	6 464 263	5 561 858	6 464 263	5 561 858
Total	**8 002 321**	**7 892 964**	**8 002 321**	**7 892 964**

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

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

4. Financial risk management (continued)

4.3 Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. This limit requires that total liquid assets divided by total deposits must be at least 10%.

Liquidity ratio has been assessed as noted below:

	Group		Company	
	2017	2016	2017	2016
Total liquid assets	3 109 771	2 689 824	3 109 771	2 689 824
Total customer deposits	12 245 757	11 274 880	12 245 757	11 274 880
Ratio	25%	24%	25%	24%

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis

Group - 31 December 2017

	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	969 846	969 846	969 846	-	-	-	-
Loans and advances to banks	2 577 528	2 577 528	2 577 528	-	-	-	-
Investment securities	3 364 689	3 364 689	2 424 270	-	-	940 419	-
Loans and advances to customers	7 589 863	7 589 863	882 083	176 008	81 040	3 030 238	3 420 494
Total assets due from customers and banks	**14 501 926**	**14 501 926**	**6 853 727**	**176 008**	**81 040**	**3 970 657**	**3 420 494**
Financial assets	367 064	367 064	367 064	-	-	-	-
Total assets	**14 868 990**	**14 868 990**	**7 220 791**	**176 008**	**81 040**	**3 970 657**	**3 420 494**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Group - 31 December 2017

	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	6 532 679	(6 532 679)	(6 532 679)	-	-	-	-
Term deposits accounts	5 713 078	(5 713 078)	(1 352 097)	(2 250 438)	(1 955 922)	(154 621)	-
Deposits to banks	1 108 372	(1 108 372)	(1 108 372)	-	-	-	-
Total liabilities to customers and banks	**13 354 129**	**(13 354 129)**	**(8 993 148)**	**(2 250 438)**	**(1 955 922)**	**(154 621)**	-
Financial liabilities	188 653	(188 653)	(188 653)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total liabilities	**14 229 042**	**(14 229 042)**	**(9 181 801)**	**(2 250 438)**	**(1 955 922)**	**(451 881)**	**(389 000)**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Company - 31 December 2017

	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	6 532 679	(6 532 679)	(6 532 679)	-	-	-	-
Term deposits accounts	5 713 078	(5 713 078)	(1 352 097)	(2 250 438)	(1 955 922)	(154 621)	-
Deposits from banks	1 068 406	(1 068 406)	(1 068 406)	-	-	-	-
Total liabilities to customers and banks	**13 314 163**	**(13 314 163)**	**(8 953 182)**	**(2 250 438)**	**(1 955 922)**	**(154 621)**	**-**
Financial liabilities	176 754	(176 754)	(176 754)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total liabilities	**14 177 177**	**(14 177 177)**	**(9 129 936)**	**(2 250 438)**	**(1 955 922)**	**(451 881)**	**(389 000)**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Company - 31 December 2017

	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	967 275	967 275	967 275	-	-	-	-
Loans and advances to banks	2 626 767	2 626 767	2 626 767	-	-	-	-
Investment securities	3 364 689	3 364 689	2 424 270	-	-	940 419	-
Loans and advances to customers	7 589 863	7 589 863	882 084	176 008	81 040	3 030 238	3 420 494
Total assets due from customers and banks	**14 548 594**	**14 548 594**	**6 900 396**	**176 008**	**81 040**	**3 970 657**	**3 420 494**
Financial –assets	276 819	276 819	276 819	-	-	-	-
Total assets	**14 825 413**	**14 825 413**	**7 177 215**	**176 008**	**81 040**	**3 970 657**	**3 420 494**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Group - 31 December 2016

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	1 066 099	1 066 099	1 066 099	-	-	-	-
Loans and advances to banks	2 092 855	2 092 855	2 092 855	-	-	-	-
Investment securities	2 783 872	2 783 872	1 402 752	299 763	-	1 079 357	-
Loans and advances to customers	7 659 996	7 659 996	1 074 900	691 460	626 556	2 981 483	2 285 597
Total assets due from customers and banks	**13 602 822**	**13 602 822**	**5 638 606**	**991 223**	**626 556**	**4 060 840**	**2 285 597**
Other assets	162 114	162 114	162 114	-	-	-	-
Total assets	**13 764 936**	**13 764 936**	**5 800 720**	**991 223**	**626 556**	**4 060 840**	**2 285 597**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Company - 31 December 2016

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	1 063 914	1 063 914	1 063 914	-	-	-	-
Loans and advances to banks	2 058 304	2 058 304	2 058 304	-	-	-	-
Investment securities	2 783 872	2 783 872	1402 752	299 763	-	1 079 357	-
Loans and advances to customers	7 659 996	7 659 996	1 074 900	691 460	626 556	2 981 483	2 285 597
Total assets to customers and banks	**13 566 086**	**13 566 086**	**5 601 870**	**991 223**	**626 556**	**4 060 840**	**2 285 597**
Other assets	156 801	156 801	156 801	-	-	-	-
Total assets	**13 722 887**	**13 722 887**	**5 758 671**	**991 223**	**626 556**	**4 060 840**	**2 285 597**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Group 31 December 2016

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	7 113 605	(7 113 605)	(7 113 605)	-	-	-	-
Term deposits accounts	4 161 275	(4 161 275)	(1747 736)	(915 480)	(1 165 157)	(332 902)	-
Deposits to banks	701 048	(701 048)	(701 048)	-	-	-	-
Total liabilities to customers and banks	**11 975 928**	**(11 975 928)**	**(9 562 389)**	**(915 480)**	**(1 165 157)**	**(332 902)**	**-**
Senior and subordinated debt	686 260	(686 260)	-	-	-	(50 000)	(636 260)
Other liabilities	168 506	(168 506)	(168 506)	-	-	-	-
Total liabilities	**12 830 694**	**(12 830 694)**	**(9 731 345)**	**(9 15 480)**	**(1 165 157)**	**(382 902)**	**(636 260)**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis (continued)

Company 31 December 2016

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	7 113 605	(7 113 605)	(7 113 605)	-	-	-	-
Term deposits accounts	4 161 275	(4 161 275)	(1747 736)	(915 480)	(1 165 157)	(332 902)	-
Deposits from banks	663 826	(663 826)	(663 826)	-	-	-	-
Total liabilities to customers and banks	**11 938 706**	**(11 938 706)**	**(9 525 167)**	**(915 480)**	**(1 165 157)**	**(332 902)**	**-**
Senior and subordinated debt	686 260	(686 260)	-	-	-	(50 000)	(636 260)
Other liabilities	159 140	(159 140)	(159 140)	-	-	-	-
Total liabilities	**12 784 106**	**(12 784 106)**	**(9 684 307)**	**(9 15 480)**	**(1 165 157)**	**(382 902)**	**(636 260)**

Strategic report

Directors' report

FINANCIAL STATEMENTS

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.4 Operational risk

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

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

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

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

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

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

4. Financial risk management (continued)

4.5 Capital management

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

- Tier I capital, which includes stated capital, retained earnings, accumulated other comprehensive income and other disclosed reserves, common shares issued by consolidated subsidiaries of a bank and held by third parties, regulatory adjustments applied in the calculation of CET1 capital
- Tier II capital, which includes property revaluation reserve and loan loss reserve

The calculation of both the above ratios is as follows:

Company	2017 Per Basel II P'000	2016 Per Basel II P'000
Capital adequacy		
Core capital		
Stated capital	179 273	179 273
Other revenue reserves	518 102	665 926
Capital contribution	28 213	28 213
Statutory credit risk reserve	19 152	19 152
Less regulatory adjustments	(105 729)	(42 895)
	639 011	**849 669**
Supplementary capital		
Current years' unpublished profits	-	86 633
Non-specific impairment	34 563	73 723
Subordinated debt	572 808	622 260
	1 246 383	**1 632 285**
Risk weighted assets		
Credit	6 849 724	6 291 691
Market	89 233	133 150
Operational	867 542	995 374
	7 806 499	**7 420 215**
Capital adequacy ratio	**16.0%**	**22.0%**

During the year, P49.7 million dividends were declared and paid (2016: P120 million)

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.6 Market risk

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

Exposure to market risks

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

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

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

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

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

4. Financial risk management (continued)

4.6 Market risk (continued)

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

	At 31 December P'000	Average P'000	Maximum P'000	Minimum P'000
2017				
Foreign currency risk	37	69	175	7
Interest rate risk	545	578	947	294
Overall	**582**	**647**	**1 122**	**301**
2016				
Foreign currency risk	8	75	190	7
Interest rate risk	683	618	1 018	237
Overall	**691**	**693**	**1 208**	**244**

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.6 Market risks (continued)

Exposure to interest rate risk

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

Group and Company - 31 December 2017

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1 month*	*1 – 3 months*	*3 – 12 months*	*1 to 5 years*	*Over 5 years*	Total
Total assets	318 000	7 834 400	5 645 000	304 000	503 000	835 000	-	15 439 000
Total liabilities and equity	(864 000)	(7 974 000)	(1 974 000)	(3 848 000)	(975 000)	(281 000)	-	(15 439 000)
Net mismatch	**(546 000)**	**(337 000)**	**3 671 000**	**(3 544 000)**	**(472 000)**	**554 000**	**-**	**-**
Interest sensitivity gap								
Impact of increase in interest rates:								
50 basis points		(1 687)						
+1%		(3 374)						

Group and Company - 31 December 2016

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1 month*	*1 – 3 months*	*3 – 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Total assets	1 338 481	11 457 366	-	-	-	1 079 357	-	13 875 204
Total liabilities and equity	(2 988 065)	(6 548 304)	(1 747 736)	(915 480)	(1 165 157)	(382 902)	(127 560)	(13 875 204)
Net mismatch	**(1 649 584)**	**4 909 062**	**(1 747 730)**	**(915 480)**	**(1 165 157)**	**696 455**	**(127 560)**	**-**
Interest sensitivity gap								
Impact of increase in interest rates								
50 basis points		24 545						
+1%		49 091						

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

4. Financial risk management (continued)

4.6 Market risks (continued)

Effective interest rates of financial assets and liabilities

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

4.7 Foreign exchange rate risk management

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

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

The Group's Financial Markets division is responsible for:

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

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

The table below sets out principal structural foreign exchange exposures of the Group for only major currencies at 31 December 2017 and 2016.

Group and Company

	2017			2016		
	Assets / (liabilities) P'000	Sensitivity* P'000		Assets /(liabilities) P'000	Sensitivity* P'000	
		1%	5%		1%	5%
American Dollar	(668)	7	33	(592)	6	30
British Pound	228	(2)	(11)	137	(1)	(7)
Euro	75	(1)	(4)	17	-	1
South African Rand	(210)	2	10	(404)	4	20

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.8 Financial assets and liabilities

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

	Note	Available for sale P'000	Loans and receivables P'000	Amortised cost P'000	Total carrying amount P'000	Fair value P'000
Group - 31 December 2017						
Cash and balances with central bank	15	-	969 846	-	969 846	969 846
Loans and advances to other banks	16	-	2 577 528	-	2 577 528	2 577 528
Investment securities	17	3 364 689	-	-	3 364 689	3 364 689
Loans and advances to customers	18	-	7 589 863	-	7 589 863	7 589 863
		3 364 689	**11 137 237**	**-**	**14 501 926**	**14 501 926**
Deposits from other banks	22	-	-	1 108 372	1 108 372	1 108 372
Deposits from customers	23	-	-	12 245 757	12 245 757	12 245 757
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
		-	**-**	**14 040 389**	**14 040 389**	**14 040 389**
Company - 31 December 2017						
Cash and balances with central bank	15	-	967 275	-	967 275	967 275
Loans and advances to other banks	16	-	2 626 767	-	2 626 767	2 626 767
Investment securities	17	3 364 689	-	-	3 364 689	3 364 689
Loans and advances to customers	18	-	7 589 863	-	7 589 863	7 589 863
		3 364 689	**11 183 905**	**-**	**14 548 594**	**14 548 594**
Deposits from other banks	22	-	-	1 068 406	1 068 406	1 068 406
Deposits from customers	23	-	-	12 245 757	12 245 757	12 245 757
Senior and subordinated liabilities	24	-	-	686 260	686 260	686 260
		-	**-**	**14 000 423**	**14 000 423**	**14 000 423**

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.8 Financial assets and liabilities (continued)

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

	Note	Available for sale P'000	Loans and receivables P'000	Amortised cost P'000	Total carrying amount P'000	Fair value P'000
Group - 31 December 2016						
Cash and balances with central bank	15	-	1 066 099	-	1 066 099	1 066 099
Loans and advances to banks	16	-	2 092 855	-	2 092 855	2 092 855
Investment securities	17	2 783 872	-	-	2 783 872	2 783 872
Loans and advances to customers	18	-	7 659 996	-	7 659 996	7 659 996
		2 783 872	**10 818 950**	**-**	**13 602 822**	**13 602 822**
Deposits from banks	22	-	-	701 048	701 048	701 048
Deposits from customers	23	-	-	11 274 880	11 274 880	11 274 880
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
		-	**-**	**12 662 188**	**12 662 188**	**12 662 188**
Company - 31 December 2016						
Cash and balances with central bank	15	-	1 063 914	-	1 063 914	1 063 914
Loans and advances to banks	16	-	2 058 304	-	2 058 304	2 058 304
Investment securities	17	2 783 872	-	-	2 783 872	2 783 872
Loans and advances to customers	18	-	7 659 996	-	7 659 996	7 659 996
		2 783 872	**10 782 214**	**-**	**13 566 086**	**13 566 086**
Deposits from banks	22	-	-	663 826	663 826	663 826
Deposits from customers	23	-	-	11 274 880	11 274 880	11 274 880
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
		-	**-**	**12 624 966**	**12 624 966**	**12 624 966**

The carrying amounts of financial assets and liabilities are representative of the Company's position at 31 December 2017 and are in the opinion of the directors not significantly different from their respective fair values due to generally short periods to maturity dates and market related interest rates. Fair values are generally determined using valuation techniques or, where available, published price quotations from an active market.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Financial risk management (continued)

4.8 Financial assets and liabilities (continued)

Fair value measurement

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

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

4 Financial risk management (continued)

4.8 Financial assets and liabilities (continued)

Fair value measurement (continued)

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

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

	Note	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
31 December 2017					
Land and buildings		-	-	-	-
Investment securities	17	-	3 364 689	-	3 364 689
31 December 2016					
Land and buildings		-	-	22 262	22 262
Investment securities	17	-	1 079 357	-	1 079 357

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
5. Interest income				
Amortised cost:				
Loans and advances to customers	674 155	697 014	674 155	697 014
Balances with banks	61 500	54 903	61 500	54 903
Available for sale:				
Investment securities	74 064	55 550	74 064	55 550
	809 719	**807 467**	**809 719**	**807 467**
6. Interest expense				
Amortised cost:				
Amounts due to banks	11 354	22 309	11 354	22 309
Senior and subordinated debt	39 980	38 915	39 980	38 915
Amounts due to customers	240 910	212 121	238 166	207 073
	292 244	**273 345**	**289 500**	**268 297**
7. Fee and commission income				
Fiduciary activities	17 100	16 801	17 100	16 801
Financial assets and liabilities at amortised cost	228 257	225 476	228 257	225 476
Insurance brokerage	51 497	49 274	-	-
	296 854	291 551	245 357	242 277
8. Net trading income				
Foreign currency	90 004	122 606	89 618	121 673
Trading securities	(36)	955	(36)	955
	89 968	**123 561**	**89 582**	**122 628**

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
9. Net impairment loss on loans and advances				
Specific impairment	358 667	121 561	358 667	121 561
Portfolio impairment	(27 560)	26 687	(27 560)	26 687
Recoveries	(35 672)	(30 739)	(35 672)	(30 739)
Charge per profit or loss	**295 435**	**117 509**	**295 435**	**117 509**
Movement in specific impairments				
Balance at beginning of the year	159 245	99 227	159 245	99 227
Charge for the year to profit or loss	358 667	121 561	358 667	121 561
	517 912	**220 788**	**517 912**	**220 788**
Write-offs during the year	(143 398)	(55 325)	(143 398)	(55 325)
Allowance no longer required	(8 220)	(6 218)	(8 220)	(6 218)
Balance at end of the year	**366 294**	**159 245**	**366 294**	**159 245**
Movement in non-specific impairments				
Balance at beginning of the year	73 723	47 036	73 723	47 036
Charge for the year per profit or loss	(27 560)	26 687	(27 560)	26 687
Balance at end of the year	46 163	73 723	46 163	73 723
Total specific and non-specific impairment at end of year	**412 458**	**232 968**	**412 457**	**232 968**

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
10. Employee benefits				
Salaries and wages	239 944	212 015	239 944	212 015
Pension fund costs	13 619	12 740	13 619	12 740
Other allowances	7 838	2 743	7 838	2 743
	261 401	**227 498**	**261 401**	**227 498**
11.Administration expenses				
Audit fees	1 550	1 648	1 550	1 648
Consultancy costs	7 015	5 680	7 015	5 680
Directors' fees	499	522	440	522
Repairs and maintenance	14 705	15 251	14 705	15 251
Communication costs	18 477	20 702	18 477	20 702
Group recharges	249 502	248 248	249 502	248 248
Advertising and sponsorship	2 166	6 730	2 166	6 730
Technical support	6 708	4 794	6 708	4 794
Printing and stationery	4 894	6 899	4 894	6 899
Security	19 201	19 669	19 201	19 669
VAT and withholding tax	64 732	45 374	64 732	45 374
Other expenses	92 792	39 678	81 474	30 895
	482 241	**415 195**	**470 864**	**406 412**
12. Income taxation				
Taxation charge for the year:				
Current taxation charge	36 509	32 296	27 721	23 380
Current taxation prior year under provision	1 486	17	(447)	17
Deferred tax charge	(81 456)	(8 450)	(81 456)	(8 450)
	(43 462)	**23 863**	**(54 182)**	**14 947**

Amounts recognised in other comprehensive income

	Amounts Before tax	Tax (expenses)	Net of taxes
2017 Group and Company			
Movement in available for sale investment	(612)	135	(477)
2016 Group and Company			
Movement in available for sale investment	22 274	(4 900)	17 374
Revaluation of property	(455)	100	(355)
Total	**21 819**	**(4 800)**	**17 019**

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
12. Income taxation (continued)				
(Loss) / profit before tax	**(232 784)**	**103 581**	**(238 934)**	**101 580**
Taxation reconciliation:				
Taxation at statutory rate of 22%	(51 212)	22 789	(52 565)	22 348
Non-deductible operational losses	13 303	1 057	5 549	144
Exempt income- dividend income	(7 039)	-	(6 719)	(7 562)
Pior year current tax adjustment	1 486	17	(447)	17
Taxation per profit or loss	**(43 462)**	**23 863**	**(54 182)**	**14 947**
13. Dividends				
Dividend declared and paid	**49 703**	**169 134**	**49 703**	**120 026**
Calculated dividend per share (Thebe)	**16.66**	**40.23**		

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

14. Earnings per share

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

	Group 2017 P'000	Group 2016 P'000
(Loss) /profit attributable to ordinary shareholders	(189 322 000)	79 718 000
Weighted average number of ordinary shares	298 350 611	298 350 611
Calculated earnings per share (Thebe)	**(63.50)**	**26.72**

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
15. Cash and balances with central bank	969 846	1 066 099	967 275	1 063 914

Included in the balances with the Central bank is amount of P472 907 000 (2016:P426 262 000) which is a restricted statutory reserve balance not available for the Group's daily operations.

Notes to the financial statements (continued)

For the year ended 31 December 2017

16. Loans and advances to banks

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
Bank balances	127 889	4 116	127 889	4 116
Placements and other investments	2 449 639	2 088 739	2 498 878	2 054 188
	2 577 528	**2 092 855**	**2 626 767**	**2 058 304**

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

17. Investment securities

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
Bank of Botswana Certificates	2 424 270	1 704 515	2 424 270	1 704 515
Government bonds	940 419	1 079 357	940 419	1 079 357
	3 364 689	**2 783 872**	**3 364 689**	**2 783 872**

At the reporting date, government bonds amounting to P 805 000 000 (2016: P 305 000 000) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility. Government bonds are quoted on the Botswana Stock Exchange.

18. Loans and advances to customers

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
Loans and advances – originated	8 002 321	7 892 964	8 002 321	7 892 964
Less: allowance for impairment (note 9)	(412 458)	(232 968)	(412 458)	(232 968)
	7 589 863	**7 659 996**	**7 589 863**	**7 659 996**

Notes to the financial statements (continued)

For the year ended 31 December 2017

19.Property and equipment - Group and Company

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2017						
Cost or valuation						
At 01 January 2017	58 244	72 413	595	10 818	5 949	148 019
Revaluation of property	-	-	-	-	-	-
Additions	-	3 809	-	1 050	8 635	13 495
Transfers	-	-	-	-	(514)	(514)
At 31 December 2017	**58 244**	**76 222**	**595**	**11 868**	**14 070**	**160 999**
Accumulated depreciation						
At 1 January 2017	(10 993)	(70 729)	(595)	(9 489)	-	(91 806)
Charge for the year – profit or loss	(2 900)	(888)	-	(975)	-	(4 764)
At 31 December 2017	**(13 893)**	**(71 617)**	**(595)**	**(10 464)**	**-**	**(96 569)**
Net book value	**44 351**	**4 605**	**-**	**1 404**	**14 070**	**64 430**

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2016						
Cost or valuation						
At 01 January 2016	35 982	72 413	595	10 710	433	120 133
Revaluation of property	22 262	-	-	-	-	22 262
Additions	-	-	-	108	5 516	5 624
At 31 December 2016	**58 244**	**72 413**	**595**	**10 818**	**5 949**	**148 019**
Accumulated depreciation						
At 1 January 2016	(8 984)	(68 462)	(595)	(8 408)	-	(86 449)
Charge for the year – profit or loss	(2 009)	(2 267)	-	(1 081)	-	(5 357)
At 31 December 2016	**(10 993)**	**(70 729)**	**(595)**	**(9 489)**	**-**	**(91 806)**
Net book value	**47 251**	**1 684**	**-**	**1 329**	**5 949**	**56 213**

Land and buildings comprises of commercial and residential properties. Land and buildings is disclosed at valuation less accumulated depreciation and impairment. The transfer of capital work in progress has been included as part of additions.

Notes to the financial statements (continued)

For the year ended 31 December 2017

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

Measurement of fair values

Fair value hierarchy

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

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

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

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Valuation technique and significant unobservable inputs

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

20.Intangible assets and goodwill- Group and Company

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

	Customer relationships P'000	Capitalised software P'000	Goodwill P'000	Total P'000
2016				
Cost				
At beginning of year	94 684	22 068	29 880	146 632
Additions	-	14 907	-	14 907
At the end of the year	**94 684**	**36 975**	**29 880**	**161 539**
Amortisation and impairment losses				
At beginning of year	(65 016)	(16 782)	(18 621)	(100 419)
Amortisation for the year	(11 938)	(6 287)	-	(18 225)
At end of year	**(76 954)**	**(23 069)**	**(18 621)**	**(118 644)**
Carrying amount as 31 December 2016	**17 730**	**13 906**	**11 259**	**42 895**

Notes to the financial statements (continued)

For the year ended 31 December 2017

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

No impairment loss on goodwill was recognised during 2017 (2016: Nil) because the recoverable amounts of the CGUs was determined to be higher than their carrying amount. The key assumptions used in calculation of value in use were as follows:

	2017	2016
Discount rate	7.0%	7.0%
Average growth rate in net cash flows	4%	5%
Inflation rate	3%	3%

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

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

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

For the purpose of impairment testing, goodwill is allocated to the Group's CGU as follows:

	2007 P'000	2016 P'000
Custody Business (current net book value)	16 962	16 195

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
21. Other assets				
Financial				
Prepayments	2 095	2 715	2 095	2 715
Accrued income	139 314	131 190	139 314	131 190
Other receivables	225 655	27 608	135 410	22 296
Non-financial				
Other receivables	4 486	7 161	4 486	7 161
	371 550	**169 275**	**281 305**	**163 962**
22. Deposits from other banks				
Bank balances	1 077 847	666 745	1 037 881	629 523
Placements	30 525	34 303	30 525	34 303
	1 108 372	**701 048**	**1 068 406**	**663 826**
23. Deposits from customers				
Demand deposits	6 532 679	7 113 606	6 532 679	7 113 606
Time deposits	5 713 078	4 161 274	5 713 078	4 161 274
	12 245 757	**11 274 880**	**12 245 757**	**11 274 880**
24. Senior and subordinated debt				
Local note issue (1)	70 000	70 000	70 000	70 000
Local note issue (2)	177 260	177 260	177 260	177 260
Senior debt	50 000	50 000	50 000	50 000
Subordinated debt	389 000	389 000	389 000	389 000
	686 260	**686 260**	**686 260**	**686 260**

Notes to the financial statements (continued)

For the year ended 31 December 2017

24. Senior and subordinated debt (continued)

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

Note information	Interest rate details	Year of maturity	2017	2016
Loan note issue (1)- This was raised through a new debt issued on 12 May 2011 as part of the P500 million Debt Issuance Programme and to be repaid no later than the tenth anniversary and no earlier than 5 years before that date.	Floating rate at the 91 day BOBC plus a margin of 130 basis point per annum thereafter.	12 May 2021	70 000	70 000
Loan note issue (2)- The notes were issued in two Tranches, Tranche (I) and Tranche (II) through a new debt issued on 27 June 2012 as part of the P500 million debt Issuance Programme.	Tranche (I) - Floating rate at the 91 day BOBC plus a margin of 150 basis points per annum.	27 June 2022	50 000	50 000
	Tranche (II) – Fixed interest rate of 8.20%	27 June 2022	127 260	127 260
Senior debt was issued on 20 December 2005. Interest is payable semi annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors.	Fixed interest rate of 10.50% per annum	20 Dec 2020	50 000	50 000
Subordinated debt issued for capital injection	4% above the 91 day BOBC rate	29 July 2025	389 000	389 000

The group has not had any default of principal or interest or breaches in respect to its senior surbodinated liability during the current or pervious reporting date.

25. Current taxation payable / (refundable)

	Group 2017 P'000	Group 2016 P'000	Company 2017 P'000	Company 2016 P'000
Opening balance refundable	(3 999)	(20 247)	(1 770)	(18 314)
Charge for the year	36 509	32 294	27 721	23 379
Prior year under provision	1 486	17	(447)	17
Income tax refunded	-	18 297	-	18 297
Income tax paid	(17 900)	(34 362)	(8 000)	(25 149)
Closing balance payable /(refundable)	**16 096**	**(3 999)**	**17 504**	**(1 770)**

26. Deferred taxation

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

	Net balance as at 01 Jan 2017 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2017 P'000
Group and company- 31 December 2016				
Property and equipment	1 067	(136)	-	931
Available for sale securities	5 009	-	(100)	4 909
Revaluation of property	-	-	4 898	4 898
Redundancy provision	-	(602)	-	(602)
Bonus provision	-	(4 194)	-	(4 194)
Intangible assets	7 689	(3 516)	-	4 173
	13 765	**(8 448)**	**4 798**	**10 115**

Notes to the financial statements (continued)

For the year ended 31 December 2017

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
27. Other liabilities				
Financial				
Accruals	16 874	24 805	16 874	24 805
Accruals payables	171 779	143 701	159 880	134 335
Non-financial				
Restructuring provision*	7 370	2 743	7 370	2 743
Other payables	12 647	13 670	12 647	13 690
	208 670	**184 919**	**196 771**	**175 553**

Restructuring provision

The provision was taken in line with Group transformation strategy announced in November 2014. The key focus was to re-orientate the distribution channel, to significantly increase focus on client segments. The strategy will enable the Group to expand and deepen relationships in target geographies and client segments across their footprint and strengthen the Personal Banking space.

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Restructuring provision				
Balance at the beginning of year	2 743	12 669	2 743	12 669
Provision made during the year	21 788	2 743	21 788	2 743
Payments used during the year	(17 161)	(12 669)	(17 161)	(12 669)
	7 370	**2 743**	**7 370**	**2 743**

28. Cash and cash equivalents				
Cash and bank balances with Central bank (note 15)	969 846	1 066 099	967 275	1 063 914
Balances due from other banks (note 16)	2 577 528	2 092 855	2 626 767	2 058 304
	3 547 374	**3 158 954**	**3 594 042**	**3 122 218**

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

The Group held cash and cash equivalents of P3 546 million at 31 December 2017 (2016: P3 159 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and other financial institution counterparties.

29. Related parties

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

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

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

(i) Directors and key personnel compensation:

	2017 P'000	2016 P'000
Directors' fees - short term employee benefits	499	522
Directors and key management personnel compensation - short term employee benefits	8 609	18 384

Compensation of the Group's key management personnel includes, short term employee benefits and non-cash benefits as noted below (note 29 (ii))

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

	Assets		Liabilities	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Loans				
Auto, mortgages and personal	7 482	16 767	-	-
Deposits	-	-	18 850	22 650
Guarantees and letters of credit	-	-	65	6 613

No impairment losses have been recorded against related party receivables.

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

29. Related parties (continued)

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

Nature of related-party relationships

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

Details of related party at year end are as follows:

	Group		Company	
	2017 P'000	2016 P'000	2017 P'000	2016 P'000
Balances due from:				
Standard Chartered Bank PLC	2 042 737	1 537 748	2 042 737	1 537 748
Standard Chartered Bank New York	481 446	104 967	481 446	104 967
Standard Chartered Bank Johannesburg	103 606	-	103 606	-
Other group companies	-	220 927	-	220 927
	2 627 789	**1 863 642**	**2 627 789**	**1 863 642**
Balances due to:				
Standard Chartered Bank PLC	158	-	158	-
Standard Chartered Bank New York	18 253	42 056	18 253	42 056
Standard Chartered Bank Johannesburg	178 057	155 279	178 057	155 279
Other group companies	280 004	54 889	280 004	54 889
	476 472	**252 224**	**476 472**	**252 224**

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

29. Related parties (continued)

Group and Company - 2017

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

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

	Interest income	Interest expense	Group recharges	Group scheme expense
Group and Company - 2016				
SCB Kenya	-	-	30 911	-
MESA Regional Office	-	-	46 898	-
SCB USA Branches	-	239	-	-
SCB UK Treasury	41 383	29 110	138 037	525
SCB UAE Branch	-	-	18 541	-
SCB Singapore DBU	-	6	276	-
SCB Hongkong	-	1	964	-
Scope China	-	1	-	-
Scope India	-	-	12 621	-
SCB Johannesburg	7 109	2 591	-	-
SCB Japan	-	1	-	-
Total	**48 492**	**31 949**	**248 248**	**525**

Notes to the financial statements (continued)

For the year ended 31 December 2017

29. Related parties (continued)

Company and Group	2017	2016
Directors' holding in company shares	606	606

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

30. Subsidiaries and other structured entities

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

	Ownership interest	
	2017	2016
	P'000	P'000
Standard Chartered Bank Insurance Agency (Pty) Ltd	100%	100%
Standard Chartered Investment Services (Pty) Ltd	100%	100%
Standard Chartered Nominees (Pty) Ltd	100%	100%
Standard Chartered Botswana Education Trust	84%	84%

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

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

31. Operating leases - Group and Company

	2017	2016
	P'000	P'000
Long –term accrual	5 809	-
Short – term accrual	(1 398)	-
Total accrual	**4 411**	**-**
Minimum lease payments		
Cash flow within 1 year	14 872	12 791
Cash flow between 2 - 5 years	42 304	9 929
Cash flow more than 5 years	27 785	-
	84 961	**22 720**
Lease accrual	**(4 411)**	**-**
Future expenses	**80 550**	**22 720**

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

	Group		Company	
	2017	2016	2017	2016
	P'000	P'000	P'000	P'000
32. Contingent liabilities and commitments				
Un-drawn commitments	5 225 998	1 804 534	5 225 998	1 804 534
Acceptances and letters of credit	1 464	10 680	1 464	10 680
Guarantees and standby letters of credit	677 353	850 779	677 353	850 779
	5 904 815	**2 665 993**	**5 904 815**	**2 665 993**

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

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

33. Fiduciary activities

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

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

	Group		Company	
	2017	2016	2017	2016
	P'000	P'000	P'000	P'000
Assets held in custody	**16 961 338**	**16 194 939**	**16 961 338**	**16 194 939**

34. Events after the reporting date

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

35. Segmental reporting

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

- Corporate and Institutional Banking provides lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory services to its customers. The segment focuses on deepening relationships with clients and providing them with solutions.
- Commercial Banking is a newly formed segment which the Bank intends on growing specifically in Middle Market clients and Medium Enterprises & High Value Small Business clients.
- Retail Banking provides a broad range of products and services to meet the borrowing, wealth management and transactions needs of individuals and small sized enterprises (SEs). While we maintain our strong hold on the Personal segment, more focus will be given to high net worth individuals and SEs paying particular attention to product innovation to attract and retain customers.

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

	Retail Banking P'000	Corporate and Institutional Banking P'000	Commercial Banking P'000	Total P'000
2017				
Profit or loss				
Net interest income	370 369	124 777	22 329	517 475
Non- interest income	237 188	72 896	25 692	335 776
Revenue – external sources	**607 557**	**197 673**	**48 021**	**853 251**
Impairment movement	(23 681)	(270 378)	(1 376)	(295 435)
Net income /(loss) after impairment	583 876	(72 705)	46 645	557 816
Operating expenses	(460 487)	(278 912)	(51 201)	(790 600)
Profit / (loss) before taxation	**123 389**	**(351 617)**	**(4 556)**	**(232 784)**
Statement of financial position				
Investment securities	-	3 364 689	-	3 364 689
Loans and advances to customers	6 040 040	1 259 646	290 177	7 589 863
Other assets for reportable segments	23 277	4 064 421	2 793	4 090 491
Total assets for reportable segments	**6 063 317**	**8 688 756**	**292 970**	**15 045 043**
Deposits from non bank customers	2 894 457	7 196 818	2 154 482	12 245 757
Other liabilities for reportable segments	7 975	2 055 961	(43 130)	2 020 806
Total liabilities for reportable segments	**2 902 433**	**9 252 779**	**2 111 352**	**14 266 563**

Notes to the financial statements (continued)

For the year ended 31 December 2017

35. Segmental reporting (continued)

	Retail Banking P'000	Corporate and Institutional Banking P'000	Commercial Banking P'000	Total P'000
2016				
Profit or loss				
Net interest income	361 843	148 679	23 600	534 122
Non interest income	236 724	106 783	30 225	373 732
Revenue – external sources	**598 567**	**255 462**	**53 825**	**907 854**
Impairment movement	(121 035)	19 845	(16 319)	(117 509)
Net income after impairment	**477 532**	**275 307**	**37 506**	**790 345**
Operating expenses	(387 664)	(198 465)	(100 636)	(686 764)
Profit /(loss) before taxation	**89 868**	**76 843**	**(63 130)**	**103 581**
Statement of financial position				
Investment securities	-	2 783 872	-	2 783 872
Loans and advances to customers	5 294 006	2 238 781	127 209	7 659 996
Other assets for reportable segments	16 364	3 411 010	3 962	3 431 336
Total assets for reportable segments	**5 310 370**	**8 433 663**	**131 171**	**13 875 204**
Deposits from non bank customers	3 310 094	6 338 424	1 626 362	11 274 880
Other liabilities for reportable segments	10 478	1 564 861	7 003	1 582 342
Total liabilities for reportable segments	**3 320 572**	**7 903 285**	**1 633 365**	**12 857 222**


Standard Chartered

Headquarters

Standard Chartered House
Queen's Road, Main Mall
Gaborone, Botswana

P O Box 496
Gaborone, Botswana

sc.com/bw

Southern Branch Network

The Square
Priority Banking Centre
P.O. Box 1529, Gaborone
Tel: 3939116
Fax: 3931326

Mall
P.O. Box 21, Gaborone
Tel: 3952911
Fax: 3957810

Hemamo
P/Bag BR 85, Broadhurst
Tel: 3902221
Fax: 3902222

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

Lobatse
P.O. Box 33, Lobatse
Tel: 5330280
Fax: 5332397

Jwaneng
P.O. Box 16, Jwaneng
Tel: 5880252
Fax: 5880253

Airport Junction
P.O. 629, ABG
Sebele, Plot 70665, Unit 62
Tel: 3910432
Fax: 3910114

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

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

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

24 Hour Customer Contact Centre
Tel: 3615800

Gaborone Loan Centre
Tel: 3615700

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

Mochudi Agency
Tel: 577109/359
Tel/Fax: 5920212

Northern Branch Network

Orapa
P.O. Box 214, Orapa
Tel: 2970266
Fax: 2970721

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

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

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

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

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

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

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

Selibe Phikwe
P.O. Box 18, Selibe Phikwe
Tel: 2610346
Fax: 2611289

Serowe
P.O. Box 2325, Serowe
Tel: 4630249
Fax: 4634870

Standard Chartered