BARCLAYS

Shared growth:
You grow, we grow.

Barclays Bank of Botswana Limited
2016 Annual Report

Contents

Barclays Bank of Botswana Annual Report 2016

Annual Financial Statements

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

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

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

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

Our Goal

To be the Bank of Choice

Our Purpose

To help people achieve their ambitions in the right way

Our Values

Respect | Integrity | Service Excellence | Stewardship

Respect
We respect and value those we work with, and the contribution that they make

Integrity
We act fairly, ethically and openly in all we do

Service
We put our clients and customers at the centre of what we do

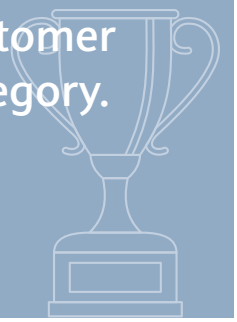
Excellence
We use our energy, skills and resources to deliver the best sustainable results

Stewardship
We are passionate about leaving things better than we found them

Accolades:

Acquisition International: **Bank of the Year 2016.**

Barclays Africa Group Limited: **2016 Citizenship Award in the Client and Customer Category.**



2016 Lafferty Global Award for Excellence in Retail Banking: Barclays Africa.

Celebrating 50 years of independence, 66 years of banking

To 50 Years of Prosperity

Barclays Bank is proud to have been in Botswana for over 6 decades. Our contribution to the development of our beloved country and the growth of its people is longstanding. We grew from servicing clients in a mini bus, to 34 branches across the country and employ more than 1,100 people today.

Botswana remains our destiny and we remain committed to making her people's lives better. We deliver on this commitment through our Shared Growth Strategy; when communities prosper, we also prosper.

You Grow. We Grow. Prosper.

BARCLAYS

Our journey...

1950
First agency opened in Lobatse

1953
Establishment of sub branch in Francistown

1966
4 full branches open

Chairman's Statement

"One of the key privileges I have enjoyed as Chairman of the Board of Barclays Bank of Botswana is to lead a Board and Bank that have good standing and status in the Botswana market."

Rizwan Desai
Chairman

Dear Shareholder,

The year under review was an equally challenging and exciting year for the Board of Directors of Barclays Bank of Botswana and the banking sector in general. The economy was characterised by subdued growth, shifting economic policies and heightened uncertainty. Despite the difficult global and local economic environment, we remained focused and resilient in delivering shareholder value. Accordingly, my fellow Board members and I are pleased to present an impressive set of financial results.

These 2016 financial results demonstrate that our five-year transformation strategy is now coming to fruition. In the year ahead, we will continue to strive to achieve our ambition of being the Bank of Choice in Botswana. We believe that we can meet these high expectations with the appropriate Board composition, strong leadership, engaged colleagues, a superb product offering, promotion of excellence in service delivery, and strict adherence to regulatory compliance requirements.

Overview

One of the key privileges I have enjoyed as Chairman of the Board of Barclays Bank of Botswana is to lead a Board, and a Bank that have good standing and status in the Botswana market. It is a privilege that of course, also brings with it great responsibility towards the Bank's multiple stakeholders. The financial services sector in general, and the banking sector in particular, will continue to be increasingly regulated and scrutinised around the world. Customers will progressively accept nothing short of full accountability from their banks, while investors will continue to expect a growing return on equity. This also holds true in Botswana's banking sector. These demands on the banking sector require every bank to have a well-articulated governance and sustainability strategy. Barclays Bank of Botswana is a long-term sustainable partner to Botswana, having been in the country for more than six decades. We are committed to adhering to the most stringent regulatory controls around how we operate, as well as the products we offer to the Botswana market.

Governance

One of the Board's key focus areas in 2016 was to strengthen its governance capabilities by bringing on additional Non-Executive Directors to broaden its skills sets and expertise.

We are therefore, excited to welcome Oduetse Motshidisi and Tobias Mynhardt to the Barclays Board as our newest Non-Executive Directors. Their appointments have immensely strengthened the Board, enhancing its ability to provide strategic focus and take the business forward.

Oduetse worked in the public service and USAID (Botswana), before joining the Bank of Botswana in 1989. Prior to joining Barclays Board, Oduetse was Deputy Governor of the Bank of Botswana for 15 years. Whilst at the Bank of Botswana, he was directly involved in all aspects of central banking and contributed to the burgeoning development of the financial sector in Botswana. He has also served on the Board of the Motor Vehicle Accident Fund, the Botswana Stock Exchange and the Botswana Institute for Development Policy Analysis.

P198.8m

Shareholders' equity

2016 shareholders' equity up 12.9% to P1.744 billion from P1.423 billion in the previous year.

22.3%

Return on Equity (RoE)

Our journey...

1975

The Bank was incorporated locally operating as an autonomous, wholly-owned subsidiary of Barclays Bank PLC and managed from a head office in Gaborone

Oduetse thus brings a wealth of experience and expertise in the finance, banking, economics and public sectors, as well as corporate governance.

Tobias has been in the investment industry since 1998, and has been a Cash Bazaar Holdings Group (CBH) Managing Director since 2003. CBH has investments in a number of industries including property, retail and tourism. He is also the Managing Director of New African Properties Limited and Deputy Chairman of Furnmart Limited, both of which are listed on the Botswana Stock Exchange. Tobias brings a wealth of experience in a number of key sectors in which the Bank operates and aims to grow.

We are indeed privileged to have Oduetse and Tobias on the Board.

Results

Our 2016 financial results are not merely positive numbers. They are, in fact, strong results. Barclays Bank of Botswana is much like a big tanker, which takes time to turn. But we have certainly turned it and we are on the right course, heading towards even greater success; thanks to the leadership of the Board, our Managing Director, Reinette van der Merwe and her colleagues who continue to do an outstanding job.

We were the receiving Bank in the historic Botswana Telecommunications Corporation Limited (BTCL) Initial Public Offering (IPO) in 2016.

Barclays Bank PLC Sell-Down

In March 2016, Barclays Plc (PLC) announced its intention to reduce its shares in Barclays Africa Group Limited (BAGL) to 20%, or below. It is imperative to emphasise to our stakeholders that this reduction of shareholding by PLC will not take place at the Botswana level, but rather at BAGL level. Consequently, it will not affect the shareholding structure of Barclays Bank of Botswana.Furthermore, as the Board of the Bank, we are staying close to the process to ensure that the sell-down will be conducted in a manner that will not have any unnecessary impact on our stakeholders.

Barclays Bank of Botswana is a company listed on the Botswana Stock Exchange, with an array of citizen owners and 67.82% of its shares owned by BAGL, which is listed on the Johannesburg Stock Exchange. Although the shareholding of BAGL will change as a result of the PLC sell-down, it is important to note that Barclays Bank of Botswana has its own balance sheet, capitalisation, liquidity ratios and its own market reach and spread. Therefore, for the most part, it will be business as usual for Barclays Bank of Botswana and its various stakeholders. I believe that the PLC sell-down presents an opportunity for BAGL and its subsidiaries, including Barclays Bank of Botswana, to form a truly Pan African Bank, equipped to serve the local needs of its stakeholders.

Achievements

Botswana Telecommunications IPO

Our role as the receiving Bank in the historic Botswana Telecommunications Corporation Limited (BTCL) Initial Public Offering (IPO) in 2016 was a significant contribution to this monumental exercise, which saw a record number of Batswana own a stake in the nation's largest telecommunications service provider. I thank not only senior management, but all the individual staff members at our branches across the country, who were relentless in ensuring the success of this mammoth task. I also thank the Government for taking the initiative to open up shareholding in BTCL to Batswana, as it allows for a different type of saving and growth culture within the financial sector, to which we as a Bank will look to contribute.

Human Capital

We have always recognised that to achieve our strategic ambitions, we need to have the right people, with the right skills and expertise. Allied to that is our increasing focus on the retention of such staff. Accordingly, in 2016, we continued to roll out value-added training to build management and leadership capabilities, further supporting our high-performance culture and values. Our investment in people is part of what we stand for. We recognise that we have talent in this country; however, this talent has to be continually harnessed and nurtured. In this way, we continued to send our staff for training internationally, and undertook exchange programmes to other BAGL subsidiaries. Whilst the 2016 financial performance is encouraging, and is indicative of the fact that we have the right people in the right places, we must continually strive to do better. We want Barclays Bank of Botswana not only to be the Bank of Choice for customers, but to also be the employer of choice. We want colleagues who are proud to work for the Bank.

Citizenship

Our citizenship agenda is important to the Board and the Bank as a whole. Accordingly, for several years, we have been investing 1% of our Profit Before Tax towards community development. We have projects that we have evolved over time. Therefore, our Citizenship agenda and Shared Growth Strategy encapsulates our ambitions to contribute to the sustainable development of the communities in which we operate. We aim to bring meaningful change to these communities. The Business Banking team has made steady progress in supporting small and medium sized enterprises by providing finance, as well as business support services. We have among other activities, held several workshops for our Business Club members in an effort to address critical knowledge gaps.

Looking Ahead

Whilst our success in 2016 came from an increased focus on regional corporates and the public sector in our Corporate and Investment Banking business, it is also key to continue to invest in our small business and retail customers. We have a tremendous branch and ATM footprint across Botswana, but we can still do more to build deeper relationships with small and retail client segments. Therefore, the Board and I would like to prioritise focusing on the needs of the ordinary Motswana in our next set of strategic meetings.

Whilst change and innovation are key to sustainable growth, there are certain essentials and basics that do not change. One of these is the building and sustenance of relationships. Thus going forward, we will continue to build new and strengthen old relationships.

I am grateful for the opportunity over the years to have led this great Bank, and to continue to do so.

Thank You

I thank our shareholders, our valued customers, and the management and colleagues of Barclays Bank of Botswana, as well as the Government of Botswana, BAGL and all other stakeholders. Collectively, we have made the Bank what it is today.

On behalf of the Board and the Barclays family, I also want to thank the former Governor of the Bank of Botswana, Linah Mohohlo, who has played a key role in one of Africa's most successful economies, for helping to cement Botswana's reputation as a sound financial services destination. I also once again want to congratulate Moses Dinekere Pelaelo, who was appointed Governor of the Bank of Botswana in October 2016. Lastly, I want to thank my fellow Board members who have given me support in realising the vision of the Bank, as well as the Managing Director, Reinette van der Merwe, for her visionary leadership.

I am grateful for the opportunity over the years to have led this great Bank, and to continue to do so.

Rizwan Desai
Chairman

Managing Director's Report

"The year 2016 has been a year of growth and innovation for Barclays Bank of Botswana."

Reinette van der Merwe
Managing Director

Introduction

The year 2016 has been one of growth and innovation for Barclays Bank of Botswana (the Bank). Together with our regional partners in Barclays Africa Group Limited (BAGL), we placed more emphasis on delivering on our promise to fulfill and exceed customer expectations, as set out in our strategy. Subsequently, our financial results are significantly up in 2016, and in terms of revenue we remain in second position in our market. These achievements and successes are not just ours to celebrate – they are the result of a collective effort and support of our Board, Customers, Colleagues, Shareholders, Regulators, and our Community.

Economic Outlook

Our successes over the past year come against the global economic background of stagnant trade, subdued investment and heightened policy uncertainty. Following a difficult year for the world economy, a moderate recovery is expected for 2017, with receding obstacles for commodity exporters and solid domestic demand for commodity importers.

Fiscal stimulus in major economies might boost global growth above expectations if implemented. However, risks to growth forecasts remain tilted to the downside, stemming from heightened policy uncertainty in major economies.

Global growth for 2016 has been estimated at 2.3% and projected to improve to 2.7% in 2017. Growth in sub-Saharan Africa has been estimated to decelerate to 1.5% in 2016, the lowest level in more than two decades, as commodity exporters adjusted to low commodity prices. However, commodity prices are expected to stabilise, and growth in the region is forecast to rebound to 2.9% in 2017.

Botswana's growth prospects look promising. Real GDP growth numbers for 2016 were much stronger than anticipated closing the year at 4.3%, significantly higher than the projected 2.9%. The increase can be attributed to trade, hotels and restaurants and transport and communications industries which recorded an increase in value added of 13.5% and 5.6% respectively. All other industries recorded a positive growth with the exception of mining and agriculture, which declined by 3.7% and 1% respectively. Real GDP growth for 2017 is projected at 4.2%. The positive outlook is based on the anticipated improvement in the mining sector, and positive growth prospects for the non-mining sectors.

Headline inflation remained subdued in 2016, averaging 2.8%, with a year-end rate of 3%. The declining international oil prices contributed to low levels of inflation in 2016. We expect inflation to gradually rise in 2017, driven by increased fuel prices and pressure on the exchange rate. However, inflation is expected to remain within the Bank's objective range of 3-6%.

In August 2016, the Bank of Botswana Monetary Policy Committee reduced the Bank Rate by 50 basis points due to low inflation and prospects of continued price stability. The prime rate was also reduced from 7.5% to 7% in the third quarter. The Monetary Policy is expected to remain unchanged for most of 2017, as economic growth remains fragile.

P494m

Profit Before Tax (PBT)

We achieved a Profit Before Tax of P494 million.

5%

Balance Sheet

Our balance sheet grew by 5% and our total income by 16%.

Our journey...

1982

30 branches across the country

Business Review

The Bank's performance in 2016 stands in contrast against the global economic backdrop of stagnant trade, subdued investment and heightened policy uncertainty.

Despite all these economic challenges, we achieved a Profit Before Tax (PBT) of P494 million. This represents a 49% growth compared to the year ended 31 December 2015. Our balance sheet grew by 5%, and total income increased by 16%. On a year-on-year basis, the impairment grew by a modest 7% in comparison to the previous year's year-on-year growth of 62%.This can be attributed to our enhanced collections capability and selective credit extension to high-risk sectors of the economy.

Retail and Business Banking (RBB)

Notwithstanding the tough economic environment, the RBB business saw steady improvement in financial performance during the year. This improvement in profitability was as a result of a revenue growth of 11% year-on-year. This growth in income was driven by the launch of new initiatives and products, as well as a focus on selected market sectors. These initiatives included the refurbishment of our mobile banking offering (Strategic Hello Money), the enablement of cardless cash deposits in our ATMs, and paperless onboarding of customers across our 34 branches. Other new products launched in 2016 include youth targeted accounts, the Ignition current account and FutureU savings account. We also introduced the Mobile Point of Sale Machine (mPOS) and business debit card solutions aimed at commercial, small and medium sized clients. In terms of market sectors, we grew significantly in the agricultural sector in the past two years. We do not only provide financing to commercial farmers, but to ancillary businesses such as fertilizer manufacturers, feed lots and related businesses.

Corporate and Investment Banking (CIB)

Income in the CIB segment grew by 30% year-on-year, as a result of our strategy to focus on a few selected market sectors and provide tailor-made solutions. In this regard, we refined our strategy in terms of where we provide funding in the mining sector and how we identify the opportunities in this sector. This culminated in an improved book whilst containing operating expenses, giving us an opportunity to invest in our human capital and systems upgrades.. This gave us an opportunity to invest in our human capital and systems upgrades. Whilst currency markets continued to be volatile, our markets business demonstrated resilience and strong income growth.

Customer Service

Our strategy remains centered on an enhanced customer experience and deepening relationships with clients. The Bank's learning and development agenda was mostly focused on customer service, leadership and technical training. For example, we have aligned our systems and processes to support customer transactions so that interactions between internet banking and mobile banking are seamless. Additionally, we used our regional presence to further extend opportunities to our customers and clients regionally, and positioned our Customer Contact Centres in Centres of Excellence, utilising exisisting expertise and systems. Our retail contact centre now operates 24 hours a day.

Our annual customer satisfaction survey showed positive improvement in Net Promoter Scores (NPS) across the segments: Business Banking was up by 8%, Corporate Investment Banking by 13% and the Retail Business saw a 2% improvement in digital channels.

Our journey to continue reaching out to clients and customers in 2016 led to the enhancement of our Facebook

Key financial highlights are:

Retail and Business Banking revenue **growth of 11%**

A **9% year-on-year increase** in net interest income

Corporate and Investment Banking revenue **growth of more than 30%**

A net year-on-year fee and commission income **increase of 16%**

page, enabling us to drive online conversations with our customers, providing feedback and insights on products and services. We have more than 50,000 followers engaging with us on a regular basis. I believe that this ability to engage with our clients has set us apart from our competitors.

In April 2016, Botswana Telecommunications Corporation Limited (BTCL) successfully listed on the Botswana Stock Exchange (BSE) through an Initial Public Offering (IPO). Barclays Bank of Botswana successfully managed to collect the subscriptions for the IPO as the receiving bank, ensuring that BTCL reached its objective of citizen empowerment through investment. The Bank is proud to have been involved in this significant milestone because BTCL IPO epitomises our ambition of being the bank that helps its customers and community prosper. This resulted in over 325% growth in terms of new Batswana on the Central Securities Depository (CSD) at the BSE. This equated to over 30,000 Batswana, most of them new to investing in shares and participating in another saving platform as part of long term wealth creation. We can proudly say we were part of this historic watershed in the financial wealth creation narrative of Botswana.

System Performance

The Bank has invested substantially in customer relationship management and monitoring systems, as well as new systems in branches. While we are reducing the number of system changes implemented per year, they continue to add to incremental improvements. For example, cutting out the need for customers to fill in forms before approaching the teller has dramatically improved the time that customers spend in queues.

Citizenship

In 2016, we launched our new Shared Growth Strategy, reaffirming our commitment to contributing to the sustained growth and development of Botswana and her people,

Former President of Botswana, Sir Q K J Masire receiving a gift from Barclays Bank Managing Director, Reinette van der Merwe and the Barclays Africa Regional Management Chief Executive, Mizinga Melu.

while delivering value to our shareholders. Shared Growth focuses on enterprise development, education and skills, and financial inclusion. We have published a report documenting some incredible stories from this programme.

Below are a few initiatives that I believe set the tone of what the Bank is doing to help its communities prosper.

- Our **Ready to Work** initiative is an online learning curriculum providing youth with the skills they require to either secure employment or start their own businesses.

A net trading income **increase of 70%**

Return on Equity (ROE) of **22.3%** from 16.9% in the previous year

Significant **one-off transaction** volumes from a few key clients

Cost-to-Income ratio **from 55.2% to 49.2%**

We are grateful for our fantastic team, who give their best across the board.

Our journey...

1986

Ordinary shares in the Bank are issued to employees, Botswana citizens and locally incorporated corporate bodies.

- Our **Madi Majwana** financial literacy radio drama has reached thousands of people across the country, and provides insight and knowledge on money matters.
- **The Barclays FG Mogae Scholarship Fund** enrolled three new scholars in 2016, and continues to provide an opportunity for talented Batswana to pursue a Master's degree. The fund has benefited 37 individuals since it launched in 2008.
- Barclays colleagues continue to play an important role in touching the lives of people in the communities in which we operate. Through their efforts, hundreds of school children from disadvantaged families have received school uniforms and supplies, and young people across the country have been trained in entrepreneurship and money skills. In the past year, more than 85% of staff members participated in citizenship initiatives.

Environmental Focus

In 2016, we continued to heed the government's call to consume electricity and water moderately. We made a concerted effort to conserve our environment by promoting water and energy efficiency in our buildings. We also continued our efforts to promote the conservation of

our environment and wildlife, and in particular the rhino. Our acclaimed Rhino Debit Card allows our customers to contribute to rhino conservation by simply using their cards. This year we made our first donation of P 60,000 from the Rhino Debit Card to the Kalahari Conservation Society (KCS), our implementing partner in driving conservation education for children and youth across Botswana.

Our People

We would not have been able to proudly celebrate a year of growth without our people. We are grateful for our fantastic team, who give their best across board. We continued to focus on building management and leadership capabilities within our ranks during 2016, partnering with the Institute of Development Management International to establish a leadership development programme. This was rolled out to select leaders in the business for four months. We also delivered various technical training interventions to continually build a skills base in the bank's different functions.

Looking Ahead

Our strategy for 2017 and 2018 is to remain focused on the following key elements:

- A strong employee value proposition that will attract, engage and retain the desired talent, to drive exceptional customer experience and competitive business results;
- An embedded customer lifecycle management framework to ensure we attract and retain quality customers, by providing them with solutions that lead to sustainable relations and increased revenue;
- A customer-focused risk approach;
- Automated, efficient core processes with quick turnaround times, while maintaining a strong control environment; and
- An optimised branch network that is efficient, relevant, and has a clean look and feel.

The Barclays PLC Sell Down

In March 2016, Barclays PLC announced that it was reducing its 62.3% stake in BAGL to minority shareholding of less than 20%. Since then, Barclays PLC has sold 12.2% of its shares in BAGL, reducing its shareholding to 50.1%. The share sell-down does not change BAGL's ambition to be a leading, independent provider of financial services in Africa. Rather, it gives BAGL an opportunity to build a Pan African bank focused on providing local solutions to its valued customers, including our customers in Botswana. Our parent company, BAGL, continues to work with Barclays PLC on arrangements for operational separation for the two businesses. Stakeholders, including the regulator, colleagues and customers, are kept informed about the sell-down continuously.

Conclusion

The Bank has been around for more than 66 years in Botswana, so much that it is part of the fabric of society. In the past 10 years, there has been an upsurge in smaller, regional competitors, but we are uniquely positioned – and we will continue to capitalise on our strengths.

The Bank remains committed to Botswana and Batswana, and is optimistic about the future and opportunities that lie ahead.

On behalf of my management team, I would like to thank our Chairman, Mr. Rizwan Desai and the Board, for their unwavering support and for guiding the company through turbulent waters over the past few years. I would also like to thank all our customers and shareholders for their continued patronage.

The statement I made in my previous report still holds true: Barclays Bank of Botswana is committed to building a future, and helping our customers and country to prosper. Our destiny is Botswana, and our business is one of shared growth. Our strong business success in 2016 has set the stage for us to continue succeeding in 2017.

Reinette van der Merwe
Managing Director

Reinette van der Merwe
Managing Director

Reinette was appointed Managing Director of Barclays Bank of Botswana in 2013. She has more than 20 years' experience in the banking industry, having started her career at First National Bank South Africa. She later joined the Internal Audit team, where she was promoted to Head of Internal Audit at Discovery, part of the FirstRand Group. In 2007, she joined Absa and held a number of key roles including: Head of Audit: Retail and Commercial, Chief Internal Auditor, and Chief of Staff at Absa Private Bank. Prior to joining Barclays Bank of Botswana, she was Chief Internal Audit Executive for Barclays Africa Group Limited.

Reinette is a Chartered Accountant CA (SA) with an M.Com in Business Management and a Master of Philosophy for Chief Internal Auditors.She is also a qualified CFP (Certified Financial Planner). Reinette recently completed an Advanced Management and Leadership Programme at Said Business School, Oxford University.

Mumba Kalifungwa
Finance Director

Mumba was appointed Finance Director of Barclays Bank of Botswana in 2015. He has over 20 years' post qualifying experience gained in Banking, Auditing, Taxation and Financial Management. He started his career at Coopers & Lybrand Chartered Accountants in 1995, and later joined the Zambia Revenue Authority prior to joining Barclays Bank Zambia as a Financial Controller. Prior to joining Barclays Bank of Botswana, he was the Chief Financial Officer for Barclays Bank Zambia PLC.

Mumba is a fellow of the Chartered Institute of Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA), Zambia Institute of Chartered Accountants (ZICA), and also holds a Masters in Business Administration from Herriot Watt University of Scotland. He is currently serving as a Board member of the Chartered institute of Management Accountants (CIMA) Africa Board. communication.

Brighton Banda
Consumer Director

Brighton joined Barclays Bank of Botswana as Consumer Banking Director in 2014. He has more than 16 years' experience in Retail banking at middle and senior management roles with focus on retail lending products (personal loans, mortgages, vehicle loans and credit cards), credit risk and credit operations. He has extensive knowledge of the African markets, having worked in 4 other countries; namely: Zimbabwe, South Africa, Kenya and Nigeria. Prior to joining Barclays Bank of Botswana, he was Head of Retail Lending for Barclays Africa Group Limited.

Brighton has an Economics (Hons) Degree from the University of Zimbabwe.

Keabetswe Pheko
Chief Operating Officer

Keabetswe joined Barclays Bank of Botswana in 2010 as Head of Core Banking Applications. She held the position of Head of Technology overseeing the execution of bank projects, programmes and initiatives aimed at ensuring the business operates in a stable environment. Keabetswe has gained vast experience in the banking and telecommunication industry over the past 10 years.

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

Jeffrey Davis
Chief Risk Officer

Jeffrey was appointed Chief Risk Officer in 2014. Prior to joining the Barclays Bank of Botswana team, he was Associate Credit Director supporting the African Corporate Credit Function from Barclays Head Office in London. His credit experience includes assignments in Ghana and Mozambique, as interim Corporate Credit Director and Chief Risk Officer respectively.

Jeffrey holds a Bachelor of Arts in Finance from Michigan State University and Master of Business Administration from Ohio State University.

Kgotso Bannalotlhe
Head of Corporate & Investment Banking

Kgotso joined Barclays in November 2012 as the Treasurer and Head of Markets. He has more than 10 years' experience in various roles in the Treasury environment, having worked in the back office, middle office and sales roles. Prior to that, he had worked at First National Bank and at Standard Chartered Bank for a total 10 years. Kgotso was appointed Head of Corporate and Investment Banking in 2015.

Kgotso holds a Bachelor of Commerce Degree from the University of Melbourne, and an Executive Master in Positive Leadership and Strategy from IE University. He has completed several different internal leadership programmes throughout his career.

Our destiny is Botswana, and our business is one of shared growth. Our strong business success in 2016 has set the stage for us to continue succeeding in 2017.

Lesley Bradley
Head of Client Coverage

Lesley joined Barclays in 2003 as Head of Cash Management, and has held various roles at local and regional level. She was appointed Head of Client Coverage within Corporate and Investment Banking in June 2015. She is a seasoned banker, with 25 years of experience gained from working for reputable international banks.

Lesley holds a Bachelor of Commerce from University of Botswana. Lesley has successfully completed the Executive Development Programme with the University of Stellenbosch Business School. She has also completed various leadership programmes with renowned institutions.

Tshepo Nkoane
Treasurer

Tshepo joined Barclays Bank of Botswana as Country Treasurer in 2015. He has 15 years' experience in banking at middle and senior management roles with focus on treasury and risk management principles. Prior to joining Barclays Bank of Botswana, he was Head of Barclays Regional Capital Management for 2.5 years, which required an understanding of the regulatory landscape relating to the 12 Markets where Barclays Africa Group limited has presence.

Tshepo is a qualified Chartered Account (SA), with a Master of Business Administration from Gordon Institute of Business Science (GIBS), and holds a Honours in Bachelor of Accounting Science from University of South Africa (UNISA), along with a Diploma in Accounting and Investment Management from the University of Johannesburg.

Kealeboga Bojosi
Head of Legal

Kealeboga joined Barclays Bank of Botswana as a Legal Advisor in 2012 and was appointed Head of Legal in 2015. Between 2000 and 2006, he was in private practice, specialising in commercial and civil litigation, corporate and labour law. Whilst in private practice, he also taught Banking Law, Company Law and Contract Law at the University of Botswana. Prior to joining Barclays Bank of Botswana, he spent 6 years in the United Kingdom where at various times; he was a Senior Lecturer in Law (Commercial Law) at a London University, as well as an International Lawyer (Finance) at a commercial law firm in London.

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

Titose Musa
Head of Compliance

Titose joined Barclays Bank of Botswana in 2013 as Head of Compliance with 18 years banking experience. She has extensive experience in Organisational Strategic Alignment, Risk Management, and Performance and Financial Management Change, as well as People Management. Prior to joining Barclays, she had been with Standard Chartered Bank for 14 years, where she held several senior positions including Cluster Head of Operational Risk - Southern Africa, Head of Operational Risk and Head of Marketing and Branch Management.

Titose holds a Bachelor of Arts in Humanities from the University of Botswana and Master of Science in Strategic Management from the University of Derby in the United Kingdom.

Duduetsang Chappelle-Molloy
Head of Marketing & Corporate Relations

Duduetsang joined Barclays in 2016 as Head of Marketing and Corporate Relations. She has 10 years banking experience. She brings to the role a wealth of experience both functionally and in the industry, having held several roles in marketing and communications in the telecommunications sector and in the banking industry. Prior to joining Barclays, she worked at Stanbic Bank Botswana as Head of Marketing and Communications. While at Stanbic Bank, she served as Acting Regional Head (West Africa) for Marketing and Communications at Standard Bank in South Africa. Before joining Stanbic bank, she worked as Marketing Communications Executive at Orange Botswana.

Duduetsang holds a Masters of Business Leadership from University of South Africa, and a Bachelor of Science Degree in Broadcast Journalism from Emerson College, Boston, MA, USA.

Namenda Maruza
Acting Head of Human Resources

Namenda joined Barclays Bank of Botswana in 2008 as Human Resource (HR) Governance Manager and was appointed Acting Head of Human Resources in 2016. She has held various roles within Barclays including cluster HR governance manager covering Zambia, Zimbabwe and Botswana, Head of Governance and Employee Relations, Human Resource Business Partner and Senior HR Business Partner. Prior to joining Barclays Bank Botswana, she was with the Directorate of Public Service Management where she commenced as a personnel officer and departed as the Assistant Director of Compensation and Benefits, a role she held before joining the Botswana Unified Revenue Service (BURS) as a Compensation and Benefits Coordinator.

Namenda holds a Bachelor of Arts Degree in Social Sciences, Bachelor of Arts Honours Degree in Labour Relations (UB), Master of Arts in Labour Relations and Human Resource Management (Nelson Mandela Metropolitan).

Barclays remains committed to Batswana and is optimistic about the opportunities that lie ahead.

Financial Director's Report

"Despite severe economic disruptions, such as slowing economic growth and a generally slow rebound in commodity prices, the Bank delivered excellent overall performance for the year."

Mumba Kalifungwa
Finance Director

Overview of 2016

The Bank delivered excellent overall performance for the year, despite severe economic disruptions such as slowing economic growth and a generally slow rebound in commodity prices. The Bank has continued to make progress in growing key business segments in the various sectors of the economy.

Statement of Comprehensive Income

The Bank achieved a 49% growth in profit before tax in comparison with the year ended 31 December 2015, growing from P332 million to P494 million. This strong performance was mainly driven by sustained revenue growth in our Retail and Business Banking (RBB) segment, which grew by 11%, and significant growth of 30% in our Corporate and Investment Banking (CIB) segment.

Net interest income increased by 9% year-on-year, mainly driven by balance sheet growth and optimal utilisation of funding sources, which resulted in a net reduction of 26% in our interest expense year-on-year. Net fee and commission income increased by 16% year-on-year. This growth was driven mainly through our RBB segment, where we had an increase in transactional volumes and activity fees from our various digital channels. Net trading income increased by 70% year-on-year, resulting from increased volumes through client acquisition and the execution of cross-sell opportunities during the year.

Operating costs were well contained, with the business achieving a cost-to-income ratio of 49% for the year ended 31 December 2016, compared to 55% in the prior year. This is in line with our continued focus on managing costs through various cost control programmes and rationalisation activities. Our strong revenue growth equally contributed to the improved cost-to-income ratio.

On a year-on-year basis, our impairments grew by a modest 7% in comparison with the previous year. This positive performance is attributable to our enhanced collections capability, and conservative credit extension to high-risk sectors.

During the year, management took a prudent step in accelerating the recognition of retail impairment against loans granted to employees of one of our mining clients.

Financial Highlights

49% ↑

Profit before tax

Profit before tax increase of 49%

51% ↑

Dividend payment

Dividend payment growth of 51%

49% ↓

Cost-to-income ratio

Cost-to-income ratio of 49%

5% ↑

Balance sheet

Balance sheet growth of 5%

22% ↑

Return on equity

Return on equity of 22%

Removing the impact of this significant event, our impairment would have reflected a year-on-year reduction of 50%. Consequently, on a normalised basis, our overall loan loss rate would have been at 1.2% in comparison with the previous year's loan loss rate of 2.4%. Due to acceleration of provisions for impairment, our loan loss rate was 2.7% compared to 2.4% in the previous year.

Statement of Financial Position

As we continue to focus on delivering on our strategy, we were able to realise overall balance sheet growth of 5% year-on-year. The major components of our balance sheet remained largely stable, with customer loans and liabilities making up the significant components of our balance sheet.

Based on the year-end position, our loans and advances to customers decreased 4% year-on-year. However, this decrease was mainly driven by the early settlement of a loan facility by one of our mining clients. Excluding the effect of the early settlement, on a normalised view, our customer assets grew by 3.2% year-on-year. We continued to experience a positive growth trajectory in our RBB segment.

Deposits due to customers increased by 2%, largely driven by positive flows from our CIB business segment, which drives the significant portion of our funding.

Capital

Our regulatory capital position was at P1.9 billion, representing a capital adequacy ratio of 19.8% against the regulatory minimum of 15%. The Bank remains well capitalised to support future balance sheet growth, and will continue to review its capital position in line with capital demand and regulatory changes.

Key figures:	2013	2014	2015	2016
*Earnings per share from continuing operations **(thebe)***	34.03	39.4	30.6	45.68
*Dividend per share **(thebe)***	23.5	23.5	19.4	29.3
*Revenue **(P'm)***	1,271	1,277	1,286	1,489
*Fee income to total revenue **(%)***	21	23	21	21
*Cost-to-income ratio **(%)***	53	55	55	49
*Return on equity **(%)***	19.5	23.2	16.9	22
*Loans and advances to customers **(P'm)***	7,337	8,133	9,783	9,376
*Deposits to customers **(P'm)***	9,282	8,964	11,051	11,219

Our journey...

1990

The first bank to offer ATM services

Dividend

A final dividend of 14.669 thebe per share was declared for the year ended 31 December 2016. The final dividend declared of P125 million brings the full year dividend payment to P250 million for the year ended 2016, from P165 million in the year ended 2015. This payout represents a growth in dividend payments of 51%, which is in line with our desire to sustain dividend payments while sustaining our capital requirements.

Our regulatory capital position was at P1.9 billion, representing a capital adequacy ratio of 19.8% against the regulatory minimum of 15%.

Corporate and Investment Banking

Having laid a solid foundation and structure in Corporate and Investment Banking (CIB) in 2015 where, among other initiatives, we separated Business Banking from Corporate Banking, the team focused on key strategic sectors and clients.

This allowed us to focus on the execution of our strategy, which adopts a client-centric approach backed by strong products and services. Through this approach, we continued our journey to become the preferred banking partner to top tier corporates in Botswana. Our strategic focus was to drive assets and assist clients to deliver their growth aspirations within Botswana and the region.

The business registered strong growth achieved through our asset lead strategy, which saw us book significant, high-value transactions especially in the natural resources sector. Client retention was also pivotal in delivering this performance, as we were able to get closer to our clients in order to understand their needs and structure innovative solutions.

Similarly, significant effort was placed on improving our transactional banking platforms, and we remain committed to ensuring that our clients' daily banking needs are met through the use of these platforms.

From a human resources perspective, we brought strategic skills into the business to drive our strategy and deliver specialist value for the clients.

A few initiatives were put in place to enhance efficiencies through re-engineering and automating processes, while maintaining a strong control environment. This resulted in a cost reduction.

The growth of the diamond market in 2016 translated to increased activity on our Diamond desk, and invariably propelled the growth of our trade book.

Our markets business also delivered a sterling performance, which was achieved through capturing a greater share of transactions in the market, as well as the seamless delivery of our risk management solutions.

Despite a further bank rate cut in 2016, CIB continued to drive transactional banking through the various channels that attracted the right client deposits. Our optimum product mix also helped us to mitigate any possible rate cut impact. The quality of our loan book continued to demonstrate resilience in a tough economic environment that is characterised by high levels of impairments. During the period under review, CIB registered a decline in impairment provisions relative to the prior year. This is further substantiated by a very low impairment-loan book ratio. We seek to do all our lending business within the minimum credit and capital footprint we can achieve, structuring credit with several mitigation strategies and partnerships.

Looking Ahead

In 2017, we will continue to focus on the key GDP drivers of the economy, with intensified efforts on our chosen sectors, which include the public sector, diamond sector and regional corporates.

Our journey...

2000

Duncan Mlazie appointed first local Managing Director

The growth of the diamond market in 2016 translated to increased activity on our Diamond desk, and invariably propelled the growth of our trade book.

Retail and Business Banking

Operating Environment

The economic environment continued to be tough during 2016 as highlighted by low growth in formal employment, rising household indebtedness and subsequently an increase in non-performing loans. Not withstanding these economic challenges, we still made significant progress in delivering our strategic objectives as we become the Bank of Choice in the market.

Business Performance

The Retail and Business Banking (RBB) business witnessed steady improvement in financial performance during the year, with Profit Before Tax growing 44% year-on-year. This improvement in profitability was driven by net interest income, which registered an 11% year-on-year growth. Net interest Income growth emanated from a year-on-year decrease in interest expense, which was driven down by changes in the composition of our deposits, as well as strong asset growth in Business Banking, which contributed positively to interest income.

Fee income registered double digit growth, reflecting our improved ability to boost transactional volumes through cross-sell of existing products, as well as through the introduction of new and improved products and services. Impairments for the year grew 10% driven largely by the impact of the retrenched employees for one of our mining clients. This impact was cushioned by proactive efforts to manage underlying impairments through an improved collections capability. Various interventions were undertaken that improved the overall quality of our loan book and resulted in a marginal contraction in our retail loans and advances compared to the prior year.

As we move into the future, we remain cognisant of the prevailing economic challenges facing the banking sector. This calls for continued exercise of caution in our approach while exploring, and embracing opportunities within our chosen segments.

Retail Banking

Our strategy continues to be centred on enhanced customer experience and deepening relationships with customers, while remaining committed to look out for new ways of improving customer experience and satisfaction. This is demonstrated through our enhanced digital solutions, improved bancassurance offerings and optimised branch network.

Digital

We refreshed our mobile banking offering (Hello Money) to make it more user friendly, enabling customers to self-register and perform transactions on their mobile phones. We also added a third mobile operator to the platform, to provide more choice for our customers.

Cardless cash deposits were also enabled on 75 of the Bank's ATMs, making it possible for non-Barclays users to deposit cash into third-party accounts held at Barclays Bank of Botswana. We reduced average customer on-boarding times across our branches to less than 20 minutes, giving customers the same on-boarding experience as is offered on the mobile tablet.

Product Launches
We continued to launch innovative products, to offer our customers more choice. In this regard, we launched the Ignition account, which is a current account targeted at the youth segment. It offers lifestyle benefits and rewards tailored specifically for the youth. The complimentary savings account to the Ignition account, FutureU, was launched at the end of 2016, completing the proposition to this growing segment of customers.

Our popular group savings account, Motshelo, was enhanced through a partnership with Citizen Entrepreneurial Development Agency (CEDA), giving group members access to funding for their projects through loans from the institution.

We further improved our customers' payment options by launching the mobile Point of Sale ("mPOS"), which enables entrepreneurs and small business owners to accept card payments wherever they provide their services. The devices are fully portable, and can be carried around in one's pocket.

Bancassurance
Bancassurance continues to be an important contributor to our fee income. The focus has been on stand-alone life and short-term products, where we have registered good revenue growth.

Network Optimisation
As part of our optimisation exercise, we successfully merged three of our branches into existing larger branches in order to provide customers with a wider range of products and services. Accordingly, the Ramotswa and Tlokweng branches were merged with the Game City and Industrial branches respectively, while Mogoditshane branch was merged with Broadhurst branch.

Your mPOS fits in your pocket and comes with a battery, so that wherever your business takes you, you can be sure to get paid.

Mrs. Gopolang Kesolofetse
Stocksure Holdings - Cleaning Services

Stocksure Holdings (Pty) Ltd was founded in 2008 and it's now a fully operating cleaning services company. Their relationship with Barclays helped them to manage risk, put their books in order, and re-invest profits back into the company.

Business Banking

Business Banking was involved in various client interventions during 2016, including SME workshops in Gaborone, Francistown, Palapye, Lobatse and Kasane were well received, not only by our clients but the broader business community. In the more challenging economic environment in which we operate, we have focused on staying close to our clients and making sure we provide the correct solutions. The client satisfaction surveys that we conducted in the year showed increased satisfaction levels around services delivered.

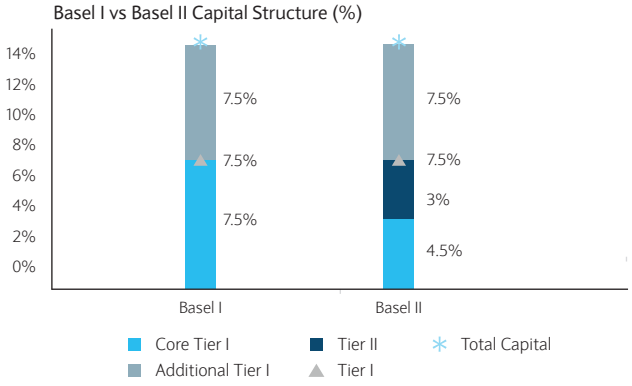
Looking Ahead

We will continue to deliver consistent world-class service to our customers, by offering differentiated propositions while leveraging our digital investments to reduce the cost of serving our chosen segments. Our people development and multi-skilling remains critical to the success of our strategy. Business Banking will be a continued area of growth for the Bank. As a business, we believe that continued service delivery improvement, as well as product quality and diversity, will assist us in growing our business both organically and through acquisition of new clients. Our strategic direction remains in place.

Treasury and Balance Sheet Management

Treasury is a division of the Bank that is independent of the client-facing segments. This structure ensures that a level of transparency and discipline is applied in the allocation and pricing of the Bank's financial resources. The Bank's financial resources are defined as capital, funding and liquidity, which together with the Board approved risk appetite, are important in the achievement of the stated balance sheet growth and return targets. Furthermore, Treasury's mandate is streamlined with strategies formulated by client-facing segments to deliver sustainable shareholder value and dividends.

The financial performance of the Bank in 2016 was underpinned by a robust balance sheet, a strong capital position, healthy funding and liquidity position and sound credit asset decisions driven by prudent risk appetite. The Bank of Botswana, officially rolled out the Basel II Framework at the beginning of January 2016, which aimed to strengthen and improve the resilience of banks by redefining the qualifying capital instruments and introducing a three tiered capital structure (Core Tier I, Tier II and Total Capital), as reflected in graph below:

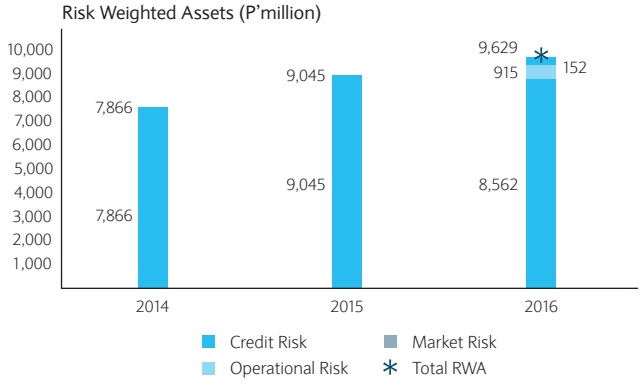


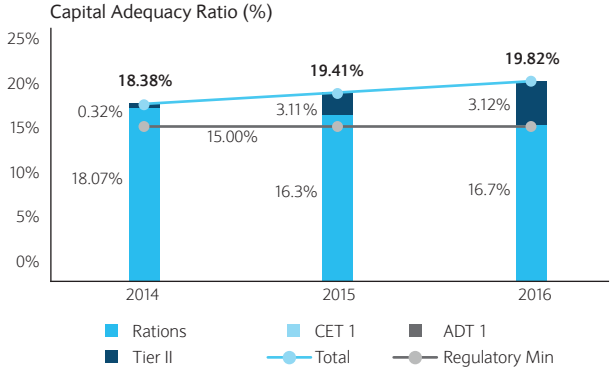
In addition the Basel II Framework enhanced the calculation of risk weighted assets (RWA) through differentiation between Retail and Commercial credit risk on the bank's balance sheet, introduced operational risk and improved the calculation of market risk. Barclays Bank of Botswana transitioned into the Basel II regime smoothly, as reflected by the strong capital position at December 2016.

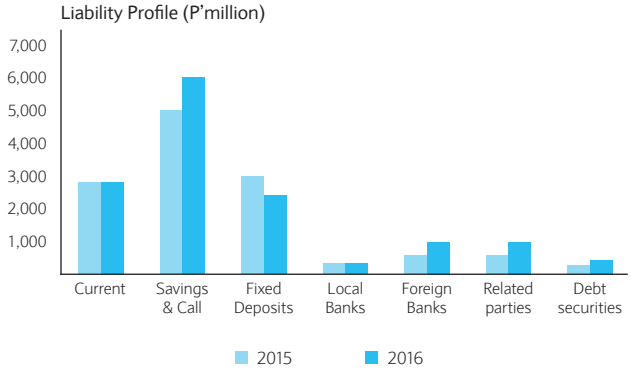
Capital Adequacy Position

The Bank maintained a strong capital position throughout 2016 ending the year at 19.8%. Capital requirements of the bank are assessed on a forward-looking basis, with levels and composition of capital determined by taking into account profitability, sustainable dividend outlook, balance sheet growth and mix, regulatory and accounting changes. The Bank manages capital at an internal target that includes a board approved buffer, which is set after considering other external issues that could impact capital levels and stressed scenarios.

The Bank actively managed capital composition and consumption through its Balance sheet management initiatives focusing on risk weight assets (RWA) optimisation during 2016. In anticipation of the 2016 capital requirements and an optimal structure, the bank issued P250 million subordinated debt that meets the new Basel II requirements.







Liquidity and Funding Position

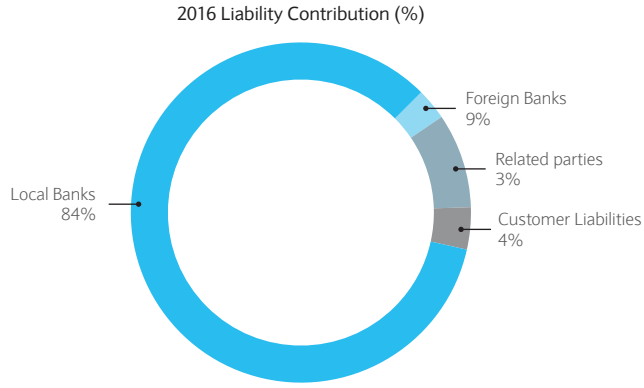
The unpredictability of the funding markets requires banks to explore strategic options of securing their credit standing, allowing access to wholesale markets. Treasury's objective is to optimise the funding profile of the bank within structural and regulatory constraints to ensure efficient and sustainable operations, whilst taking consideration of the liquidity risk across various client facing segments.

The Bank's risk assessment process is used to determine appropriate liquidity buffers, which are held in liquid assets as protection against unexpected events or market disruptions. The quantum and composition of available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of available liquidity resources. In addition, adaptive overlays to liquidity requirements are derived from stress testing and scenario analysis of the cash inflows and outflows related to business activities.

The Bank closed the year with a healthy funding and liquidity position as liquid asset ratio (LAR) of 27.7% (2015: 23.1%) was well above the regulatory 10% requirements and the internal target, in addition the regulatory loan to deposit ratio (LDR) was at 88% (2015: 98%).

The Bank was able to reduce the cost of funding year on year by 26% through optimising funding profile and targeting cost efficient liabilities, even on the back of higher liquid asset ratio.

The Bank liabilities were up by 2%, however, the construct remained relatively similar, with fixed deposits coming down by 18% as they are considered a costly form of funding,



whilst saving and call accounts were up 14%. Furthermore, related parties liabilities increased, mainly to support the foreign currency denominated lending. The banks liability continues to be dominated by customer liabilities.

Looking Ahead

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

The year ahead is expected to be characterised by a low interest environment, increased liquidity challenges and embedding of Basel 2 principles with focus on market reporting. Further containment of funding costs will be vital in mitigating the impact of short term asset placements and negative carry cost. The introduction of IFRS 9 in 2018 will require banks to understand the impact on capital position and pricing of assets.

Citizenship Report

Barclays Bank of Botswana is a reputable and responsible financial institution that seeks to ensure the sustained development, growth and prosperity of Botswana and her people. Over the years, we have delivered impactful programs that have changed the lives of thousands of people in Botswana.

As part of our commemoration of Botswana's 50-years of independence, we have focused the report to reflect the Bank's achievements in relation to the Citizenship Agenda. Our journey has been exciting, humbling and challenging, and yet we remain committed to developing innovative programs that will address the critical needs of Batswana. Our Citizenship Agenda provides the framework through which we engage with the communities in which we operate. It covers all aspects of our operations, including our colleagues, clients and customers, and the environment in which we live.

In 2016 we launched our Shared Growth Strategy that details the specific areas that we seek to address as a business. The Shared Growth Strategy was launched in Kanye village and the Minister of Youth Development, Sports and Cultural Development, Honorable Thapelo Olopeng officiated at the event.

The Shared Growth Strategy has three pillars that comprising of Education and Skills Development, Enterprise Development and Financial Inclusion. These will enable us to address critical issues of unemployment, the sustainable development of small and medium enterprises and providing previously unbanked people with access to financial services. Our efforts to promote inclusive growth, and specifically financial inclusion, is evident in the work that we have done in our retail business; in particular where we have launched products that cater specifically to those that have not benefitted from financial services in the past.

Education and Skills Development

Ready to Work

Ready to Work is an initiative founded by the Bank that aids young people in their transition from education into the world of work, whether it is self-employment or employment. The initiative, which targets young people between the ages of 16 to 24, provides access to digital and face-to-face learning curriculum to develop their work, people, money and entrepreneurial skills. Young people across Africa will have the option of completing two tailor made Ready to Work learning pathways. One prepares them for the world of paid employment, whilst the other builds their knowledge of starting and running a small business. The main objective is to better equip them with the skills that they need to secure employment, or successfully run their own business.

In an effort to ensure that we reach youth that do not have access to the internet or computers, the Bank has contracted Project Concern International and Stepping Stones International to implement Ready to Work in various locations across Botswana. The Bank has partnered with both organisations over the years to deliver structured programs that address employment, entrepreneurship and life skills.

Project Concern International (PCI) is an international development organisation that has been operating in Botswana for several years in partnership with indigenous Non-Governmental Organisation (NGO) to improve the socio economic status of disadvantaged communities with a particular focus on youth.

Stepping Stones International is an NGO that seeks to unlock the potential of vulnerable youth between the ages of 12 and 25 through holistic development, strengthening of families and activating sustainable opportunities to become self-sufficient. Stepping Stones International implements and runs various programs including leadership training, income generation and psycho social counselling.

To date, we have invested more than P 3 700 386 in the implementation of Ready to Work in Botswana. The programme is being implemented by our partners in Maun, Francistown, Bobonong, Selebi Phikwe, Molepolole, Mochudi, Good Hope, Ghanzi, and Gaborone. The focus has been on out of school youth, students at vocational institutions, tertiary institutions and some senior secondary schools. During the period under review 2,724 youth graduated from the face to face implementation of Ready to Work initiative. Moreover, 23 youth-owned businesses are being supported in Maun to ensure that they transition into sustainable enterprises that can create employment.

Ready to Work will continue to be the focus of the Education and Skills Development pillar of our Shared Growth Strategy.

Barclays F.G. Mogae Scholarship Fund

The Barclays F.G. Mogae scholarship fund began in 2008, in honor of the former President of Botswana. In 2016, the bank awarded scholarships to three deserving Batswana who will be studying at the University of Botswana. It has been exciting to witness the development of our scholarship recipients, excelling in their careers.

Over the years, the Bank has supported students to pursue masters in various fields of study including Business Studies, Environmental Science, Education, Economics, Agriculture, Mathematics, Library Studies and the Social Sciences. Our scholarship recipients are now working in various industries including financial institutions, higher education, research and law.

Madi Majwana with Maitisong Theatre

The Madi Majwana, launched on World Literacy Day in 2014, is a financial literacy radio drama that has gained popularity over the years. It continues to achieve resounding success and has established a large following. In 2016 over 250 000 people listened to the drama which aired on four national radio stations, Gabz FM, Yarona FM, Duma FM and RB1. Madi Majwana has provided Barclays with an innovative platform to discuss issues of money and its impact on our daily lives. The lessons are brought to light by several characters who are facing numerous challenges in their personal and professional lives. The show has created employment and imparted skills and opportunities for many young Batswana; from this project, we are building careers as well. Through Money Matters Financial Services, some of our actors are now qualified debt counselors.

The evolution of Pula Money Matters into Madi Majwana illustrates how the Bank has been able to partner with organisations to ensure that more people are able to understand the financial landscape, and manage their finances, taking into consideration feedback from the public.

Colleague Volunteering

Our colleagues are the backbone of our Citizenship Agenda providing much needed skills and education in the areas of business management and financial literacy.

In 2016, more than 85% of staff volunteered their time and skills reaching over 10,000 children and youth. The majority of the young people participated in skills development sessions, including financial literacy and entrepreneurial

The Shared Growth Strategy was launched in Kanye village where the Minister of Youth Empowerment, Sport and Culture Development, Honorable Thapelo Olopeng officiated at the event.

skills development. In addition to skills based volunteering, colleagues engage in numerous activities that make a marked impact on the lives of orphaned and vulnerable children and youth. These activities include the development of vegetable gardens and orchards, reading and story- telling sessions, refurbishing of libraries as well as environmental awareness and clean up campaigns.

Moreover, colleagues engage in fundraising activities to support various causes in their respective communities. The funds are matched by the business enabling colleagues to make a greater contribution. Colleagues engage in community activities throughout the year, in many instances following the calendar of the United Nations International Days of Commemoration. International Women's Day, World Environment Day, the Day of the African Child, Africa Day, World Literacy Day and World AIDS Day are some of the more popular, where colleagues have organised activities to educate children and youth in their respective communities.

The 'Make-A-Difference Day', campaign which takes place over a month, is the highlight of our colleague volunteering program. The Bank spent P 500,000, and over 60 projects were implemented. In most cases, colleagues organise activities that will enable them to transfer their skills and knowledge. This included Ready to Work sessions on employability, and money skills as well as computer literacy. Other projects include vegetable gardens and orchards for schools, refurbishment of libraries and health awareness sessions.

Environmental Conservation

The Bank understands the responsibility that comes with running an operation that is bound to impact the natural environment. Our efforts to effectively manage our impact reflects in our working environment, and the progress we have made in becoming a paperless bank. Environmental conservation is one of the key issues covered under our Citizenship Agenda, and we will continue to play an active role in this area.

Our work with the Kalahari Conservation Society continued in 2016, with the implementation of environmental education and money skills program for Anti-poaching officers and students. During the year, 170 anti-poaching officers and 797 students were trained in rhino conservation.

Rhino Debit Card

Barclays Bank of Botswana launched the Rhino Debit Card in 2015, an effort to sustain measures being made in environmental conservation. The card provides our customers with an opportunity to support conservation efforts by simply swiping their debit cards at a Barclays Point of Sale (mPOS) machine, and a percentage of income earned on the card is donated to the Rhino Conservation Fund.

In 2016, the Bank donated P 60,000 from the Fund to the Kalahari Conservation Society to support their educational programs.

The Rhino Conservation Fund will continue to make a difference to conservation efforts in Botswana, and is an excellent illustration of our Shared Growth strategy. It recently won the Barclays Africa Citizenship Award in Johannesburg, South Africa, having been recognised as an innovative product that offers customers and clients an opportunity to get involved in one of the most pressing challenges of modern times.

Sponsorships

Sir Ketumile Masire Foundation - SKMF

The Bank has been a proud partner to the Sir Ketumile Masire Foundation since 2013, providing financial and technical support to the youth leadership program. The Bank recognises that leadership and the development of youth into good leaders is critical for the long term sustainability of Botswana.

Through this partnership, Barclays has supported the promotion of critical leadership skills for the youth through the annual "Youth summit on Leadership Governance," and the skills development workshops held in Francistown and Gaborone. Barclays colleagues have been an instrumental part of this partnership, providing the youth with mainly money skills training.

Kabelano Trust Fund – Charity Spectacular

In 2016 the Bank donated the funds raised from the 2015 Kabelano Charity Spectacular to organisations that are working with children living with disabilities. Barclays appreciates the difficulties that parents and families have in raising children who are challenged with physical and mental disabilities. In many instances these families depend on organisations that have been established to assist in caring for their children. Such organisations depend on donations to carry out their work, as they do not have the means to generate an income for themselves.

The Barclays Kabelano Charity Spectacular has donated P 1,150,000 over the past three years.

Kuru Development Trust

The Kuru Dance Festival has provided the Bank with an opportunity to support and promote the celebration of the San culture. The festival, which is organised by the Kuru Development Trust, has taken place for seventeen years, and is a cultural celebration that demonstrates the deep seated appreciation and respect that the San have for their culture and tradition. The Bank has been a proud sponsor of this event since 2015.

Over the years, the Kuru Dance Festival has incorporated dances from various parts of Botswana, as well as other southern African nations. It has grown substantially and become an important source of revenue for the community of D'Kar and Ghanzi. The festival supports the generation of income for hotels, lodges, food retailers, as well as arts & craft. The festival also contributes to the maintenance of The Trust's cultural center, museum and Dqae Qare game farm.

Our journey...

2010

We built 32 houses for 30 families in Moshaneng

In 2016, more than 85% of colleagues volunteered their time and skills reaching over 10,000 children and youth.

Terms and conditions apply.

Financial Inclusion

Motshelo Account

Our Motshelo product offering provides previously unbanked populations with an opportunity to save. It was created to provide a solution to the risks faced by informal group savers, and for them to have a safe formal and reliable account, in which their savings are stored. The exceptional feature about this product is that it still captures the essence of Motshelo groups, fostering social relations, while working towards a common goal of saving with the intention to accelarate interest. It is an initiative that will definitely improve the lives of Batswana and inspire as well as promote financial inclusion and facilitates community development.

The Bank opened an additional 1,738 accounts in 2016, and since the launch of the product in 2012, we now have 5 676 accounts with a value of over P11 million.

In 2016, we established a partnership with Citizen Entrepreneurship Development Agency (CEDA) to assist in the growth, and development of small businesses who wish to use their Motshelo account as security. The Motshelo account has allowed the informal sector the opportunity to access financial services, and improve their economic activities. CEDA created the Mabogo Dinku product to cater to their clients who are running micro enterprises, and require working capital and small asset finance.

Barclays will continue to focus on the Shared Growth strategy over the next several years, and continue to develop innovative solutions to the challenges that we face as a society. Our commitment to the sustainable development of Botswana remains strong, and we will endeavor to deliver programs, products and services that will make a substantial difference on the lives of the people of Botswana.

Our journey...

2012

Launched a group savings account called Motshelo Savings account

Risk Review

Looking Back

Despite the occasional experience of macro-economic challenges associated with commodity super-cycle fluctuations, the Bank performed well in executing its dual-risk mandate of business enablement, and growth facilitation through protection of customer savings.

Part of the Bank's commitment to customers involves continuously improving the customer borrowing experience. The Bank embarked on substantial internal change, which saw greater investment, training and resource allocation toward enhancing risk productivity. This transformation has resulted in faster loan application turnaround times, and a better and simpler borrowing experience for customers.

Characteristic commercial challenges in the mining sector partially offset what was, overall, an exceptional 2016 story in consumer impairment performance. The Bank continued to execute on its long-term collections and recovery strategy, which has seen material improvement in collections performance. We have operationally pulled the borrowing life cycle closer to the centre of the organisation, where it is faster and easier to respond to customer needs, especially households experiencing a period of financial difficulty.

The Bank has experienced a very sound year in its lending activities with small and medium business customers, as well as with larger corporate and investment banking business customers. Loan growth was robust in the year, exceeding internal expectations. Wholesale impairment performance proved better than expected throughout the year, with continued build-out of franchise capabilities, which ranks us as the top banking partner to businesses in Botswana.

Internal controls and governance remain paramount in our strategy to constantly exceed our customers' expectations and to the protection of our customers' savings. 2016 saw great advancement in our people, processes and systems risk strategy, enhancing our ability to be the most stable, predictable and trusted bank in the market.

Looking Ahead

We will continue to support, invest and develop the current and future generation of risk leaders. The Risk team enjoys access to a vast network of subject matter experts across the African continent, and world-class training and development opportunities available within the Barclays Africa Group. This allows our Risk team colleagues to contribute toward and learn from cutting edge global best practice.

We will continue to develop the Risk team in line with our philosophy of nurturing leaders who are well rounded and boast deep subject matter expertise.

Robust, repeatable and accurate processes remain a core capability of the business. Continuous improvement remains key, and an ongoing focus area for the Bank. We remain committed to identifying, understanding and systematically improving our internal control processes. Testing, simplifying and automating are continuous processes within the Bank. Our focus is to enhance the customer experience. The Risk team remains committed to identifying opportunities to enhance the customer experience, increase decision and transactional speed, improve operational efficiency and reduce cost through process improvement and technology adoption.

Evolving customer and regulatory demands provide helpful catalysts in pushing us forward and exploring unique, modern solutions. In order to keep up those evolving demands, the Risk team recognises the need to deploy well thought-out, intelligently designed, technology-based solutions to augment its managerial capabilities in the Bank. This combination enhances the business' ability to meet the needs of existing and future customers, while simultaneously protecting customer deposits.

The Bank embarked on substantial internal change, which saw greater investment, training and resource allocation toward enhancing risk productivity.

Human Resources Review

Reflecting on Our Journey

We are pleased to report on our substantial accomplishments and the ongoing commitment to our strategic priorities. Our journey in 2016 began with understanding that significant changes would need to occur if we require commitment and collaboration from our stakeholders. The continuing quest is to be the employer of choice in our market.

Talent and Development

In an effort to maximise efficiency and effectiveness, we addressed the need to support our staff and ensure they meet their development goals. The Bank continues to be focused on building management and leadership capabilities. During 2016 the Bank partnered with the Institute of Development Management (IDM) International to build a leadership development programme, which was rolled out to select leaders in the Bank. This programme was designed to develop leaders for future challenges in the banking industry. Based on its success, we will continue to invest in its people through the enrolment of more leaders in 2017 and continue to build an agile, trusting and learning culture among our people.

Our strategy is also geared towards retaining current talent, and having increased focus on nurturing talent within. Talent reviews held in 2016 saw us identify colleagues who have the potential to assume leadership roles. We will continue building the succession pipeline by embedding leadership skills at middle management, and senior management levels. As a result of this process, a number of colleagues were sent on secondment to Barclays Africa Group Limited in South Africa.

Various technical training interventions were delivered to continually build a skills base in the different functions within the business. Customer service training was also developed specifically to enhance the customer experience, and to raise our Net Promoter Score. This was achieved through training approximately 500 client-facing colleagues.

Organisational Design
We also built a sustainable partnership with the Botswana Bank Employees Union and regulatory authorities, in the process forging collegial working relationships. This was in support of the decision to align our structures to suit current operations models. Several colleagues were successfully redeployed into various roles following operational reviews that culminated in the consolidation and closure of some of the bank's branches across the network. This resulted in minimal impact on colleagues and business operations.

Employee Engagement and Wellness
Our human resources promotes and supports a healthy lifestyle. A wellness day exposition was customised specifically to promote a work-life balance for colleagues. The exposition covered health talks by specialists, as well as health education, screening for lifestyle diseases and the opportunity for colleagues to visit various health and wellness service providers' stalls. Over and above this, the Bank has a comprehensive wellness programme that includes exercise and counselling sessions, as well as a comprehensive support system around colleagues who are unwell.

Reward and Resourcing
Reward, aimed at securing an effective workforce, remains a critical component of our People Strategy. The principles of our reward philosophy were followed in 2016, and colleagues were rewarded in line with their performance.

Colleagues were also trained on the Reward Principles and Recognition Programme throughout the year. This was intended to enhance understanding and awareness of the remuneration aspects of the bank's employee value proposition.

Through the implementation of our diversity and the inclusion agenda, we also realised an increase in the number of women in leadership through promotions.

On the talent acquisition planning front, in 2016 we saw the introduction and implementation of the new Global Hiring Framework. This introduced the use of online assessments to measure ability, and alignment to our values, for all roles. All line managers who are involved in the recruitment process were inducted on the new method and its benefits.

Looking Ahead
While we have progressed in 2016, talent and development, leadership capability, adequate succession, and diversity and inclusion are still fundamental to growing our people, and driving our people agenda. They are tailored to ensure we remain current, and to enhance the initiative, persistence and effort of each individual to achieve a specific, desired outcome. We are dedicated to quality service provision, excellence and the continuous empowerment of our people, supporting our desire to build a lean and effective pan-African organisation with strong in-country execution capability.

Our journey...

2014

Paperless Banking introduced across the branch network

Through the implementation of our diversity and the inclusion agenda, we also realised an increase in the number of women in leadership through promotions.

Rizwan Desai
Independent Non-Executive Director Chairman of Board of Directors

Rizwan joined the Board in 2002. He was appointed Board Chairman in 2009. Rizwan is a Partner at Desai Law Group and Director of a number of property development and investment companies.

Rizwan holds a Bachelor of Law (LLB) (Hons) and Diploma in Legal Practice qualifications from the University of Edinburgh and a Master of Law (LLM) from Harvard Law School.

Ambassador Alfred Dube
Independent Non-Executive Director

Alfred joined the Board in 2009. He is a Foreign Policy Specialist and career diplomat. Alfred began his career in 1978 and has held appointments as Botswana's Ambassador to different missions around the world, including the United Nations.

Alfred holds a Bachelor of Arts Degree with Honours from the University of Essex, UK.

Kenneth Molosi
Independent Non-Executive Director

Kenneth joined the Board in 2009. He is the Chief Executive Officer at EOH Consulting, a leading management consultancy in Botswana. He has over 21 years' experience in ICT deployment and business strategy development, having led consultancies in both public and private sectors in countries such as Botswana, Namibia, Tanzania, USA and South Africa. He has published several leadership articles on technology, strategy and talent management.

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

Tobias Mynhardt
Independent Non-Executive Director

Tobias joined the Board in 2016. He has broad exposure to the investment industry through working as a Portfolio Strategist at Cross Border Capital LLC and Hedge Fund of Funds firm, based in London. He is the Managing Director of Cash Bazaar Holdings Group Limited. He is also the Managing Director of New African Properties Limited and Deputy Chairman of Furnmart Limited.

Tobias holds a Masters Degree in Economics from the London School of Economics. He also holds a Postgraduate Diploma in Economics from the London School of Economics UK, B.Com Honours Degree in Economics from the University of Cape Town and a B.Com degree in Economics and Accounting from University of Stellenbosch, South Africa.

Oduetse Andrew Motshidisi
Independent Non-Executive Director

Oduetse joined the Board in 2016, and has been in the financial services sector since 1989. He was Deputy Governor of Bank of Botswana. Prior to his appointment as Deputy Governor, he served progressively in senior positions at the Bank, including heading the Foreign Exchange reserves management. He has served on a number of Boards including Motor Vehicle Accident Fund, The Botswana Stock Exchange and the Botswana Institute for Development Policy Analysis.

Oduetse has a Bachelor of Arts in Public Administration from the University of Botswana, Lesotho and Swaziland and attained a Master's Degree from the University of Wisconsin, Madison.

Lawrence Maika
Independent Non-Executive Director

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

Lawrence is an accountant and a member of the Botswana Institute of Chartered Accountants.

One of the Board's key focus areas in 2016 was to strengthen its governance capabilities by bringing on additional Non-Executive Directors to broaden its skills sets and expertise.

Corporate Governance

Barclays Bank of Botswana Limited ("The Bank") is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practices.

The Bank has therefore adopted the Bank of Botswana guidelines, which seek to provide guidance on the provisions of sections 22, 23 and 29-32 of the Banking Act 1995 Chapter 46:04 of the Laws of Botswana (the Banking Act), as well as to implement and enhance good corporate governance standards in the Botswana banking market.

The Bank has also adopted the Barclays Africa Group Limited (BAGL) Group Policy on Legal Entities and Directors, which is a governance framework designed to ensure that governance arrangements suitable for the purpose and risk of each subsidiary are in place. In its efforts to continually improve its governance practices, the Board adopted a new Board Charter ("the Charter") in March 2016. All these standards and policies address the composition of the Board, its responsibilities and how these responsibilities are met, and detail the selection procedures for new directors.

In accordance with the requirements of the Banking Act, as well as recommended international best practices, the Board ensures that management identifies measures and monitors a variety of risks through various control mechanisms. The risks and the measures related thereto are explained on page 34 of this report.

The Board and the various committees are making continuous strides to present the Bank as an exemplary organisation in the field of corporate governance, by promoting greater openness and transparency, rather than just following pure prescriptive regulations.

The Board

Primary Role

The main role of the Board is to provide effective and ethical leadership executed through the following activities:

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

Objectives

The main objectives of the Board are as follows:

- Ensure the Bank complies with applicable laws and regulations
- Discuss, agree and regularly review the Bank's business strategies so that they remain in line with those of BAGL and, where necessary, recommend adjustments for the Bank to keep up with local market considerations
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management
- Establish and embed the BAGL corporate management model and behaviours, which underpin the achievement of BAGL's objectives
- Agree proposals that fall within the discretion of the Board
- Enhance the Barclays brand and promote it externally

Board Composition, Meetings, Appraisals and Self-Assessment

The size and composition of the Board is dictated by the Bank's Constitution, which specifies that the number of Directors shall not be more than 15 (fifteen) and not less than 4 (four), as well as relevant Bank of Botswana requirements and regulations, which specify that there shall be three Non-Executive Directors (NEDs) for each Executive Director (ED).

In 2016, and in compliance with these requirements, the Board comprised of 6 (six) NEDs and 2 (two) EDs. The EDs were the Managing Director and Finance Director. NEDs are individuals from a diverse range of industries and professional skills, knowledge and experience, and are not involved in the day-to-day management of the Bank.

At every Annual General Meeting (AGM), one-third of the NEDs (rounded down) retire and offer themselves for re-election.

The Bank maintains a Board Skills Matrix, which assists it to continually review and assess its skills, expertise and knowledge requirements to enable it to effectively discharge its mandate. At least biannually, BAGL conducts extensive training of the Board in diverse areas to keep the Board abreast with local and international developments, and to fill any gaps identified by the Board. However, throughout the year, the Board has access to management and is able to seek external, independent advice if required. Brief biographical details of the Country Management Committee (CMC) are set out on pages 12 to 15 of this report.

The Board has at least 4 (four) scheduled meetings a year, and each Director is expected to attend all meetings. In practice, the Board meets more than 4 (four) times annually, and the number of meetings is dictated by the demands of the business. In 2016, the Board held a total of 6 (six) meetings. A full attendance register is set out on page 42 of this report. A quorum for Board meetings will consist of a majority of the members. A quorum may be reached provided the members are in attendance, either in person, by Telepresence or video-conference.

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

The Board has adopted a policy on fees and expenses. Each NED is paid an annual allowance for membership of the Board and each Board committee. These allowances are payable quarterly and are approved by shareholders at every AGM. A schedule of fees and allowances paid to all Directors in 2016 is set out on page 42 of the Notes to the Financial Statements.

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

The Charter and Committees Terms of Reference

The Charter, which is aligned to the King III governance regime, charts out, among other things:

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

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

- The role of the committee;
- The composition of the committee;
- The process for the conduct of meetings.

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

Our journey...

2015

Rolled out intelligent ATMs with 72 of them accepting cash deposits

Directors' Remuneration (BWP) P'000

Director	Board	Audit	Risk	Human Resources and Remuneration	Pension Fund	Executive Remuneration	Total
Rizwan Desai	525		68				593
Lawrence Maika	168	116					284
Alfred Dube	168		34	68			270
Kenneth Molosi	168	58		34	68		328
Oduetse Mothidisi	70	24					94
Tobias Mynhardt	84		17				101
Reinette van der Merwe						5,493	5,493
Mumba Kalifungwa						2,578	2,578

*** Key management remuneration is disclosed in note 49, page 151 of this report.*

Attendance Register

Director	Board	Audit Committee	Risk Committee	Human Resources and Remuneration
Rizwan Desai	6/6	-	4/4	-
Lawrence Maika	6/6	6/6	-	-
Alfred Dube	3/6	-	4/4	4/4
Kenneth Molosi	6/6	6/6	-	4/4
Tobias Mynhardt	1/6	-	1/4	-
Oduetse Mothidisi	1/6	1/6	-	-
Reinette van der Merwe	6/6	6/6	4/4	4/4
Mumba Kalifungwa	6/6	6/6	4/4	-

Board Committees

Audit Committee

The Board appoints a minimum of three (3) members, who are Directors without any executive responsibility, to the Audit Committee. During the year there were three non-executive Directors on the committee. In line with corporate governance best practice, a non-executive Director other than the Chairman of the Board has been appointed to chair the Committee. In 2016, the Committee was chaired by Lawrence Maika.

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. In 2016, the Committee was chaired by Rizwan Desai. 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.

Human Resources, Nominations and Remuneration Committee

This Committee has emerged from the fusion of the Human Resources Committee and the Remuneration and Nominations Committee. It comprises of five members, three of whom are Non- Executive Directors, and the other two are representatives of the Barclays Executive, in the form of the Head of Human Resources and the Managing Director. This Committee meets at least three times a year. Its main purpose is to provide oversight over recruitment, staffing and succession, as well as performance and compensation of executive management, and reviewing of bespoke incentive proposals. The Committee is also tasked with reviewing the level of expertise and skill at the executive and Board levels, and making suggestions for achieving the best overall skills coverage, whether by upskilling or recruitment. In addition, it is within the Committee's mandate to consider the overall strategy and approach to any issues or projects of significance to the Bank's human resources. This mandate does not extend to day-to-day management activities.

Management Committees

Country Management Committee (CMC)

The Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and running the Bank based on its knowledge and experience. Non-Executive Directors challenge, monitor and approve the strategies and policies recommended by the CMC. The CMC acts as the operational management forum responsible for delivering the Bank's operating plan and results.

The objectives of the CMC are to ensure the following:

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

The CMC consists of the following:

- Managing Director (as its Chairman)
- Finance Director
- Treasurer
- Chief Risk Officer
- Consumer Director
- Chief Operating Officer
- Head of Client Coverage
- Head of Compliance
- Head of Marketing and Corporate Relations
- Human Resources Director
- Head of Legal

Country Asset and Liability Management Committee (ALCO)

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

The objectives of the Country ALCO are to manage:

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

Membership of Country ALCO comprises the following:

- Managing Director
- Treasurer(as its Chairman)
- Head of Balance Sheet Management (alternative Chairman) (secretary)
- Finance Director
- Head of Corporate and Investment Banking
- Consumer Director (alternative Head of Business Banking)
- Chief Risk Officer

Operational Risk and Control Committee (ORCC)

The main purpose of the this Committee is to provide independent oversight and challenge whether operational risk is being appropriately managed, the exposures arising and related to control environment, and to recommend operational risk appetite to the Board for approval.

The duties and responsibilities of this management committee are to:

- Review the effectiveness of the Operational Risk Framework;
- Provide assurance to management in respect of the Bank's risk and control framework by reviewing and challenging reports from management, internal and external audit, and regulators in respect of the Bank's business activities;
- Oversee implementation and embedding of policies and controls, and confirm that control standards are defined and adequate for achieving regulatory compliance;
- Oversee the monitoring of legal and regulatory changes in the external environment, and compliance with relevant laws, regulations and the directives of the authorities;
- Monitor and take action where required in relation to changes in the internal and external risk environment; and
- Oversee management of the Country Business risk profile, and risk event management through the review of key indicators, risk events, specific risk issues, themes and concentrations.

Membership of the Operational Risk and Control Committee comprises the following:

- Chief Risk Officer (Chairman)
- Managing Director (alternative chairman)
- Finance Director
- Head of Legal
- Consumer Director
- Head of Corporate and Investment Banking
- Treasurer
- Chief Operating Officer
- Head of Operational Risk
- Head of Compliance
- Corporate Credit Director Retail Credit Director

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

Remunerations and Promotions Committee (RPC)

The duties and responsibilities of this management committee are to:

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

Membership of the Remunerations and Promotions Committee comprises the following:

- Managing Director (Chairman)
- Finance Director
- Head of Compliance
- Human Resources Director

Operations Committee (OpCo)

The duties and responsibilities of this management committee are to:

- Provide oversight of all key operational issues facing the Bank (including IT and other operational projects), and to ensure timely, robust delivery of operational and IT investments within budget;
- Ensure the effectiveness of Operational and IT capability, and resource management, across the Bank;
- Provide management oversight and review of all operational and IT projects, and ensure that projects are managed according to PRINCE2 principles and within timescales and budget; and
- Review Group, Global Retail Banking (GRB) and Barclays Africa operations and IT projects intended for, or impacting upon, the country.

Membership of the committee comprises:

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

Brand and Reputation Committee (B&RC)

The duties and responsibilities of this Committee are to:

- Protect and enhance the brand and reputation of Barclays
- Support Barclays in being a leading company in the field of Corporate Social Responsibility;
- Ensure that the Bank treats customers in accordance with its Treating Customers Fairly principles;
- Confirm the reputational hotspots in the business together with the adequacy of mitigating actions, and

escalate as appropriate to the Barclays Africa Brand and Reputation Committee;
- Agree and monitor the implementation of the customer agenda in the business, including Treating Customers Fairly, customer service and customer complaints;
- Confirm and monitor the implementation of the external corporate affairs plan, and the community and environmental strategy; and
- Approve community projects for implementation.

Membership of the committee comprises:
- Managing Director (Chairman)
- Finance Director
- Chief Operating Officer
- Head of Legal
- Head of Corporate and Investment Banking
- Head of Marketing and Corporate Affairs
- Consumer Director
- Chief Risk Officer
- Head of Compliance
- Human Resources Director
- Treasurer
- Head of Client Coverage

Country Control Environment forum (CEF)
The overall purpose of the CEF is to provide first line of defence oversight, and challenge of all the control environment activities, and take primary accountability for risk identification, ownership, management and control, including embedding a supportive risk culture.

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

Membership of the committee comprises:
- Managing Director (Chairman)
- Chief Operating Officer (alternate Chairman)
- Finance Director
- Consumer Director
- Head of Information Technology
- Treasurer

Our journey...

2016

Receiving bank for the BTCL IPO

Barclays Bank of Botswana Limited
Annual Financial Statements
For the year ended 31 December 2016

Directors' Responsibilities and Approval

For the year ended 31 December 2016

The Directors are responsible for overseeing the preparation, integrity and objectivity of the consolidated and separate annual financial statements ("the annual financial statements") that present a true and fair view of the state of the affairs of Barclays Bank of Botswana Limited ("the Bank") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the Directors to meet these responsibilities:

- *All Directors and employees will endeavour to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach;*

- *The Board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;*

- *The Board and management identify all key areas of risk across the Bank and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints; and*

- *The internal audit function outsourced from Barclays Africa Group Limited Internal Audit, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.*

The Directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

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

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

It is the responsibility of the independent auditors to report on the annual financial statements. Their report to the shareholders of the Bank is set out on pages 50 to 55 of this report.

The Directors' report on pages 56 to 58 and annual financial statements of the Bank which appears on pages 59 to 158 were approved by the Board of Directors on 16 March 2017 and are signed on its behalf by

Rizwan Desai
Chairman

Reinette van der Merwe
Managing Director

Lawrence Maika
Chairman of the Board Audit Committee

Corporate Governance Statement

For the year ended 31 December 2016

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

The Bank had an average of 1 155 employees during the year (2015: 1 201).

Board of Directors

The Board consists of:
6 Non-Executive Directors
2 Executive Directors

Company secretary

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

Audit committee

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

Internal audit

The internal audit function is conducted by Barclays Africa Group Limited Internal Audit.

Remuneration policy

The Bank adopted the Barclays Africa Group Limited Human Resources policies. The Executive Directors of the Bank are full time employees of the Bank and therefore earn no Directors' fees for their services as Directors.

Risk management

The Bank manages the risk of the business in partnership with Barclays Africa Limited Group. Risk policies, standards, and strategies are jointly created between the two parties with execution managed by the local Risk team, country management team, and Board of Directors.

Integrated sustainability reporting and disclosure

The results of the Bank are consolidated into the Barclays Africa Group Limited financial results which address sustainability at a Group level.

Managing stakeholder relationships

As a subsidiary, the Bank is governed by the stakeholder management of Barclays Africa Group Limited.

Fundamental and affected transactions

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

Information Technology governance

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

Compliance

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

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited

Our Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Barclays Bank of Botswana Limited (the "Company") and its subsidiary (together the "Group") as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Barclays Bank of Botswana Limited's consolidated and separate financial statements set out on pages 59 to 156 comprise:

- the consolidated and separate statements of financial position as at 31 December 2016;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

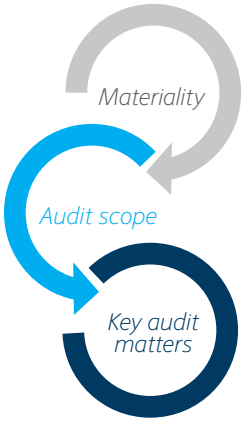
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Botswana Institute of Chartered Accountants Code of Ethics (the "BICA Code") and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Our audit approach overview



Overall group materiality

- Overall group materiality: P22 million, which represents 4.5% of the profit before tax for the year.

Group audit scope

- Our engagement comprised of audits of Barclays Bank of Botswana Limited and the Company's wholly owned subsidiary, Barclays Insurance Services Proprietary Limited.

Key audit matters

- Impairment of loans and advances
- Accuracy and valuation of other assets and other liabilities.

pwc

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited (continued)

Our audit approach overview (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	P22 million
How we determined it	We applied a rule of thumb of 4.5% of the profit before tax for the year ended 31 December 2016 to arrive at the overall materiality.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4.5%, which is lower than quantitative materiality thresholds used for profit-oriented companies in this sector, since the Group has external debt and is subjected to financial covenants.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of the Company and its wholly owned subsidiary, Barclays Insurance Services Proprietary Limited, operating in a single geographical location – Botswana. The group financial statements are a consolidation of the Company and its subsidiary. We have performed full scope audits of the Company and its subsidiary. We considered it necessary to perform a full scope audit of Barclays Insurance Services Proprietary Limited as the results of this subsidiary is material to the Group.

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers The level of economic uncertainty in the country and certain recent developments in the mining sector has resulted in the Group/Company being exposed to higher credit risk on its loans and advances to customers. The assessment of impairment of loans requires significant judgement by the Group/Company and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment, we determined this to be a matter of most significance to our audit. In corporate loans and advances, the material portion of impairment is individually calculated. In identifying corporate loans and advances to be considered for individual impairment, the Group/Company considers breaches of debt covenants, number of instalments overdue and the bearing which the subdued local economy and continued low commodity prices has on the creditworthiness of is customers. In assessing the quantum of impairment to be provided, the Group/Company takes into consideration the cash flow projections submitted by the customers, valuation of the securities held as collateral and the time estimated to realise the value of such securities. For retail loans and advances, the material portion of the impairment is calculated on a modelled basis for portfolios of loans and advances. This is because retail loans and advances comprise of large numbers of accounts with relatively small individual balances. The key assumptions and judgements made by the Group/Company underlie the calculation of modelled unsecured retail impairment. Key assumptions and judgements include the calculation of the average loss percentage once a loan is identified as default and the time estimated for a loan to manifest itself from a performing loan to a default loan.	Our procedures included the following: For corporate loans and advances where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans. We also tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner. For a sample of loans and advances, we checked the valuation of securities to support the calculation of the impairment by comparing estimates to external evidence available, checked mathematical calculations and tested the time estimated to realise the value of securities based on past experience. We tested controls over impairment data and calculations. These controls included those over the identification of loans and advances that were impaired, the transfer of data (source systems to credit systems, credit systems to impairment models and model output to the general ledger) and the calculation of the impairment provisions. We performed testing on the models used to calculate the unidentified impairment. This testing varied by portfolio, but typically included some combination of independent model rebuild, re-performance of the calculation, testing the extraction of data used in the models including the analysis of loans into groupings displaying the same delinquency characteristics, and testing and applying sensitivities to the underlying critical assumptions. We tested a sample of post-model adjustments, including considering the basis for the adjustment, the logic applied, the source data used, the key assumptions adopted and the

pwc

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited (continued)

Key audit matters (continued)

In addition to the modelled impairment calculation, the Group/Company also incorporates adjustments in response to a range of identified internal factors, such as known data and system issues impacting specific impairment models, and external factors such as the provisional liquidation of a large mining client.

These are considered to be post-model adjustments.

The disclosure associated with impairment of loans and advances is set out in the Annual Financial Statements in the following notes:

- Note 45.2 - Approach to credit risk and impairment of loans and advances (page 120)
- Note 9 – Impairment losses on loans and advances to customers (page 81)
- Note 45.2 – Credit risk (pages 112)

sensitivity of the adjustment to these assumptions.
We tested a sample of loans and advances which had not been identified by the Group/Company as individually impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties.

Based on the results of our audit procedures, the Group/Company's estimate of the required impairment of loans and advances fell within a reasonable range of outcomes.

Other assets and other liabilities

In the banking environment, depending on the underlying nature and contractual terms of individual transactions, they will have varying settlement periods. As a result, at any given point in time, there will be unsettled and/or unmatched balances. These are held temporarily within various accounts referred to as clearing accounts. Such clearing accounts are disclosed within other assets and other liabilities.

The balances in these clearing accounts are significant and need to be cleared within predetermined timeframes applicable to each balance ("accepted business rules"). Clearing these balances involves both automated and manual processes. Manual intervention is needed where balances are not automatically matched by the Bank's automated reconciliation system. This area was a matter of most significance to our audit because, by their very nature, manual processes are prone to human error and if not performed effectively or within accepted business rules, the Group/Company could potentially be exposed to significant losses which could remain unidentified.

The disclosure associated with other assets and other liabilities is set out in the Annual Financial Statements in the following notes:

- Note 21 – Other receivables (page 87)
- Note 31 –Trade and other payables (page 95)
- Note 45.2 – Credit risk (pages 112)
- Note 45.6 – Liquidity risk (pages 132)

Our procedures included the following:

We tested controls over identification of clearing account balances and subsequent clearance of these balances.

We checked a sample of period-end reconciliations of material clearing account balances by corroborating the reconciling items to the supporting documents and checking subsequent clearance of these reconciling items.

We tested a sample of items appearing in the exception reports on aged balances within these clearing accounts to consider whether the items are within the accepted business rules, to identify any potential loss accounts.

We found no material exceptions in these tests.

pwc

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited (continued)

Other assets and other liabilities (continued)

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report, Chairman's statement, Finance Director's report, Managing Director's commentary, Country Management Committee reviews, Business reviews and any other information included in the annual report, which we obtained prior to the date of date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will 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 identified above 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, 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 that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

pwc

Independent Auditor's Report to the Shareholders of Barclays Bank of Botswana Limited (continued)

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

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 controls 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated 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.

PricewaterhouseCoopers

Individual practicing member: Sheyan Edirisinghe
Registration number: 20030048

15 May 2017
Gaborone

pwc

Directors' Report

For the year ended 31 December 2016

The Directors have pleasure in submitting their report to shareholders together with the audited financial statements for the year ended 31 December 2016.

Company registration number	1732
Country of incorporation and domicile	Botswana
Date of incorporation	17 March 1975
Nature of business and principle activities	Barclays Bank of Botswana Limited (the "Bank") is a public limited company listed on the Botswana Stock Exchange and domiciled in Botswana. The consolidated annual financial statements of the Bank comprise the Bank and its wholly owned subsidiary Barclays Insurance Services Proprietary Limited (together referred to as 'the "group"). Barclays Insurance Services Proprietary Limited (the "Company") is an insurance agent which earns its fees from referral of Life and Non-Life insurance products.

Directors

Name	Appointments during the year
Rizwan Desai (Independent Non-Executive - Chairman)	
Lawrence Maika (Independent Non-Executive)	
Kenneth Molosi (Independent Non-Executive)	
Alfred Dube (Independent Non-Executive)	
Tobias Mynhardt (Independent non-executive)	14 July 2016
Oduetse Motshidisi (Independent Non-Executive)	24 August 2016
Reinette van der Merwe (Executive - Managing Director)	
Mumba Kalifungwa (Executive - Finance Director)	

Registered office

Building 4
Prime Plaza
Plot 74358
Central Business District
Gaborone

Business address

Building 4
Prime Plaza
Plot 74358
Central Business District
Gaborone

Postal address

P O Box 478
Gaborone
Botswana

Directors' Report (continued)

For the year ended 31 December 2016

Holding company	The Bank's holding company is Barclays Africa Group Limited, which has a primary listing on the Johannesburg Stock Exchange and is incorporated and domiciled in South Africa and provides retail, business, corporate, investment banking, financial services and wealth management products and services. The address of the registered office of the holding company is 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001, Republic of South Africa.
Ultimate holding company	The Bank's ultimate holding company is Barclays Bank PLC, a company registered and domiciled in the United Kingdom. The address of its registered office is 1 Churchill Place, Canary Wharf, London, United Kingdom.
Auditors	PricewaterhouseCoopers Plot 50371 Fairgrounds Office Park Gaborone
Company secretary	Kealeboga Bojosi
Date of incorporation	17 March 1975
Review of financial results	The annual financial results of the Bank are set out in the attached annual financial statements.

Directors' Report (continued)

For the year ended 31 December 2016

	Consolidated		Company	
	2016	2015	2016	2015
Key performance indicators	P'000	P'000	P'000	P'000
Profit for the year	389 244	260 501	378 433	263 829
Total comprehensive income	387 999	219 404	377 188	222 732
Taxation	(105 226)	(71 684)	(102 319)	(63 505)
Dividends declared and paid	(189 998)	(200 002)	(189 998)	(200 002)
Net assets	1 743 825	1 545 047	1 737 525	1 549 558

Stated capital

There were no changes to the stated capital for the year under review. The stated capital is disclosed in note 35.

Property, plant and equipment

Details of changes in property, plant and equipment during the year are reflected in note 22.

Events after the reporting date

Events material to the understanding of these annual financial statements that occurred between the financial year end and the date of this report have been disclosed in note 51.

Going concern

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

Statements of Comprehensive Income

For the year ended 31 December 2016

		Consolidated		Company	
	Notes	2016 P'000	2015 P'000	2016 P'000	2015 P'000
Interest income	4	1 160 207	1 134 972	1 160 207	1 134 972
Interest expense	5	(166 107)	(225 068)	(166 107)	(225 068)
Net interest income		994 100	909 904	994 100	909 904
Fee and commission income	6	334 706	280 717	298 095	259 810
Fee and commission expense	6	(21 537)	(10 498)	(21 537)	(10 498)
Net fee and commission income		313 169	270 219	276 558	249 312
Net trading and investment income	7	176 099	103 888	176 099	103 888
Other income	8	5 523	2 219	5 523	2 219
Total income		1 488 891	1 286 230	1 452 280	1 265 323
Impairment losses on loans and advances	9	(261 969)	(244 231)	(261 969)	(244 231)
Net operating income		1 226 922	1 041 999	1 190 311	1 021 092
Staff costs	10	(383 541)	(324 338)	(380 788)	(322 784)
Infrastructure costs	11	(122 764)	(127 790)	(122 764)	(127 790)
Administration and general expenses	12	(226 147)	(257 686)	(206 007)	(243 184)
Operating expenses		(732 452)	(709 814)	(709 559)	(693 758)
Profit before tax		494 470	332 185	480 752	327 334
Taxation	13	(105 226)	(71 684)	(102 319)	(63 505)
Profit for the year		389 244	260 501	378 433	263 829
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Retirement benefit remeasurements		-	(41 097)	-	(41 097)
		-	(41 097)	-	(41 097)
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale financial assets					
Net loss on available-for-sale financial assets during the year		(1 245)	-	(1 245)	-
		(1 245)	-	(1 245)	-
Total other comprehensive loss for the year, net of tax		(1 245)	(41 097)	(1 245)	(41 097)
Total comprehensive income for the year, net of tax		387 999	219 404	377 188	222 732
Earnings per share	14				
Basic and diluted (thebe per share)		45.68	30.57	44.41	30.96

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

Statements of Financial Position

As at 31 December 2016

		Consolidated		Company	
		2016	2015	2016	2015
	Notes	P'000	P'000	P'000	P'000
Assets					
Cash	25	328 561	321 929	328 561	321 929
Cash and balances at Central bank	15	2 075 472	1 375 757	2 075 472	1 375 757
Trading portfolio assets	16	105 739	9 807	105 739	9 807
Derivative financial instruments	17	5 485	129 188	5 485	129 188
Available-for-sale investments	18	1 759 499	1 811 348	1 759 499	1 811 348
Loans and advances to banks	19	334 615	366 954	334 615	366 954
Due from related parties	49	1 075 643	590 005	1 075 643	590 005
Loans and advances to customers	20	9 375 981	9 783 163	9 375 981	9 783 163
Other receivables	21	136 818	81 803	136 818	81 803
Current tax assets	38	7 656	3 016	3 337	261
Property, plant and equipment	22	137 605	152 960	137 605	152 960
Intangible assets	23	2 276	9 627	2 276	9 627
Deferred tax assets	32	42 544	18 728	38 100	12 903
Total assets		15 387 894	14 654 285	15 379 131	14 645 705
Equity and liabilities					
Liabilities					
Deposits from banks	26	404 775	430 127	404 775	430 127
Due to related parties	49	1 195 531	640 335	1 216 059	653 670
Customer accounts	27	11 219 081	11 051 748	11 219 081	11 051 748
Derivative financial instruments	17	15 475	132 561	15 475	132 561
Provisions	30	42 165	55 670	21 966	55 670
Trade and other payables	31	254 345	171 168	251 553	144 742
Current tax liability	38	-	19 632	-	19 632
Debt securities in issue	28	258 553	352 225	258 553	352 225
Subordinated debt	29	254 144	255 772	254 144	255 772
Total liabilities		13 644 069	13 109 238	13 641 606	13 096 147
Shareholder's equity					
Stated capital	35	17 108	17 108	17 108	17 108
General risk reserves	36	93 760	98 191	93 760	98 191
Available-for-sale investments reserve	36	(1 245)	-	(1 245)	-
Share-based payment reserve	36	5 382	4 605	5 382	4 605
Share capital reserve	36	2 060	2 060	2 060	2 060
Retained income	36	1 626 760	1 423 083	1 620 460	1 427 594
Total equity attributable to equity holders		1 743 825	1 545 047	1 737 525	1 549 558
Total equity and liabilities		15 387 894	14 654 285	15 379 131	14 645 705

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

Statements of Cash Flows

For the year ended 31 December 2016

	Notes	Consolidated 2016 P'000	Consolidated 2015 P'000	Company 2016 P'000	Company 2015 P'000
Cash flows from operating activities					
Cash generated by operations	37	116 897	151 463	113 806	151 317
Net decrease/(increase) in loans and advances to banks and customers		145 213	(1 894 672)	145 213	(1 894 672)
Interest received	42	1 160 207	1 134 972	1 160 207	1 134 972
Interest paid	41	(167 538)	(221 172)	(167 538)	(221 172)
Income taxes paid net of refunds	38	(153 557)	(93 877)	(150 466)	(93 731)
Increase in deposits due to customers		167 333	2 087 348	167 333	2 087 348
(Increase)/decrease in trading portfolio assets		(95 932)	10 562	(95 932)	10 562
Decrease in statutory reserve with the Bank of Botswana		36 733	333 436	36 733	333 436
Decrease/(increase) in derivative financial instruments		6 617	(4 284)	6 617	(4 284)
Net cash generated by operating activities		1 215 973	1 503 776	1 215 973	1 503 776
Cash flows from investing activities					
Payments for property, plant and equipment	22	(14 890)	(24 622)	(14 890)	(24 622)
Proceeds from disposal of property, plant and equipment	39	2 399	-	2 399	-
Payments for intangible assets	23	(199)	(319)	(199)	(319)
Net cash used in investing activities		(12 690)	(24 941)	(12 690)	(24 941)
Cash flows from financing activities					
Dividends paid	40	(189 998)	(200 002)	(189 998)	(200 002)
Issuance of debt securities		55 840	33 710	55 840	33 710
Redemption of debt securities		(146 711)	(202 472)	(146 711)	(202 472)
Proceeds from subordinated debt		-	250 000	-	250 000
Net cash used in financing activities		(280 869)	(118 764)	(280 869)	(118 764)
Net increase in cash and cash equivalents		922 414	1 360 071	922 414	1 360 071
Cash and cash equivalents at the beginning of the year		2 938 903	1 578 832	2 938 903	1 578 832
Cash and cash equivalents at the end of the year	43	3 861 317	2 938 903	3 861 317	2 938 903

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

Statements of Changes in Equity

For the year ended 31 December 2016

	Consolidated						
	Stated capital P'000	General risk reserve P'000	Available-for-sale investment reserve P'000	Share-based payment reserve P'000	Retained earnings P'000	Share capital reserve P'000	Total equity P'000
Balance at 1 January 2015	17 108	81 237	-	4 616	1 420 635	2 060	1 525 656
Profit for the year	-	-	-	-	260 501	-	260 501
Other comprehensive loss for the year	-	-	-	-	(41 097)	-	(41 097)
Total comprehensive income for the year	-	-	-	-	219 404	-	219 404
Decrease through other contributions by owners	-	-	-	(11)	-	-	(11)
Payment of dividends	-	-	-	-	(200 002)	-	(200 002)
Transfer from retained earnings	-	16 954	-	-	(16 954)	-	-
Total transactions with owners	-	16 954	-	(11)	(216 956)	-	(200 013)
Balance at 31 December 2015	17 108	98 191	-	4 605	1 423 083	2 060	1 545 047
Note	35						
Balance at 1 January 2016	17 108	98 191	-	4 605	1 423 083	2 060	1 545 047
Profit for the year	-	-	-	-	389 244	-	389 244
Other comprehensive loss for the year	-	-	(1 245)	-	-	-	(1 245)
Total comprehensive income for the year	-	-	(1 245)	-	389 244	-	387 999
Recognition of share-based payments	-	-	-	777	-	-	777
Payment of dividends	-	-	-	-	(189 998)	-	(189 998)
Transfer from/(to) retained earnings	-	(4 431)	-	-	4 431	-	-
Total transactions with owners	-	(4 431)	-	777	(185 567)	2 060	(189 221)
Balance at 31 December 2016	17 108	93 760	(1 245)	5 382	1 626 760	2 060	1 743 825
Note	35						

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

Statements of Changes in Equity

For the year ended 31 December 2016

	Company						
	Stated capital P'000	General risk reserve P'000	Available-for-sale investment reserve P'000	Share-based payment reserve P'000	Retained earnings P'000	Share capital reserve P'000	Total equity P'000
Balance at 1 January 2015	17 108	81 237	-	4 616	1 421 818	2 060	1 526 839
Profit for the year	-	-	-	-	263 829	-	263 829
Other comprehensive loss for the year	-	-	-	-	(41 097)	-	(41 097)
Total comprehensive income for the year	-	-	-	-	222 732	-	222 732
Decrease through other contributions by owners	-	-	-	(11)	-	-	(11)
Payment of dividends	-	-	-	-	(200 002)	-	(200 002)
Transfer from retained earnings	-	16 954	-	-	(16 954)	-	-
Total transactions with owners	-	16 954	-	(11)	(216 956)	-	(200 013)
Balance at 31 December 2015	17 108	98 191	-	4 605	1 427 594	2 060	1 549 558
Note	35						
Balance at 1 January 2016	17 108	98 191	-	4 605	1 427 594	2 060	1 549 558
Profit for the year	-	-	-	-	378 433	-	378 433
Other comprehensive loss for the year	-	-	(1 245)	-	-	-	(1 245)
Total comprehensive income for the year	-	-	(1 245)	-	378 433	-	377 188
Recognition of share-based payments	-	-	-	777	-	-	777
Payment of dividends	-	-	-	-	(189 998)	-	(189 998)
Transfer from/(to) retained earnings	-	(4 431)	-	-	4 431	-	-
Total transactions with owners	-	(4 431)	-	777	(185 567)	2 060	(189 221)
Balance at 31 December 2016	17 108	93 760	(1 245)	5 382	1 620 460	2 060	1 737 525
Note	35						

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

Accounting Policies

For the year ended 31 December 2016

General Information and nature of activities

1. Statement of Compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Companies Act of Botswana, as amended.

2 Significant Accounting Policies

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

2.1 Adoption of New and Revised Accounting Standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2016. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies. For details of the new and revised accounting policies refer to note 52.

2.2 Basis of Preparation

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

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

The annual financial statements are presented in thousands of Pula (P'000), the presentation currency of the Bank.

2.3 Consolidation

The consolidated financial statements include those of the Bank and controlled entities.

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

The consolidation of structured entities is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The assessment of control is based on the consideration of all facts and circumstances.

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

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

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

2.4 Business Combinations

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

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.4 Business Combinations (continued)

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

2.5 Common Control

Common control transactions are business combinations in which the combining entities are ultimately controlled by the Bank. The Bank applies the predecessor accounting method when accounting for common control transactions.

The assets and liabilities of the combining entities are not adjusted to fair value but reflected at their carrying amounts at the date of the transaction. Any difference between the consideration paid/transferred and the net asset value acquired is reflected within equity. No new goodwill is recognised as a result of the common control transaction.

The comparative statement of financial position and statement of comprehensive income are restated as if the entities had always been combined, regardless of the date of the transaction.

2.6 Foreign Currency

Functional Currency and Presentation Currency

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.6 Foreign Currency (continued)

Functional Currency and Presentation Currency (continued)

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

Transactions and Balances

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

2.7 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Net Fee and Commision Income

Fees and commissions charged for services provided or received by the Bank are recognised as the services are provided, for example on completion of an underlying transaction.

Net Investment Income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Net Trading Income

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

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables. Own credit gains/losses arise from the fair valuation of financial liabilities designated at fair value through profit or loss.

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

Net Interest Income

Interest income on loans and advances at amortised cost, available-for-sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.8 Leasing

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

As Lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating

lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. The Bank recognises leased assets on the statement of financial position within property and equipment.

As Lessee

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

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

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

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

2.9 Employee Benefits

Staff Costs

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

2.10 Share-Based Payments

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

Employee Services Settled in Equity Instruments

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.10 Share-Based Payments (continued)

Employee Services Settled in Equity Instruments (continued)

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

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

Employee Services Settled In Cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Taxation

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

Deffered Taxation

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

Current and Deffered Tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Withholding Taxation

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

Value Added Tax

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

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.12 Property, Plant and Equipment

Freehold land is not depreciated.

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

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Useful lives are detailed under note 3. Judgement and estimates.

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

2.13 Intangible Assets

Intangible Assets Acquired Separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Useful lives are detailed under note 3. Judgement and estimates.

Research and Development

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

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

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

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

Acquired on Business Combination

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.13 Intangible Assets (continued)

Derecognition of Intangible Assets

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

2.14 Impairment of Tangible and Intangible Assets (Excluding Goodwill)

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

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

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

2.15 Provisions, Contingent Liabilities and Commitments

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists; for example, when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

2.16 Financial Instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

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

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

For valuations that have made use of significant unobservable inputs, the difference between the model

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16 Financial Instruments (continued)

valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction or released in full when previously unobservable inputs become observable.

2.16.1 Financial Assets and Financial Liabilities

Financial assets are classified as financial assets at fair value through profit or loss (Fair Value Through Profit and Loss) or available-for-sale (AFS) financial assets or loans and receivables. The classification depends on the nature
and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Financial Instruments at Fair Value Through Profit or Loss (FVTPL)

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

A financial instrument is classified as held for trading if:

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

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

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

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

Available-For-Sale (AFS) Financial Assets

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

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

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16.1 Financial Assets and Financial Liabilities (continued)

Available-For-Sale (AFS) Financial Assets (continued)

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

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

Loans and Receivables

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

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

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial Liabilities

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

Impairment of Financial Assets

Amortised Cost Instruments

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

Objective evidence of impairment could include:

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

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

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

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16.1 Financial Assets and Financial Liabilities (continued)

Amortised Cost Instruments (continued)

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

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

Identified Impairment

Impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows of that instrument being assessed are taken into account, for example, the business prospects for the customer, the fair value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the workout process. Subjective judgements are made in this process by management.

Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in revisions to the impairment allowance as individual decisions are taken case by case. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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.

Unidentified Impairment

An impairment allowance is recognised when observable data indicates there is a measurable decrease in the estimated future cash flows from a group of financial assets since the original recognition of those assets, even though the decrease cannot yet be identified for the individual assets in the Group. The purpose of collective assessment of impairment is to test for latent losses on a portfolio of loans that have not been individually evidenced.

In cases where the collective impairment of a portfolio cannot be individually evidenced, the Bank sets out to prove that a risk condition has taken place that will result in an impairment of assets (based on historic experience), but the losses will only be identifiable at an individual borrower level at a future date.

The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level. The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. This probability of default is then applied to the total population for which specific impairments have not been recognised. The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the Bank at the reporting date.

The impairment allowance also takes into account the expected severity of loss at default, or the loss-given default (LGD), which is the amount outstanding when default occurs that is not subsequently recovered. Recovery varies by product and depends, for example, on the level of security held in relation to each loan, and the Bank's position relative to other claimants. The LGD estimates are based on historical default experience.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Available-For-Sale Debt Instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16.1 Financial Assets and Financial Liabilities (continued)

Available-For-Sale Debt Instruments (continued)

the instrument that has previously been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. This may be reversed through the profit or loss, if there is evidence that the circumstances of the issuer have improved.

Available-For-Sale Equity Instruments

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

Derecognition of Financial Instruments

Derecognition of Financial Assets

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

Derecognition of Financial Liabilities

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

Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at Fair Value Through Profit and Loss, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Any increase in the liability relating to guarantees is recognised in profit or loss. Any liability remaining is credited to profit and loss when the guarantee is discharged, cancelled or expires.

Loan Commitments

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities, if it is probable that the facility will be drawn

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16.1 Financial Assets and Financial Liabilities (continued)

Loan Commitments (continued)

and result in recognition of an asset at an amount less than the amount advanced.

Repurchase and Reverse Repurchase Agreements

Reverse repurchase agreements (and stock borrowing or similar transactions) are a form of secured lending whereby the Bank provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Bank obtains such loans or cash collateral, in exchange for the transfer of collateral.

The Bank purchases (a reverse repurchase agreement) or borrows securities subject to a commitment to resell or return them. The securities are not included on the

statement of financial position as the Bank does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan asset at fair value or at amortised cost. The Bank may also sell (a repurchase agreement) or lend securities subject to a commitment to repurchase or redeem them. The securities are retained on the statement of financial position either at fair value or amortised cost as the Bank retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at either fair value or amortised cost.

2.16.2 Equity Instruments

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

Ordinary Share Capital

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

2.16.3 Derivative Financial Instruments

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

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

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

2.16.4 Hedge Accounting

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

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

Fair Value Hedges

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

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.16.4 Hedge Accounting (continued)

Fair Value Hedges (continued)

and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.

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

Cash Flow Hedges

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

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

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

2.16.5 Offsetting

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

2.17 Cash and Cash Equivalents

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

2.18 Earnings Per Share

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

2.19 Repossessed Properties

Repossessed properties acquired in exchange for loans as part of an orderly realisation are recognised when the risks and rewards of the properties have been transferred to the Bank. The corresponding loans are derecognised when the Bank becomes the holder of the title deed. Repossessed properties are measured at the lower of carrying amount of the outstanding loan balance and fair value less costs to sell of the repossessed property.

Accounting Policies (continued)

For the year ended 31 December 2016

Significant Accounting Policies (continued)

2.20 Segmental Reporting

Business segments are distinguishable components of the Group that provide products or services that are subject to risks and rewards that are different to those of other business segments. Business segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker, which has been identified as the Country Management Committee. Group costs are allocated to segments on a reasonable and consistent basis.

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

The Bank comprises the following main business segments:

Corporate and Investment Banking

This segment includes Corporate Banking, Markets and Investment Banking. The Corporate Banking activities include loans, deposits and other transactions and balances with corporate customers. Market activities are to assist clients with access to foreign currencies and products that manage market risks.

Retail and Business Banking

This segment includes Retail Banking, BarclayCard and Business Banking. The Retail and Business Banking activities include loans, deposits and any other transactions and balances with medium entities and retail customers.

The measurement of segment results is in line with the basis of information presented to the chief operating decision maker for internal management reporting purposes.
Assets excluding loans and advances to customers, financial instruments, trading portfolio assets and derivative instruments and liabilities excluding deposits due to customers, derivative financial instruments and debt securities in issue are not identifiable to any one of the reportable segments and can be used interchangeably between segments. As a result these are not reviewed by chief operating decision maker. Therefore segmental disclosure relating to these have not been provided.

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

The segment analysis for the year is detailed under note 47 on pages 146 to 147.

Use of Estimates and Judgements

For the year ended 31 December 2016

3. Judgements And Estimates

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

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

- Impairment of loans and advances
- Useful lives and residual values
- Intangible assets
- Investments
- Retirement benefit plan

Impairment of loans and advances

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

The probability of default is based on a 12 month outcome period for mortgages and 3 month outcome period for all other retail loans.

The projected future cash flows of the loans which reflect objective evidence of default are calculated on a monthly basis according to the recovery curve. Recovery curves are calculated by observing movements in actual balances over a period of time. Roll Rates are defined as the probability that an account has missed 1, 2 or 3 months loan repayments going down into default or a default event occurring. Recovery rate experience is the average percentage of the balance outstanding that a classified account is expected to be recovered over a specified amount of time. The recovery rate experience is dependent on the nature of security and duration of the original loan granted. The value of security is calculated using the valuations as at the reporting date. Where recent valuation is not held, either external data may be used to validate the difference, i.e. movements in the Price Indices or justification should be provided to demonstrate that the value used is still an accurate reflection of the current value of the security held as collateral.

A sensitivity analysis of the key variables' impact on the provision for impairment is disclosed under note 45.2 Credit risk mitigation.

Useful lives and residual values

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

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

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

Use of Estimates and Judgements (continued)

For the year ended 31 December 2016

3. Judgements And Estimates (Continued)

Useful lives and residual values (continued)

Management assesses the residual values of tangible assets at least on an annual basis and where changes to previously estimated values are warranted, these are applied prospectively. As at the period end residual values of all intangible assets have been assumed to be nil as management intends on using these assets to full economic lives.

Basis for determining fair values of investments

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Bank 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.

Debt securities and treasury and other eligible bills

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

Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter ("OTC"). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models.

Provision for commission refund

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

Retirement benefit plan

The Group treats any change in the fair value of plan assets in the form of a qualifying insurance policy, due to plan amendments, as change due to remeasurements and any resultant gains or losses are transferred to other comprehensive income ('OCI').

The valuations of and contributions towards the defined benefit plans are determined using actuarial valuations. The actuarial valuations involve making assumption about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

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

Notes to the Annual Financial Statements

For the year ended 31 December 2016

	Consolidated		Company	
	2016 P'000	2015 P'000	2016 P'000	2015 P'000
4. Interest Income				
Cash and balances with central banks	15 912	29 167	15 912	29 167
Related companies	8 732	1 563	8 732	1 563
Short-term funds and other market placements	3 199	711	3 199	711
Other banks	6 115	19 559	6 115	19 559
Loans and advances to customers	1 104 023	1 057 763	1 104 023	1 057 763
Leases	16 070	12 669	16 070	12 669
Derivative financial instruments	6 156	13 540	6 156	13 540
Total interest income	1 160 207	1 134 972	1 160 207	1 134 972
5. Interest Expense				
Deposits from banks	(57)	(515)	(57)	(515)
Customer accounts	(110 217)	(176 343)	(110 217)	(176 343)
Debt securities in issue	(15 791)	(21 934)	(15 791)	(21 934)
Related companies	(22 492)	(13 602)	(22 492)	(13 602)
Derivative financial instruments	(17 550)	(12 674)	(17 550)	(12 674)
Total interest expense	(166 107)	(225 068)	(166 107)	(225 068)
6. Net Fee And Commission Income				
Fee and commission income				
Risk related services	69 712	52 315	33 101	31 408
Non risk related services	264 994	228 402	264 994	228 402
Fee and commission income	334 706	280 717	298 095	259 810
Fee and commission expense				
Inter-bank transaction fees	(21 537)	(10 498)	(21 537)	(10 498)
Fee and commission expense	(21 537)	(10 498)	(21 537)	(10 498)
7. Net Trading And Investment Income				
Trading income/exchange gain(loss)	30 075	(16 310)	30 075	(16 310)
Net fair value movement from financial instruments	3 222	132	3 222	132
Treasury sales activities	115 297	98 133	115 297	98 133
Market making activities	27 490	21 728	27 490	21 728
Fair Value Hedge	15	205	15	205
Net trading income	176 099	103 888	176 099	103 888

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated		Company	
	2016	2015	2016	2015
	P'000	P'000	P'000	P'000
8. Other Income				
Gain on disposal of property and equipment	2 191	-	2 191	-
Rental income	3 332	2 219	3 332	2 219
Total Other income	5 523	2 219	5 523	2 219
9. Impairment Losses on Loans And Advances				
Identified	(271 467)	(238 083)	(271 467)	(238 083)
Unidentified	(6 505)	(21 323)	(6 505)	(21 323)
Impairment raised during the reporting period	(277 972)	(259 406)	(277 972)	(259 406)
Recoveries of loans and advances previously written off	16 003	15 045	16 003	15 045
Provision for undrawn committed facilities and guarantees provided	-	130	-	130
Statement of comprehensive income charge	(261 969)	(244 231)	(261 969)	(244 231)
10. Staff Costs				
Salaries and current services costs on post-retirement benefits	(291 484)	(270 711)	(288 731)	(269 157)
Training costs	(5 681)	(5 293)	(5 681)	(5 293)
Staff medical costs	(15 604)	(15 157)	(15 604)	(15 157)
Leave pay	(1 358)	(6 949)	(1 358)	(6 949)
Allowances	(33 381)	(29 416)	(33 381)	(29 416)
Staff welfare	(4 945)	(2 284)	(4 945)	(2 284)
Pension cost - defined benefit plan amendments (note 33)	-	37 517	-	37 517
Pension cost - defined contribution plan	(31 088)	(32 045)	(31 088)	(32 045)
Total staff cost	(383 541)	(324 338)	(380 788)	(322 784)
Average number of employees during period	1 155	1 201	1 155	1 201
11. Infrastructure Costs				
Property cost	(9 821)	(10 550)	(9 821)	(10 550)
Equipment costs	(19 785)	(19 624)	(19 785)	(19 624)
Depreciation of property, plant and equipment	(30 037)	(31 617)	(30 037)	(31 617)
Operating lease rentals (note 34.1)	(50 415)	(49 170)	(50 415)	(49 170)
Amortisation of intangible assets	(7 550)	(13 365)	(7 550)	(13 365)
Software licensing and other information technology	(5 156)	(3 464)	(5 156)	(3 464)
Total infrastructure costs	(122 764)	(127 790)	(122 764)	(127 790)

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated		Company	
	2016 P'000	2015 P'000	2016 P'000	2015 P'000
12. Administrative and General Expenses				
Auditors' remuneration:				
Statutory audit	(5 113)	(4 928)	(5 113)	(4 928)
Other Services	(558)	(772)	(558)	(772)
	(5 671)	(5 700)	(5 671)	(5 700)
Consultancy, legal and professional fees	(31 298)	(34 722)	(31 298)	(34 722)
Marketing, advertising and sponsorship	(17 718)	(18 651)	(17 718)	(18 651)
Travel and accommodation	(4 451)	(7 341)	(4 451)	(7 341)
Cash Transport	(19 996)	(21 799)	(19 996)	(21 799)
Directors fees	(1 670)	(1 405)	(1 670)	(1 405)
Donations	(1 971)	(4 046)	(1 971)	(4 046)
Stationary and postage	(20 574)	(32 085)	(20 574)	(32 085)
Telephone	(17 386)	(21 352)	(17 386)	(21 352)
	(115 064)	(141 401)	(115 064)	(141 401)
Other costs - recharges by related parties	(48 874)	(46 294)	(48 874)	(46 294)
Other costs - general	(56 538)	(64 291)	(36 398)	(49 789)
	(105 412)	(110 585)	(85 272)	(96 083)
Total administrative and general expenses	(226 147)	(257 686)	(206 007)	(243 184)

13 Income Taxes

13.1 Income Tax Recognised in Profit Or Loss

Current tax				
Normal tax - current year	(129 042)	(73 266)	(127 516)	(71 930)
Prior year (over)/under provision	-	(5 205)	-	1 848
	(129 042)	(78 471)	(127 516)	(70 082)
Deferred tax				
Deferred tax expense recognised in the current year	23 816	6 787	25 197	6 577
	23 816	6 787	25 197	6 577
Total income tax recognised in the current year	(105 226)	(71 684)	(102 319)	(63 505)

The tax on the profit before tax differs from the theoretical amount as follows:

Profit before tax	494 470	332 185	480 752	327 334
Income tax expense calculated at 22% (2015: 22%)	(108 783)	(73 081)	(105 766)	(72 013)
Effect of income that is exempt from taxation	5 764	8 184	5 764	8 184
Effect of expenses that are not deductible in determining taxable profit	(2 207)	(1 582)	(2 317)	(1 524)
Prior year over provision	-	(5 205)	-	1 848
Income tax expense recognised in profit or loss	(105 226)	(71 684)	(102 319)	(63 505)
Effective tax rate	21.28%	21.57%	21.3%	19.4%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated		Company	
	2016	2015	2016	2015
14. Earnings Per Share				
	Thebe	Thebe	Thebe	Thebe
Basic and diluted earnings per share	45.68	30.57	44.41	30.96
	P'000	P'000	P'000	P'000
Basic and diluted earnings attributable to ordinary shareholders	389 244	260 501	378 433	263 829
	Number of shares	Number of shares	Number of shares	Number of shares
Issued shares at the beginning and end of the period	852 161	852 161	852 161	852 161
Weighted average number of ordinary shares	852 161	852 161	852 161	852 161

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

There were no potentially dilutive shares at 31 December 2016 (31 December 2015: Nil).

	Consolidated and Company	
	2016 P'000	2015 P'000
15. Cash and Balances At Central Bank		
Statutory reserve	429 650	466 383
Current account (note 43)	645 915	(2 435)
Reverse repo (note 43)	999 907	911 809
	2 075 472	1 375 757

The minimum statutory reserve with the Bank of Botswana is calculated at 5% (2015:5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing. The carrying value of these balances approximates their fair value.

The Bank holds a reverse repo with the Bank of Botswana as overnight lending placement for liquidity purposes. The balance is interest earning and the carrying value of the balance approximates the fair value.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company
	Assets P'000
16. Trading Portfolio	
2016	
Debt securities and other eligible bills	105 739
	105 739
2015	
Debt securities and other eligible bills	9 807
	9 807

	Notional Contract Amount P'000	Assets P'000	Liabilities P'000
17. Derivative Financial Instruments			
2016			
Foreign exchange derivatives			
Forward foreign exchange	13 341	4 947	6 931
Currency swap	711	538	375
Foreign exchange derivatives	14 052	5 485	7 306
Interest rate derivatives			
Interest rate swaps	67 524	-	8 169
Interest rate derivatives	67 524	-	8 169
Total Derivatives	81 576	5 485	15 475
2015			
Foreign exchange derivatives			
Forward foreign exchange	13 734	129 188	120 945
Foreign exchange derivatives	13 734	129 188	120 945
Interest rate derivatives			
Interest rate swaps	78 474	-	11 616
Interest rate derivatives	78 474	-	11 616
Total Derivatives	92 208	129 188	132 561

The Bank has an interest rate swap to hedge against its exposure to changes in the fair value of the USD loan granted to one of its corporate customers. This interest rate swap has been designated for hedge accounting.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
18. Available-For-Sale Investments		
Treasury bills		
Less than 1 month	754 881	1 207 185
1-3 months	798 990	445 197
3-12 months	-	100 691
	1 553 871	1 753 073
Treasury bonds		
1-3 months	115 893	-
1-5 years	84 660	53 200
	200 553	53 200
Equity securities	4 995	4 995
Debt securities	80	80
	5 075	5 075
	1 759 499	1 811 348
Balance at beginning of the year	1 811 348	1 406 704
Fair value adjustments	(1 245)	-
Net movement during the year	(50 604)	404 644
Balance at end of the year	1 759 499	1 811 348

The equity securities represent the Bank's stake in an unquoted property company, Barclays House (Pty) Ltd. This investment is stated at cost. The Directors believe that the difference between the fair value and the carrying value is not material for the users of these financial statements. Subsequent to year end a sale agreement has been concluded on 22 February 2017 to sell this equity stake for P8, 250 million.

The available-for-sale investments are carried at their fair values, due to their short maturity periods, the fair value adjustments are not significant to the Statement of Comprehensive Income. Bank of Botswana certificates amounting to P287 million and government bonds amounting to P113 million totalling P400 million (2015: P400.9 million) have been pledged as collateral for the use of the secured intra day trading facilities with Bank of Botswana.

19. Loans and Advances to Banks

Gross loans and advances to banks	334 615	366 954
Total carrying amount of loans and advances to banks	334 615	366 954

The carrying amount of the balance approximates its fair value. These balances are receivable on demand.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company
	2016
	P'000
20. Loans and Advances To Customers	
Mortgages	1 829 650
Personal and term loans	3 452 695
Credit cards	444 206
Instalment credit agreements - Gross advances (note 24)	184 121
Overdrafts	244 252
Foreign currency loans	1 441 847
Scheme loans	2 335 814
Gross loans and advances to customers	9 932 585
Less: allowance for impairment	
Identified impairment	(510 496)
Unidentified impairments	(46 108)
Allowance for impairment	(556 604)
Net loans and advances to customers	9 375 981

Loans and advance to customers include finance lease receivables.

Gross loans with variable rates are P7, 952 million (2015: P7, 909 million) and fixed rates are P1, 980 million (2015: P2, 346 million).

	2015
	P'000
Mortgages	1 831 662
Personal and term loans	4 054 692
Credit cards	466 083
Instalment credit agreements - Gross advances (note 24)	158 141
Overdrafts	163 597
Foreign currency loans	1 655 691
Scheme loans	1 925 233
Gross loans and advances to customers	10 255 099
Less: allowance for impairment	
Identified impairment	(432 333)
Unidentified impairments	(39 603)
Allowance for impairment	(471 936)
Net loans and advances to customers	9 783 163

Maturity analysis	2016 P'000	2015 P'000
Maturing within one year	2 055 724	2 593 442
Maturing after one year within five years	4 635 780	3 963 684
Maturing after five years	3 241 081	3 697 973
Total gross loans	9 932 585	10 255 099

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

20. Loans and Advances To Customers (continued)

Consolidated and Company

	2016 P'000			2015 P'000		
	Gross	Impairment allowance	Carrying amount	Gross	Impairment allowance	Carrying amount
Overdrafts	244 252	(18 937)	225 315	163 597	(13 297)	150 300
Mortgages	1 829 650	(52 728)	1 776 922	1 831 662	(46 807)	1 784 855
Term loans	4 894 542	(239 212)	4 655 330	5 710 383	(262 641)	5 447 742
Credit card	444 206	(53 361)	390 845	466 083	(48 620)	417 463
Scheme loans	2 335 814	(184 607)	2 151 207	1 925 233	(93 492)	1 831 741
Finance leases	184 121	(7 759)	176 362	158 141	(7 079)	151 062
	9 932 585	(556 604)	9 375 981	10 255 099	(471 936)	9 783 163

	Unidentified P'000	Identified P'000	Total P'000
2016			
Balance at beginning of the year	39 603	432 333	471 936
Impairment losses recognised	6 505	271 467	277 972
Amounts written off as uncollectible	-	(193 304)	(193 304)
Balance at end of the year	46 108	510 496	556 604

	Unidentified P'000	Identified P'000	Total P'000
2015			
Balance at beginning of the year	18 280	355 138	373 418
Impairment losses recognised	23 720	238 391	262 111
Amounts written off during the year as uncollectible	-	(160 888)	(160 888)
Impairment losses reversed	(2 397)	(308)	(2 705)
Balance at end of the year	39 603	432 333	471 936

21. Other Receivables

	2016 P'000	2015 P'000
Other receivables		
Prepayments	1 950	2 222
Clearing and other receivables	134 868	79 581
	136 818	81 803
Current	136 818	81 803
	136 818	81 803

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

Consolidated and Company

	Land and buildings P'000	Assets under construction P'000	Motor vehicles P'000	Computers and equipment P'000	Furniture and fittings P'000	Total P'000
22. Property Plant and Equipment						
Cost – 2016						
Balance at beginning of the year	200 618	27 781	12 485	149 144	45 094	435 122
Additions	604	1 749	27	9 770	2 740	14 890
Disposals	(381)	-	(544)	-	-	(925)
Balance at end of the year	200 841	29 530	11 968	158 914	47 834	449 087
Accumulated depreciation - 2016						
Balance at beginning of the year	(124 253)	-	(11 303)	(118 134)	(28 472)	(282 162)
Depreciation	(9 528)	-	(715)	(12 953)	(6 841)	(30 037)
Disposals	194	-	523	-	-	717
Balance at end of the year	(133 587)	-	(11 495)	(131 087)	(35 313)	(311 482)
Cost – 2015						
Balance at beginning of the year	172 703	39 839	12 485	141 329	44 144	410 500
Additions	10 139	5 718	-	7 815	950	24 622
Transfer from/(to) work in progress	17 776	(17 776)	-	-	-	-
Balance at end of the year	200 618	27 781	12 485	149 144	45 094	435 122
Accumulated depreciation - 2015						
Balance at beginning of the year	(111 955)	-	(9 908)	(103 459)	(25 223)	(250 545)
Depreciation	(12 298)	-	(1 395)	(14 675)	(3 249)	(31 617)
Balance at end of the year	(124 253)	-	(11 303)	(118 134)	(28 472)	(282 162)
Carrying amount at beginning of year 2016	76 365	27 781	1 182	31 010	16 622	152 960
Carrying amount at end of year 2016	67 254	29 530	473	27 827	12 521	137 605

Work in progress comprises of on-going refurbishment activities at Bank's various branches.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company		
	Internally generated software P'000	Other software P'000	Total P'000
23. Intangible Assets			
Cost - 2016			
Balance at beginning of the year	61 558	22 207	83 765
Acquisitions	-	199	199
Balance at end of the year	61 558	22 406	83 964
Amortisation and impairment losses - 2016			
Balance at the beginning of the year	(52 930)	(21 208)	(74 138)
Amortisation	(7 259)	(291)	(7 550)
Balance at end of the year	(60 189)	(21 499)	(81 688)
Cost - 2015			
Balance at beginning of the year	61 558	21 888	83 446
Acquisitions - internally developed	-	319	319
Balance at end of the year	61 558	22 207	83 765
Amortisation and impairment losses - 2015			
Balance at beginning of the year	(39 724)	(21 049)	(60 773)
Amortisation	(13 206)	(159)	(13 365)
Balance at end of the year	(52 930)	(21 208)	(74 138)
Carrying amount at beginning of year	8 628	999	9 627
Carrying amount at end of year	1 369	907	2 276

	2016 P'000	2015 P'000
Estimated future aggregated amortisation		
Within one year	2 276	7 351
One to two years	-	2 276
	2 276	9 627

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
24. Finance Lease Receivables		
Current finance lease receivables	12 083	21 869
Non-current finance lease receivables	172 038	136 272
	184 121	158 141

	Minimum lease payments	
	2016 P'000	2015 P'000
Not later than one year	12 311	22 181
Later than one year and not later than five years	177 225	145 223
Later than five years	25 842	13 490
	215 378	180 893
Less: unearned finance income	(31 257)	(22 753)
	184 121	158 141

The Bank enters into leasing arrangements in respect of motor vehicles, machinery and equipment. All of the leases are denominated in Pula. The average term of the finance leases entered into is five years. Under the terms of the lease arrangements, no contingent rentals are receivable. The accumulated allowance for uncollectable finance lease instalments receivable included in the allowance for impairment at the reporting date is P7.8 million (2015 : P7 million).

25. Cash		
Pula	299 370	302 247
Foreign currency	29 191	19 682
	328 561	321 929

The carrying value of the cash approximates their fair value.

26. Deposits From Banks		
Fixed deposits	404 775	430 127
	404 775	430 127

The balances are unsecured and payable on demand.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company
	2016 P'000
27. Customer Accounts	
Cheque account deposits	2 842 473
Savings and transmission accounts	5 843 525
Term deposits	2 533 083
Customer accounts	11 219 081

	2015 P'000
Cheque account deposits	2 838 289
Savings and transmission accounts	5 128 254
Term deposits	3 085 205
Customer accounts	11 051 748

	2016 P'000	2015 P'000
Interest bearing deposits	8 422 163	7 086 425
Non-interest bearing deposits	2 796 918	3 965 323
	11 219 081	11 051 748
Maturity analysis		
On demand	8 730 001	7 966 543
Maturing within one year	2 075 341	2 951 483
Maturing after one year but within five years	413 739	133 722
	11 219 081	11 051 748
Category analysis of deposits		
- Pula	1 808 695	1 950 479
- Foreign currency	1 033 778	887 810
Current accounts	2 842 473	2 838 289
- Pula	4 769 121	4 457 641
- Foreign currency	1 074 404	670 613
Savings accounts	5 843 525	5 128 254
- Pula	2 420 154	3 081 595
- Foreign currency	112 929	3 610
Term deposits	2 533 083	3 085 205
	11 219 081	11 051 748

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
27. Customer Accounts (continued)		
Sector analysis of deposits		
Private individuals	3 499 158	3 785 921
Other financial institutions	1 991 745	2 215 653
Parastatals	923 641	495 581
Business	3 651 415	3 277 929
Local Government	1 131 613	1 273 527
Central Government	21 509	3 137
	11 219 081	11 051 748
28. Debt Securities in Issue		
Fixed rate medium term notes	158 539	274 319
Floating rate medium term notes	43 855	43 911
Floating rate notes	56 159	33 995
	258 553	352 225

Floating rate notes

In 2014, the Bank established floating rate debt securities products placed with institutional investors. These comprise of various maturities and interest rates that are linked to market reference rates. In 2016 the Bank issued P56 million of floating rate notes (2015: P33 million). Notes matured in 2016 amounted to P147 million (2015: P202 million).

Medium term notes

In 2004, the Bank established and listed a domestic Medium Term Note Programme on the Botswana Stock Exchange. Under the programme, bank issued notes for such periods and on such terms as agreed with the investors.

In 2014, the bank listed a domestic Medium Term Note Programme on the Botswana Stock Exchange for up to P2 billion which comprises of P200 million subordinated debt of various maturities and interest rates to match the tenor of its long term asset book.

At the beginning of the year	352 225	502 472
Additions	55 840	33 710
Redemptions	(146 711)	(202 472)
Movement in accrued interest	(2 801)	18 515
At end of the year	258 553	352 225

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

28. Debt Securities in Issue (continued)

2016

					Consolidated and Company	
Issuance date	Principal (P '000)	Balance (P '000)	Interest Rate %	Interest basis	Redemption date	Stock code
31 October 2014	43 600	43 855	4.20	Floating	31/10/2019	BBB015
31 October 2014	156 400	158 539	8.00	Fixed	31/10/2019	BBB016
4 August 2016	23 143	23 280	4.01	Floating	07/08/2017	Unlisted
5 August 2016	4 777	4 805	4.01	Floating	07/08/2017	Unlisted
10 August 2016	23 143	23 270	4.01	Floating	11/08/2017	Unlisted
11 August 2016	4 777	4 804	4.01	Floating	11/08/2017	Unlisted
	255 840	258 553				

29. Subordinated Debt

2016

	Initial call date	Principal P'000	Interest Rate %	Maturity	2016 P'000	2015 P'000
Subordinated debt from Group entity ABSA Bank Limited	30/01/2015	250 000	4.263	30/01/2025	254 144	255 772
					254 144	255 772

In 2015, the Bank was issued with a P250 million subordinated debt from its Group entity ABSA Bank Limited. The debt attracts interest at the six months treasury bill rate plus 3.2%. As at 31 December the interest rate was 4.263% (2015: 5.472%). The interest rate is reviewed semi-annually and interest is paid semi-annually. This debt matures on 30 January 2025.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

30. Provisions

	Consolidated			
	Sundry Provisions P'000	Fees Refundable P'000	Commission refundable P'000	Total P'000
Balance at 1 January 2016	21 808	10 181	23 681	55 670
Provisions made during the year	10 517	-	7 640	18 157
Provisions used during the year	(14 001)	-	(11 122)	(25 123)
Provisions reversed during the year	(6 539)	-	-	(6 539)
Balance at 31 December 2016	**11 785**	**10 181**	**20 199**	**42 165**
Balance at 1 January 2015	9 921	10 674	25 524	46 119
Provisions made during the year	12 111	-	-	12 111
Provisions used during the year	(224)	(493)	(1 843)	(2 560)
Balance at 31 December 2015	**21 808**	**10 181**	**23 681**	**55 670**

Sundry provisions comprise of provision for claims against the Bank.

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

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

	Company		
	Sundry Provisions P'000	Fees Refundable P'000	Total P'000
Balance at 1 January 2016	45 489	10 181	55 670
Provisions made during the year	10 517	-	10 517
Provisions used during the year	(14 001)	-	(14 001)
Provisions reversed during the year	(6 539)	-	(6 539)
Transferred to other liabilities	(23 681)	-	(23 681)
Balance at 31 December 2016	**11 785**	**10 181**	**21 966**
Balance at 1 January 2015	35 445	10 674	46 119
Provisions made during the year	12 111	-	12 111
Provisions used during the year	(2 067)	(493)	(2 560)
Balance at 31 December 2015	**45 489**	**10 181**	**55 670**

Sundry provisions comprise of provision for claims against the Bank.

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

31. Trade and Other Payables

	Consolidated	
	2016 P'000	2015 P'000
Trade payables	26 801	21 687
Accrued expenses	9 539	2 668
Value added taxation	9 472	5 593
Clearing and other liabilities	141 687	99 747
Withholding taxes	2 017	1 415
Operating lease adjustment	11 611	8 510
Staff related accruals	53 218	31 548
	254 345	171 168

	Company	
	2016 P'000	2015 P'000
Trade payables	26 801	21 687
Accrued expenses	9 539	2 668
Value added taxation	9 472	5 593
Clearing and other liabilities	138 895	73 321
Withholding taxes	2 017	1 415
Operating lease adjustment	11 611	8 510
Staff related accruals	53 218	31 548
	251 553	144 742

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated	
	2016 P'000	2015 P'000
32. Deferred Tax		
Deferred tax balances		
The net deferred tax asset at the end of the year is as follows:		
Deferred tax asset	42 544	18 728

Deferred tax assets and liabilities are attributable to the following:

	Consolidated		
	Balance at 1 January P'000	Recognised in profit or loss P'000	Balance at 31 December P'000
2016			
Intangible assets	(1 898)	1 597	(301)
Property, plant and equipment	3 008	641	3 649
Receivables	(4 444)	11 479	7 035
Impairments	15 865	8 907	24 772
Other financial liabilities	6 543	1 607	8 150
Hedge	(346)	(415)	(761)
	18 728	23 816	42 544
2015			
Intangible assets	(4 988)	3 090	(1 898)
Property, plant and equipment	12 590	(9 582)	3 008
Receivables	4 499	(8 943)	(4 444)
Impairments	-	15 865	15 865
Employee benefits	(788)	788	-
Other financial liabilities	15 364	(8 821)	6 543
Hedge	-	(346)	(346)
Leases	(14 736)	14 736	-
	11 941	6 787	18 728

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Company	
	2016 P'000	2015 P'000
32. Deferred Tax (continued)		
Deferred tax balances		
The net deferred tax asset at the end of the year is as follows:		
Deferred tax asset	38 100	12 903

Deferred tax assets and liabilities are attributable to the following:

	Company		
	Balance at 1 January P'000	Recognised in profit or loss P'000	Balance at 31 December P'000
2016			
Intangible assets	(1 898)	1 597	(301)
Property, plant and equipment	3 008	641	3 649
Receivables	(4 444)	11 479	7 035
Impairments	15 865	8 907	24 772
Other financial liabilities	718	2 988	3 706
Hedge	(346)	(415)	(761)
	12 903	25 197	38 100
2015			
Intangible assets	(4 988)	3 090	(1 898)
Property, plant and equipment	12 590	(9 582)	3 008
Receivables	4 499	(8 943)	(4 444)
Impairments	-	15 865	15 865
Employee benefits	(788)	788	-
Other financial liabilities	9 749	(9 031)	718
Hedge	-	(346)	(346)
Leases	(14 736)	14 736	-
	6 326	6 577	12 903

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
33. Retirement Benefit Plans		
Defined benefit plans		
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	-	(232)
Interest on obligation	(7 065)	(7 854)
Losses arising from curtailments or settlements	-	37 219
Net interest cost on assets	6 637	8 384
Interest cost on irrecoverable surplus	428	-
	-	37 517
Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:		
Actuarial gains demographic assumptions	-	(24 508)
Actuarial losses financial assumptions	6 116	5 134
Experience adjustment	(3 185)	(14 212)
Return on plan assets	(2 931)	-
Change in Irrecoverable Surplus other than interest	-	(7 511)
Actuarial loss	-	(24 508)
	-	(65 605)

In the past, the Bank operated a defined benefit pension plan for its employees ("the Fund"). The Bank has since discontinued this Fund and currently there are no active employees within this Fund. The Board of Trustees of the Fund have obtained relevant regulatory approvals, and have wound up the defined benefit Fund by converting the deferred members within this Fund to transfer relevant member credits to their new employers' pension plans or purchase annuities from other service providers in the market. This process was concluded by 31 May 2015. Deferred defined benefits have been converted to defined contribution based on accrued benefits as at 31 May 2015. Annuities with respect to pensioners have been purchased with effect from 31 May 2015. Consequently the following accounting treatment has been adopted. In the past, the annual pension increase declared by the Board of Trustees of the Fund was closely aligned to the prevailing inflation and was higher than the 2.5% as prescribed by the Fund rules. At the time of sourcing annuities, this was regularised. This resulted in a one off credit of P37.2m in 2015 arising from plan amendments. This was been included within the staff costs. The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The remaining surplus is not available to the Bank and is treated as a reduction in asset ceiling and is accounted as such. The value as at 31 December 2016 was P8.2 million (2015: P7.7 million).

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plans is as follows:		
Present value of funded defined benefit obligation	(133 877)	(133 024)
Fair value of plan assets	133 877	133 024
Net liability arising from defined benefit obligation	-	-

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
Defined benefit plans (continued)		
Movements in the present value of the defined benefit obligation in the current year were as follows:		
Opening defined benefit obligation	(133 024)	(159 717)
Current service cost	(428)	(232)
Interest expense	(6 637)	(8 281)
Actuarial gains - demographical assumption	-	(9 078)
Actuarial losses - financial assumption	(6 116)	-
Experience adjustment	3 185	-
Losses on curtailments	-	(7 773)
Benefits paid	9 143	8 345
Settlements	-	6 493
Past Service Cost - Plan Amendments	-	37 219
Closing defined benefit obligation	(133 877)	(133 024)
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	133 024	163 297
Actuarial losses recognised in other comprehensive income	-	(24 508)
Return on plan assets (in excess of interest)	2 931	-
Interest income	7 065	8 646
Benefits paid	(9 143)	-
Settlement	-	(6 066)
Expenses paid	-	(8 345)
Closing fair value of plan assets	133 877	133 024

Actual return on plan assets

The insurance contract matches the benefit therefore the insurance asset taken as equal in value to the defined benefit obligation. The unused surplus in the Fund, is accumulated with the expected returns and the total value is added to the insurance policy value to determine the total value of the assets. The asset representing this surplus has been written down through an asset ceiling restriction as the Trustees had confirmed that the surplus would not be available to the Bank. As a result the net balance sheet asset at end 2016 is Nil (2015: P Nil) and the resulting expected net interest cost. continues to be applied with the insurance asset taken as equal in value to the Defined Benefit Obligation.

Actuarial assumptions

Principal assumptions at the reporting date (expressed in weighted averages):

	2016	2015
Discount rate at 31 December	5.0%	5.5%
Expected return on plan assets at 1 January	5.0%	5.0%
Future pension increases	2.5%	2.5%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
34. Operating Leases		
34.1 Leases as lessee		
Payments recognised as an expense		
Operating lease rentals	(46 946)	(35 153)
Operating lease IAS 17 charge	(3 469)	(14 017)
Operating lease commitments	(50 415)	(49 170)
Less than one year	24 826	24 331
Between one and five years	84 834	82 793
More than five years	41 013	59 510
	150 673	166 634
Liabilities recognised in respect of operating leases		
Lease commitments		
Current	2 816	3 418
Non-current	8 795	5 092
	11 611	8 510

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years.

35. Stated Capital

852 161 250 shares at no par value (2015: 852 161 250 shares at no par value)
All issued shares are fully paid.

Issued share capital		
852 161 250 (2015: 852 161 250) shares.	17 108	17 108
	17 108	17 108

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

36. Reserves

All reserves are shown net of deferred tax where applicable.

Share capital reserve

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

General risk reserve

A general risk reserve has been created in accordance with the requirements of the Bank's regulator, the Bank of Botswana. This reserve represents 1% of the Bank's loans and advances net of impairment provision.

Undistributed profits

Undistributed profits are retained in the revenue reserve.

Share-based reserves

Share-based reserves comprise of the Incentive Share Plan Scheme (Incentive Shares). Incentive Shares are granted to participants in the form of a provisional allocation of Barclays PLC shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares.

Available-for-sale investment reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of available for sale financial assets until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated	
	2016 P'000	2015 P'000
37. Cash Generated by Operations		
Profit for the year	389 244	260 501
Adjustments for:		
Income tax expense	105 226	71 684
Net interest income	(994 100)	(909 904)
Gain on disposal of property, plant and equipment	(2 191)	-
Net gain arising on financial assets designated as at fair value through profit or loss	(3 222)	(337)
Impairment loss recognised	261 969	244 231
Depreciation	30 037	31 617
Amortisation	7 550	13 365
Pension fund plan amendments	-	(37 517)
Cash used in operations before working capital changes	(205 487)	(326 360)
Changes in working capital		
(Increase)/decrease in trade and other receivables	(55 015)	156 428
Increase/(decrease) in trade and other payables	83 180	(16 629)
(Decrease)/increase in provisions	(13 505)	9 708
Increase in amounts owing to related parties	307 724	328 316
Total changes in working capital	322 384	477 823
Cash generated by operations	116 897	151 463

	Company	
Profit for the year	378 433	263 829
Adjustments for:		
Income tax expense	102 319	63 505
Net interest income	(994 100)	(909 904)
Gain on disposal of property, plant and equipment	(2 191)	-
Net gain arising on financial assets designated as at fair value through profit or loss	(3 222)	(337)
Impairment loss recognised	261 969	244 231
Depreciation	30 037	31 617
Amortisation	7 550	13 365
Pension fund plan amendments	-	(37 517)
Cash used in operations before working capital changes	(219 205)	(331 211)
Changes in working capital		
(Increase)/decrease in trade and other receivables	(55 015)	156 428
Increase/(decrease) in trade and other payables	106 811	(15 505)
(Decrease)/increase in provisions	(33 704)	9 918
Increase in amounts owing to related parties	314 919	331 687
Total changes in working capital	333 011	482 528
Cash generated by operations	113 806	151 317

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated	
	2016 P'000	2015 P'000
38. Taxation Paid		
Tax payable at the beginning of the year	(16 616)	(32 022)
Current tax expense	(129 042)	(73 266)
Prior year (underprovision)/overprovision	-	(5 205)
Other	(243)	-
Tax (receivable)/payable at the end of the year	(7 656)	16 616
	(153 557)	(93 877)
Current tax assets	7 656	3 016
Current tax liabilities	-	(19 632)
Tax receivable/(payable) at the end of the year	7 656	(16 616)

	Company	
Tax payable at the beginning of the year	(19 371)	(51 551)
Current tax expense	(127 516)	(71 930)
Prior year overprovision	-	(1 848)
Other	(242)	8 531
Tax (receivable)/payable at the end of the year	(3 337)	19 371
	(150 466)	(93 731)
Current tax assets	3 337	261
Current tax liabilities	-	(19 632)
Tax receivable/(payable) at the end of the year	3 337	(19 371)

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

	Consolidated and Company	
	2016 P'000	2015 P'000
39. Proceeds on Disposal Of Property, Plant And Equipment		
Carrying amount of property, plant and equipment disposed of (see note 22)	208	-
Profit on disposal	2 191	-
	2 399	-
40. Dividends Paid		
Dividends paid during the current year	189 998	200 002
	189 998	200 002
41. Finance Costs Paid		
Interest paid	(167 538)	(221 172)
	(167 538)	(221 172)
42. Finance Income Received		
Interest received	1 160 207	1 134 972
	1 160 207	1 134 972
43. Cash and Cash Equivalent Detail		
Cash and balances at central banks (note 15)	645 915	(2 435)
Reverse repo (note 15)	999 907	911 809
Cash (note 25)	328 561	321 929
Loans and advances to banks (note 19)	334 615	366 954
Deposits from banks (note 26)	(404 775)	(430 127)
Bank of Botswana notes	1 754 424	1 806 273
Loans and advances to related parties	1 070 351	560 038
Loans and advances from related parties	(867 681)	(595 538)
	3 861 317	2 938 903

Loans and advance to and from the related parties comprise of placings by the Bank with other banks within the Barclays Group and placings by other banks within the Barlays Group with the Bank.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments

44.1. Categories of Financial Instruments

Consolidated

	Fair value through profit or loss - Held for trading P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Total P'000
Assets as per Statement of Financial Position				
2016				
Cash	-	328 561	-	328 561
Cash and balances at central bank	-	2 075 472	-	2 075 472
Trading portfolio assets	105 739	-	-	105 739
Balances with related companies	-	1 075 643	-	1 075 643
Loans and advances to banks	-	334 615	-	334 615
Derivative financial instruments	5 485	-	-	5 485
Available-for-sale investments	-	-	1 759 499	1 759 499
Loans and advances to customers	-	9 375 981	-	9 375 981
Other receivables	-	136 818	-	136 818
Total	111 224	13 327 090	1 759 499	15 197 813

Company

	Fair value through profit or loss - Held for trading P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Total P'000
Assets as per Statement of Financial Position				
2016				
Cash	-	328 561	-	328 561
Cash and balances at central bank	-	2 075 472	-	2 075 472
Trading portfolio assets	105 739	-	-	105 739
Balances with related companies	-	1 075 643	-	1 075 643
Loans and advances to banks	-	334 615	-	334 615
Derivative financial instruments	5 485	-	-	5 485
Available-for-sale investments	-	-	1 759 499	1 759 499
Loans and advances to customers	-	9 375 981	-	9 375 981
Other receivables	-	136 818	-	136 818
Total	111 224	13 327 090	1 759 499	15 197 813

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments (continued)

44.1. Categories of Financial Instruments (continued)

Consolidated

	Fair value through profit or loss - Held for trading P'000	Available-for-sale investments P'000	Derivative instruments in designated hedge accounting relationships P'000	Financial liabilities carried at amortised cost P'000	Total P'000
Liabilities as per Statement of Financial Position					
2016					
Deposits from banks	-	-	-	404 775	404 775
Balances with related companies	-	-	-	1 195 531	1 195 531
Derivative financial instruments	7 306	-	8 169	-	15 475
Deposits due to customers	-	-	-	11 219 081	11 219 081
Debt securities in issue	-	-	-	258 553	258 553
Trade and other payables	-	-	-	254 345	254 345
Subordinated debt	-	-	-	254 144	254 144
Total	7 306	-	8 169	13 586 429	13 601 904
Movement in the statement of comprehensive income					
Interest income	6 156	15 912	-	-	22 068
Interest expense	(17 550)	-	-	-	(17 550)
Ineffectiveness of fair value hedge	-	-	15	-	15
Net movement from financial instruments designated at fair value	-	3 222	-	-	3 222
	(11 394)	19 134	15	-	7 755

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments (continued)

44.1. Categories of Financial Instruments (continued)

					Company
	Fair value through profit or loss - Held for trading P'000	Available-for-sale investments P'000	Derivative instruments in designated hedge accounting relationships P'000	Financial liabilities carried at amortised cost P'000	Total P'000
Liabilities as per Statement of Financial Position					
2016					
Deposits from banks	-	-	-	404 775	404 775
Balances with related companies	-	-	-	1 216 509	1 216 059
Derivative financial instruments	7 306	-	8 169	-	15 475
Deposits due to customers	-	-	-	11 219 081	11 219 081
Debt securities in issue	-	-	-	258 553	258 553
Trade and other payables	-	-	-	251 553	251 553
Subordinated debt	-	-	-	254 144	254 144
Total	7 306	-	8 169	13 604 615	13 619 640
Movement in the statement of comprehensive income					
Interest income	6 156	15 912	-	-	22 068
Interest expense	(17 550)	-	-	-	(17 550)
Ineffectiveness of fair value hedge	-	-	15	-	15
Net movement from financial instruments designated at fair value	-	3 222	-	-	3 222
	(11 394)	19 134	15	-	7 755

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments (continued)

44.1. Categories of Financial Instruments (continued)

				Consolidated
	Fair value through profit or loss - Held for trading P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Total P'000
Assets as per Statement of Financial Position				
2015				
Cash	-	321 929	-	321 929
Cash and balances at central bank	-	1 375 757	-	1 375 757
Trading portfolio assets	9 807	-	-	9 807
Balances with related companies	-	590 005	-	590 005
Loans and advances to banks	-	366 954	-	366 954
Derivative financial instruments	129 188	-	-	129 188
Available-for-sale investments	-	-	1 811 348	1 811 348
Loans and advances to customers	-	9 783 163	-	9 783 163
Other receivables	-	81 803	-	81 803
Total	138 995	12 519 611	1 811 348	14 469 954

				Company
	Fair value through profit or loss - Held for trading P'000	Loans and receivables P'000	Available-for-sale financial assets P'000	Total P'000
Assets as per Statement of Financial Position				
2015				
Cash	-	321 929	-	321 929
Cash and balances at central bank	-	1 375 757	-	1 375 757
Trading portfolio assets	9 807	-	-	9 807
Balances with related companies	-	590 005	-	590 005
Loans and advances to banks	-	366 954	-	366 954
Derivative financial instruments	129 188	-	-	129 188
Available-for-sale investments	-	-	1 811 348	1 811 348
Loans and advances to customers	-	9 783 163	-	9 783 163
Other receivables	-	81 803	-	81 803
Total	138 995	12 519 611	1 811 348	14 469 954

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments (continued)

44.1. Categories of Financial Instruments (continued)

					Consolidated
	Fair value through profit or loss - Held for trading P'000	Available-for-sale investments P'000	Derivative instruments designated hedge accounting relationships P'000	Financial liabilities carried at amortised cost P'000	Total P'000
Liabilities as per Statement of Financial Position					
2015					
Deposits from banks	-	-	-	430 127	430 127
Balances with related companies	-	-	-	640 335	640 335
Derivative financial instruments	120 945	-	11 616	-	132 561
Deposits due to customers	-	-	-	11 051 748	11 051 748
Debt securities in issue	-	-	-	352 225	352 225
Trade and other payables	-	-	-	171 168	171 168
Subordinated debt	-	-	-	255 772	255 772
Total	120 945	-	11 616	12 901 375	13 033 936
Movement in the statement of comprehensive income					
Interest income	13 540	29 167	-	-	42 707
Interest expense	(12 674)	-	-	-	(12 674)
Ineffectiveness of fair value hedge	-	-	205	-	205
Net movement from financial instruments designated at fair value	-	132	-	-	132
	866	29 299	205	-	30 370

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

44. Financial Instruments (continued)

44.1. Categories of Financial Instruments (continued)

Company

	Fair value through profit or loss - Held for trading P'000	Available-for-sale investments P'000	Derivative instruments in designated hedge accounting relationships P'000	Financial liabilities carried at amortised cost P'000	Total P'000
Liabilities as per Statement of Financial Position					
2015					
Deposits from banks	-	-	-	430 127	430 127
Balances with related companies	-	-	-	653 670	653 670
Derivative financial instruments	120 945	-	11 616	-	132 561
Deposits due to customers	-	-	-	11 051 748	11 051 748
Debt securities in issue	-	-	-	352 225	352 225
Trade and other payables	-	-	-	144 742	144 742
Subordinated debt	-	-	-	255 772	255 772
Total	120 945	-	11 616	12 888 284	13 020 845
Movement in the statement of comprehensive income					
Interest income	13 540	29 167	-	-	42 707
Interest expense	(12 674)	-	-	-	(12 674)
Ineffectiveness of fair value hedge	-	-	205	-	205
Net movement from financial instruments designated at fair value	-	132	-	-	132
	866	29 299	205	-	30 370

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management

45.1 Financial Risk Management Objectives

Risk management processes

The Bank's approach is to provide direction on: understanding the principal risks to achieving Bank strategy; establishing risk appetite; and establishing and communicating the risk management framework. The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps and Activities are:

Identify

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

Assess

- Agree and implement measurement and reporting standards and methodologies.

Control

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

Report

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

Manage and challenge

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45.2 Credit Risk

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

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

Unless otherwise disclosed below, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

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

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

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

	Consolidated and Company	
	2016 P'000	2015 P'000
Maximum credit risk		
Loans and advances to banks	334 615	366 954
Loans and advances to customers	9 932 585	10 255 099
Cash and balances at central bank	2 075 472	1 375 757
Available-for-sale investments	1 759 499	1 811 348
Trading portfolio assets	105 739	9 807
Balances with related companies	1 075 643	590 005
Derivative financial instruments	5 485	129 188
Other receivables	136 818	81 803
On statement of financial position	15 425 856	14 619 961
Commitments not recognised on the statement of financial position (note 50)	916 882	1 134 606
Total maximum exposure	16 342 738	15 754 567

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Retail Banking Credit Risk:

Growth:

Overall loans and advances were flat year-on-year. Retail loans are primarily driven by Scheme loans, Barclaycard and Mortgages.

Portfolio Performance:

Challenging year on the back of lower economic growth on account of retrenchments and closure of some mining and related entities. This resulted in a deterioration of the Loan loss rate ("LLR") from 318 bps to 367 bps while Non-performing Loans (NPL) impairment coverage increased by 23%. The Bank in turn revised the credit lending policy and cut off some high risk segments aimed at improving portfolio performance.

Impairment:

The retail impairment charge increased to P254m from P229m in the previous year. The increase was on account on impairment taken on mining entity exposures.

Wholesale credit risk

Growth:

Although the Wholesale portfolio remained relatively flat as at year end, there was a large ticket transaction to a mining house that had been paid off by year end. The portfolio remains within set appetite levels with noted increases in approved, yet undrawn facilities.

Management of credit risk

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

The Bank also uses a corporate grading structure which shows the borrower's probability of default. This, together with similar risk calibration of categories of personal sector lending, is used to estimate annual levels of future credit losses from the overall lending portfolio, averaged across the economic cycle (termed risk tendency). Such risk tendency estimates assist in portfolio management decisions, such as exposure limits to any single counterparty or borrower, desired aggregate exposure levels to individual sectors and pricing policy. Over time, it also provides a guide to changes in the underlying credit quality of the lending portfolio.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000	Derivative financial instruments P'000
Credit exposure by industry				
2016				
Private individuals	6 851 699	-	-	-
Mining companies	73 843	-	-	-
Parastatals	165 052	-	-	-
Business	2 841 991	-	-	-
Financial institutions	-	334 615	1 075 643	5 485
Gross Exposure	9 932 585	334 615	1 075 643	5 485
Allowance for impairment	(556 604)	-	-	-
Net Exposure	9 375 981	334 615	1 075 643	5 485
2015				
Private individuals	7 199 620	-	-	-
Mining companies	348 681	-	-	-
Parastatals	437 963	-	-	-
Business	2 268 835	-	-	-
Financial institutions	-	366 954	590 005	129 188
Gross Exposure	10 255 099	366 954	590 005	129 188
Allowance for impairment	(471 936)	-	-	-
Net Exposure	9 783 163	366 954	590 005	129 188

Consolidated and Company

Cash and balances at central bank P'000	Available-for-sale investments P'000	Trading portfolio assets P'000	Other assets P'000	Commitments not recognised on the statement of financial position P'000	Total P'000
-	-	-	-	444 236	7 295 935
-	-	-	-	1 814	75 657
-	-	-	-	50 541	215 593
-	-	5 075	-	420 291	3 267 357
2 075 472	105 739	1 754 424	136 818	-	5 488 196
2 075 472	105 739	1 759 499	136 818	916 882	16 342 738
-	-	-	-	-	(556 604)
2 075 472	**105 739**	**1 759 499**	**136 818**	**916 882**	**15 786 134**
-	-	-	-	422 952	7 622 572
-	-	-	-	1 698	350 379
-	-	-	-	48 454	486 417
-	-	5 075	-	449 770	2 723 680
1 375 757	9 807	1 806 273	81 803	211 732	4 571 519
1 375 757	9 807	1 811 348	81 803	1 134 606	15 754 567
-	-	-	-	-	(471 936)
1 375 757	**9 807**	**1 811 348**	**81 803**	**1 134 606**	**15 282 631**

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000	Derivative financial instruments P'000
Credit exposure by area 2016				
Botswana	9 831 697	319 650	-	4 834
South Africa	-	12 324	587 003	651
SADC	100 888	360	336	-
UK	-	1 426	488 304	-
Europe	-	855	-	-
Gross Exposure	9 932 585	334 615	1 075 643	5 485
Allowance for impairment	(556 604)	-	-	-
Net Exposure	9 375 981	334 615	1 075 643	5 485
Credit exposure by area 2015				
Botswana	9 985 408	353 921	-	44 435
South Africa	-	8 821	344 504	84 749
SADC	269 691	181	1 363	4
UK	-	-	244 138	-
Europe	-	3 398	-	-
Other	-	633	-	-
Gross Exposure	10 255 099	366 954	590 005	129 188
Allowance for impairment	(471 936)	-	-	-
Net Exposure	9 783 163	366 954	590 005	129 188

Consolidated and Company

	Cash and balances at central bank P'000	Available-for-sale investments P'000	Trading portfolio assets P'000	Other assets P'000	Commitments not recognised on the statement of financial position P'000	Total P'000
	2 075 472	1 759 499	105 089	136 818	916 882	15 149 941
	-	-	650	-	-	600 628
	-	-	-	-	-	101 584
	-	-	-	-	-	489 730
	-	-	-	-	-	855
	2 075 472	1 759 499	105 739	136 818	916 882	16 342 738
	-	-	-	-	-	(556 604)
	2 075 472	**1 759 499**	**105 739**	**136 818**	**916 882**	**15 786 134**
	1 375 757	1 811 348	9 807	81 803	1 134 606	14 797 085
	-	-	-	-	-	438 074
	-	-	-	-	-	271 239
	-	-	-	-	-	244 138
	-	-	-	-	-	3 398
	-	-	-	-	-	633
	1 375 757	1 811 348	9 807	81 803	1 134 606	15 754 567
	-	-	-	-		(471 936)
	1 375 757	**1 811 348**	**9 807**	**81 803**	**1 134 606**	**15 282 631**

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Overall loans and advances were flat year-on-year. This product rise is primarily driven by Scheme loans, Barclaycard and Mortgages. Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

	Consolidated and Company	
	Loans and advances to customers P'000	Total P'000
Loans and advances to customers stratification and analysis		
2016		
Credit exposure		
Neither past due nor individually impaired	9 237 454	9 237 454
Arrears <= 1 instalment	73 372	73 372
Arrears > 1 instalment	621 759	621 759
Gross accounts receivable	9 932 585	9 932 585
Breakdown of arrear receivables		
Arrear <= 2 instalments	47 292	47 292
Arrear <= 3 instalments	58 551	58 551
Individually impaired	515 916	515 916
	621 759	621 759
Movement in the impairment provision		
Balance at the beginning of the period	(471 936)	(471 936)
Bad debts written off	193 304	193 304
Increase in impairment provision	(277 972)	(277 972)
Balance at the end of the period	(556 604)	(556 604)
Net carrying amount	9 375 981	9 375 981
Risk analysis - up to date accounts		
Strong	6 037 335	6 037 335
Satisfactory	2 874 552	2 874 552
Higher risk	325 567	325 567
Total up to date accounts	9 237 454	9 237 454

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

	Consolidated and Company	
	Loans and advances to customers P'000	Total P'000
Loans and advances to customers stratification and analysis		
2015		
Credit exposure		
Neither past due nor individually impaired	9 602 791	9 602 791
Arrears <= 1 instalment	118 130	118 130
Arrears > 1 instalment	534 178	534 178
Gross accounts receivable	10 255 099	10 255 099
Breakdown of arrear receivables		
Arrear <= 2 instalments	44 520	44 520
Arrear <= 3 instalments	36 072	36 072
Arrear <= 4 instalments	10 047	10 047
Individually impaired	443 539	443 539
	534 178	534 178
Movement in the impairment provision		
Balance at the beginning of the period	(373 418)	(373 418)
Bad debts written off	160 888	160 888
Increase in impairment provision	(262 111)	(262 111)
Impairment no longer required	2 705	2 705
Balance at the end of the period	(471 936)	(471 936)
Net carrying amount	9 783 163	9 783 163
Risk analysis - up to date accounts		
Strong	5 439 289	5 439 289
Satisfactory	4 020 637	4 020 637
Higher risk	142 865	142 865
Total up to date accounts	9 602 791	9 602 791

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Individually impaired

This category comprises loans where an individual impairment allowance has been raised. This category also comprises loans which are in the Recovery/Legal Book, i.e. charged-off and so normally more than 90 days past due on loans and 180 days on cards.

Financial assets assessed as impaired are as follows:

Credit mitigation

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

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

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

The Bank may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impractical to provide an estimate of the amount (fair value or nominal value) of this collateral and the value of this collateral is not reported.

Collateral includes guarantees and/or letters of credit from third parties; physical collateral including highly liquid securities held under reverse repo agreements and fixed charges over property; and cash collateral.

The Bank obtains collateral in respect of loans receivable where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets.

Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from Group or other counterparties.

Any interest payable or receivable arising is recorded as interest expense or interest respectively except for funding costs relating to trading activities which are recorded in Net trading and investment income.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Credit mitigation (continued)

	Consolidated and Company					
						2016
Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Total unsecured P'000
On-statement of financial position exposure						
Balances with Bank of Botswana	2 075 472	-	-	-	-	2 075 472
Available-for-sale investments	1 759 499	-	-	-	-	1 759 499
Trading portfolio assets	105 739	-	-	-	-	105 739
Balances with related companies	1 075 643	-	-	-	-	1 075 643
Loans and advances to banks	334 615	-	-	-	-	334 615
Derivative financial instruments	5 485	-	-	-	-	5 485
Loans and advances to customers	9 932 585	309 304	3 077 512	35 777	103 424	6 406 568
Other assets	136 818	-	-	-	-	136 818
Total exposures subject to credit risk	15 425 856	309 304	3 077 512	35 777	103 424	11 899 839

						2015
Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Total unsecured P'000
On-statement of financial position exposure						
Balances with Bank of Botswana	1 375 757	-	-	-	-	1 375 757
Available-for-sale investments	1 811 348	-	-	-	-	1 811 348
Trading portfolio assets	9 807	-	-	-	-	9 807
Balances with related companies	590 005	-	-	-	-	590 005
Loans and advances to banks	366 954	-	-	-	-	366 954
Derivative financial instruments	129 188	-	-	-	-	129 188
Loans and advances to customers	10 255 099	261 570	2 256 543	124 721	34 924	7 577 341
Other assets	81 803	-	-	-	-	81 803
Total exposures subject to credit risk	14 619 961	261 570	2 256 543	124 721	34 924	11 942 203

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Credit mitigation (continued)

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

The description and fair value of collateral and other credit enhancements held in respect of financial assets that are past due or individually assessed as impaired was as follows:

	Consolidated and Company	
	2016 Fair value P'000	2015 Fair value P'000
Nature of assets		
Residential property - Immovable property	74 798	71 798
Leases - Movable Property	4 277	-
Total	79 075	71 798

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

Enforcement of collateral

The carrying value of assets held by the Bank as at 31 December 2016 as a result of the enforcement of collateral was as follows:

	Consolidated and Company	
	2016 Carrying amount P'000	2015 Carrying amount P'000
Nature of assets		
Mortgages - immovable property	9 506	9 907
Leases - movable property	1 326	3 936
Total	10 832	13 843

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

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal credit ratings, was as follows:

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Credit mitigation (continued)

Financial statement descriptions can be summarised as follows:

- Strong – there is a very high likelihood of the asset being recovered in full.
- Satisfactory – whilst there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Bank, the asset may not be collateralised, or may relate to retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification. At the lower end of this grade there are customers that are being more carefully monitored, for example, corporate customers which are indicating some evidence of deterioration, mortgages with a high loan to value ratio, and unsecured retail loans operating outside normal product guidelines.
- Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	Retail lending probability of default %	Wholesale lending probability of default %	Default Grade
Financial statements description			
Strong	0.0-0.60	0.0-0.05	1-3
		0.05-0.15	4-5
		0.15-0.30	6-8
		0.30-0.60	9-11
Satisfactory	0.60-10.00	0.60-2.15	12-14
		2.15-11.35	15-19
Higher risk	10.00 +	11.35 +	20-21

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Credit mitigation (continued)

The table below summarises the sensitivity analysis on impairment losses:

Consolidated and Company

2016

	Existing impairment allowance	Impact on changes in Loss Given Default		Impact on changes in Probability of default	
		(+) 5%	(-) 5%	(+) 10%	(-) 10%
	P'000	P'000	P'000	P'000	P'000
Identified	510 496	17 437	(21 264)	36 075	(39 168)
Unidentified	46 108	9 471	(4 178)	12 118	(2 185)
Total	556 604	26 908	(25 442)	48 193	(41 353)

2015

	Existing impairment allowance	Impact on changes in Loss Given Default		Impact on changes in Probability of default	
		(+) 5%	(-) 5%	(+) 10%	(-) 10%
	P'000	P'000	P'000	P'000	P'000
Identified	432 333	35 675	(8 305)	18 902	(80 928)
Unidentified	39 603	15 336	(8 998)	43 882	(32 087)
Total	471 936	51 011	(17 303)	62 784	(113 015)

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Credit mitigation (continued)

Credit quality of financial assets neither past due nor impaired

The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal credit ratings, was as follows;

2016	Consolidated and Company			
	Strong P'000	Satisfactory P'000	Higher risk P'000	Total P'000
Balances with Bank of Botswana	2 075 472	-	-	2 075 472
Loans and advances to banks	334 165	-	-	334 165
Loans and advances to customers:				
Overdrafts	51 521	142 890	-	194 411
Mortgages	1 639 078	-	122 393	1 761 471
Term loans	1 961 208	2 660 392	123 007	4 744 607
Credit card	375 665	-	-	375 665
Scheme loans	1 903 027	-	78 564	1 981 591
Lease instalments	106 836	71 270	1 603	179 709
Total loans and advances to customers	6 037 335	2 874 552	325 567	9 237 454

2015	Strong P'000	Satisfactory P'000	Higher risk P'000	Total P'000
Balances with Bank of Botswana	1 375 757	-	-	1 375 757
Loans and advances to banks	366 954	-	-	366 954
Loans and advances to customers:				
Overdrafts	106 908	16 994	4 490	128 392
Mortgages	-	1 739 572	-	1 739 572
Term loans	3 102 899	2 140 914	136 748	5 380 561
Credit card	398 009	-	-	398 009
Scheme loans	1 812 522	-	-	1 812 522
Lease instalments	18 951	123 157	1 627	143 735
Total loans and advances to customers	5 439 289	4 020 637	142 865	9 602 791

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Financial assets that are past due but not individually impaired

An age analysis of assets that are past due but not individually impaired are as follows:

	Consolidated and Company				
2016	Arrears <= 1 instalment P'000	Arrear <= 2 instalments P'000	Arrear <= 3 instalments P'000	Arrear <= 4 instalments P'000	Total P'000
Loans and advances to customers:					
Overdrafts	3 588	782	596	-	4 966
Mortgages	16 186	7 274	3 475	-	26 935
Term loans	29 412	24 922	29 693	-	84 027
Credit card	10 306	5 616	17 209	-	33 131
Scheme loans	11 975	8 116	6 815	-	26 906
Lease instalments	1 905	582	763	-	3 250
Total loans and advances to customers	73 372	47 292	58 551	-	179 215

2015	Arrears <= 1 instalment P'000	Arrear <= 2 instalments P'000	Arrear <= 3 instalments P'000	Arrear <= 4 instalments P'000	Total P'000
Loans and advances to customers:					
Overdrafts	1 171	35	50	-	1 257
Mortgages	29 594	9 231	5 888	-	44 713
Term loans	42 532	20 007	17 161	-	79 699
Credit card	10 836	5 602	13 815	10 047	40 300
Scheme loans	29 025	7 184	8 041	-	44 250
Lease instalments	4 972	2 461	1 163	-	8 596
Total loans and advances to customers	118 130	44 520	36 072	10 047	21 816

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Impaired financial assets

This category comprises loans where an individual impairment allowance has been raised. This category comprises of retail loans which are in charge off status in the Recovery/Legal Book, i.e. charged-off and more than 90 days past due on loans about 180 days past due on cards Financial assets assessed as impaired as follows:

	Consolidated and Company					
			2016			2015
	Original carrying amount P'000	Impairment allowance P'000	Revised carrying amount P'000	Original carrying amount P'000	Impairment allowancea P'000	Revised carrying mount P'000
Loans and advances to customers: Term loans	12 105	(8 856)	3 249	9 571	(3 140)	6 431
Loans and advances to customers: individually assessed as impaired	-	-	-	-	-	-
Financial assets collectively assessed as impaired	503 811	(501 640)	2 171	433 968	(429 193)	4 775
Total impaired financial assets	515 916	(510 496)	5 420	443 539	(432 333)	11 206

The impairment coverage ratio for the year ended was 99% (2015: 97%).

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.3 Market Risk

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

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

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

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

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

Market risk measurement

The techniques used to measure and control market risk include:

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

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

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

Stress tests

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.3 Risk (continued)

Analysis of trading market risk exposures
The table below shows the DVaR statistics

	Consolidated and Company		
	12 months to 31 December 2016		
	Average P'000	High P'000	Low P'000
Interest rate risk	35	80	17
Foreign currency risk	460	2 523	15
	495	2 603	32

	12 months to 31 December 2015		
	Average P'000	High P'000	Low P'000
Interest rate risk	140 489	170 351	108 679
Foreign currency risk	75	434	17
	140 564	170 785	108 696

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

	100 bps parallel increase	100 bps parallel decrease	50 bps increase after 1 year	50 bps decrease after 1 year
2016				
At 31 December	(30 472)	30 472	(15 236)	15 236
Average for the period	(24 075)	24 075	(12 038)	12 038
Maximum for the period	(60 944)	60 944	(30 472)	30 472
2015				
At 31 December	(29 563)	29 563	(14 781)	14 781
Average for the period	(44 007)	44 007	(22 003)	22 003
Maximum for the period	(54 446)	54 446	(27 223)	27 223

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.2 Credit Risk (continued)

Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Treasury division at least monthly through ALCO.

	2016			2015		
	Interest rates Average	Interest rates High	Interest rates Low	Interest rates Average	Interest rates High	Interest rates Low
Assets:						
Loans and advances to banks:						
BWP	1.51%	2.50%	1.00%	2.94%	4.75%	1.50%
USD	0.31%	0.60%	0.25%	0.11%	0.42%	0.05%
ZAR	6.77%	7.80%	5.95%	5.60%	6.56%	5.40%
Bank of Botswana certificates						
14 day	0.88%	1.04%	0.73%	2.04%	3.13%	1.04%
91 day	1.16%	1.52%	1.00%	1.97%	3.17%	1.20%
Loans and advances:						
Corporate	8.00%	27.00%	6.00%	6.87%	35.00%	4.75%
Retail	14.40%	19.00%	11.4%	14.40%	19.00%	14.40%
Staff	5.50%	6.50%	0.00%	5.50%	6.50%	0.00%
Balances with related companies:						
USD	0.31%	0.60%	0.25%	0.16%	0.18%	0.16%
ZAR	6.77%	7.80%	5.95%	5.45%	5.62%	5.40%
Liabilities:						
Deposits due to customers:						
Corporate	0.33%	7.80%	0.00%	2.58%	10.35%	0.00%
Retail	1.75%	3.50%	0.00%	2.28%	4.50%	0.05%
Staff	1.75%	3.50%	0.00%	4.28%	5.20%	4.00%
Deposits from banks:						
BWP	1.83%	2.50%	1.03%	3.84%	12.50%	0.80%
USD	1.21%	1.55%	0.28%	0.12%	1.19%	0.01%
Balances with related companies						
USD	1.21%	1.55%	0.28%	0.26%	0.26%	0.26%
Medium term notes	6.82%	10.75%	3.85%	7.36%	10.75%	4.20%
Floating rate notes	4.91%	7.32%	4.01%	5.39%	6.75%	3.90%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.4 Foreign Currency Risk

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

The Bank takes on foreign exchange risk through both the banking and trading books. Foreign Exchange ("Fx") exposure to the banking book occurs through the Bank granting foreign currency denominated loans and advances, as well as raising funds denominated in foreign currency. Additional foreign exchange exposure is taken through the trading book; in particular, through FX forwards (including unmatured spot transactions), FX Swaps, and other market making activities. The Bank manages foreign exchange exposures in line with ALCO and Barclays Bank market risk guidelines. Typically, all currencies other than the US dollar are fully matched with open positions being taken on the US dollar up to a maximum open position of US$25million. The limit was adhered to throughout the year. The Bank conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intra day limit is set at US$19million and the overnight limit is US$17 million. These limits were adhered to throughout the year. Market risk regulatory capital calculations (Trading and Banking Books)

The Bank is required to hold adequate capital to cover losses due to exposures to Market Risk. For day to day risk management, the Bank uses internal models such as DVaR, Net interest income and EVE sensitivity, etc. However, for regulatory capital calculations, and as required by the Bank of Botswana, the Bank uses the Standardised Measurement Method. This entails using the prescribed methods to calculate the capital charge for the market risk that the Bank is exposed to. The Internal Models Approach (use of DVaR, SVaR) for regulatory capital calculations is not permitted under current Bank of Botswana regulatory guidelines. The risks that form part of the Bank's capital charge are as follows: The interest rate and equity risks pertaining to financial instruments in the trading book; and Foreign exchange risk and commodities risk in the trading and banking books. In particular; the General and Specific Interest rate risk, the general and specific equity risks, the FX risks (including banking book) and commodity risks. The Bank uses the standardised maturity method for calculating its general interest rate risk, with adjustments for basis and correlation effects. The measurement methods are in line with Basel 2, which became effective 1 January 2016.

45.5 Other Risks

Operational Risk

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

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

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

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- compliance with regulatory and other legal requirements
- reporting of operational losses and proposed remedial action

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.5 Other Risks (continued)

Operational Risk (continued)

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

In 2016 there was continued transformation of the Operational Risk management capabilities within the Bank. The investment in operational risk within the Bank remains sound. The focus on the management of operational risk is moving ahead with the industry trends as evidenced by the rollout of a number of strategic tools such as the Enterprise Risk management framework & Basel Committee on Banking Supervision (BCBS) 239 principles. The Bank continues to make strides in using operational risk management systematically to advance business objectives; this is evidenced by the lead indicators for operational risk showing a strong and stable performance for the 2016 financial year. The transformation process will continue into 2017 where new technology and new processes will further enhance the Bank's operational risk framework.

45.6 Liquidity Risk

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Liquidity Risk (continued)

Liquidity and interest risk tables

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

Consolidated

	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	5+ years P'000	Total P'000
2016						
Due to related parties	981 864	213 667	-	-	-	1 195 531
Customer accounts	9 128 914	987 908	974 987	473 973	-	11 565 782
Debt securities in issue	319	2 304	57 196	234 840	-	294 659
Subordinated debt	4 144	-	10 658	53 288	271 315	339 405
Deposits from banks	354 731	50 044	-	-	-	404 775
Trade and other payables	254 345	-	-	-	-	254 345
Commitments not recognised on the statement of financial position	916 882	-	-	-	-	916 882
	11 641 199	1 253 923	1 042 841	762 101	271 315	14 971 379

	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	5+ years P'000	Total P'000
2015						
Due to related parties	99 607	225 303	315 425	-	-	640 335
Customer accounts	8 514 009	1 470 466	975 623	149 659	-	11 109 757
Debt securities in issue	6 153	105 647	10 614	243 030	-	365 444
Subordinated debt	5 772	3 448	10 344	68 437	304 795	392 796
Deposits from banks	339 386	60 559	30 182	-	-	430 127
Trade and other payables	171 168	-	-	-	-	171 168
Commitments not recognised on the statement of financial position	1 134 606	-	-	-	-	1 134 606
	10 270 701	1 865 423	1 342 188	461 126	304 795	14 244 233

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Liquidity Risk (continued)

Liquidity and interest risk tables (continued)

Company

	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	5+ years P'000	Total P'000
2016						
Due to related parties	1 002 392	213 667	-	-	-	1 216 059
Customer accounts	9 128 914	987 908	974 987	473 973	-	11 565 782
Debt securities in issue	319	2 304	57 196	234 840	-	294 659
Subordinated debt	4 144	-	10 658	53 288	271 315	339 405
Deposits from banks	354 731	50 044	-	-	-	404 775
Trade and other payables	251 553	-	-	-	-	251 553
Commitments not recognised on the statement of financial position	916 882	-	-	-	-	916 882
	11 658 935	1 253 923	1 042 841	762 101	271 315	14 989 115

	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	5+ years P'000	Total P'000
2015						
Due to related parties	112 942	225 303	315 425	-	-	653 670
Customer accounts	8 514 009	1 470 466	975 623	149 659	-	11 109 757
Debt securities in issue	6 153	105 647	10 614	243 030	-	365 444
Subordinated debt	5 772	3 448	10 344	68 437	304 795	392 796
Deposits from banks	339 386	60 559	30 182	-	-	430 127
Trade and other payables	144 742	-	-	-	-	144 742
Commitments not recognised on the statement of financial position	1 134 606	-	-	-	-	1 134 606
	10 257 610	1 865 423	1 342 188	461 126	304 795	14 231 142

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Liquidity Risk (continued)

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

	Consolidated and Company		
	Less than 1 month P'000	5+ years P'000	Total P'000
2016			
Gross settled:			
Derivative financial instruments	14 052	67 524	81 576
2015			
Gross settled:			
Derivative financial instruments	13 734	78 474	92 208

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn. The consequences of this may be the failure to meet obligations to repay depositors and to fulfil commitments to lend. Liquidity risk, more generally, is the risk that the Bank will be unable to continue operating as a going concern due to a lack of funding. Liquidity risk is inherent in all banking operations. Confidence in the organisation, and hence liquidity, can be affected by a range of institution specific and market-wide events including, but not limited to, market rumours, credit events, payment system disruptions, systemic shocks, terrorist attacks and even natural disasters. The appropriate and efficient management of liquidity risk by banks is of utmost importance in maintaining confidence in the financial markets and in ensuring that banks pursue sustainable business models.

The Bank's liquidity risk management objectives are:

- growing and diversifying the funding base to support asset growth and other strategic initiatives;
- lengthening the Bank's funding profile in order to improve key liquidity metrics, thereby reducing the Bank's liquidity risk exposure;
- managing the weighted average cost of funding.

The Bank's liquidity risk position is managed in line with the board-approved liquidity risk appetite. Treasury is responsible for implementing the liquidity risk framework and policy and for ensuring that liquidity risk is adequately managed across the Bank. Treasury also monitors and manages the Bank's liquidity position to ensure full regulatory compliance in respect of liquidity risk management and reporting. As part of this process, Treasury takes the contractual and business-as-usual liquidity positions, as well as the stress tested liquidity position into consideration.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Liquidity Risk (continued)

Business-as-usual liquidity risk management refers to the management of the cash inflows and outflows of the Bank in the ordinary course of business. The business-as-usual environment tends to display fairly high probability, low severity liquidity events and involves balancing the Bank's day-to-day cash needs. Treasury's approach to managing business-as-usual liquidity focuses on the following key areas:

- managing net anticipated cash flows (between assets and liabilities)
- active daily management of the funding and liquidity profile, taking the board-approved liquidity risk metrics into consideration. These metrics were designed to ensure compliance with the Bank's business-as-usual liquidity risk tolerance and to position the Bank to deal with stressed liquidity events;
- maintaining a portfolio of highly liquid assets as a buffer against any unforeseen interruption to cash flow;
- participating in local money and capital markets to support the day-to-day funding requirements such as refinancing maturities, meeting customer withdrawals and supporting growth in advances.
- monitoring and managing liquidity costs; and
- conducting an on-going assessment of the various funding sources in order to grow and diversify the Bank's funding base and achieve an optimal funding profile.

Key risk metrics used in business -as -usual liquidity management:

Short-, medium- and long-term funding ratios - Provides a measure of the contractual term of the funding used. For example, the long-term funding ratio shows the proportion of total funding that has a remaining contractual term in excess of six months.

Interbank funding ratio - Provides an indication of the extent to which reliance is placed on funding from other banks.

Short-term maturity cash flow mismatches (at a contractual and behavioural level) - Provides a measure of the extent to which cash flow mismatches occur in the short term (i.e. less than one month).

Cash outflow limits - Measures expected cash outflows against predetermined limits.

Concentration of deposits - Provides a measure of the extent to which reliance is placed on funding from certain customers or market sectors.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Liquidity Risk (continued)

Stress liquidity risk

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

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

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

	Consolidated and Company	
	2016	2015
At 31 December		
Foreign currency	16.3%	23.96%
Local currency	37.92%	37.72%
Average for the period		
Foreign currency	18.97%	23.39%
Local currency	39.03%	42.66%
Maximum for the period		
Foreign currency	23.05%	29.88%
Local currency	40.41%	46.62%
Minimum for the period		
Foreign currency	16.30%	19.57%
Local currency	37.92%	37.72%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Interest Rate Risk

Exposure to interest rate risk – non-trading portfolios

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

	Consolidated						
	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2016							
Assets							
Cash	-	-	-	-	-	328 561	328 561
Cash and balances at central bank	999 907	-	-	-	-	1 075 565	2 075 472
Available-for-sale investments	1 691 499	68 000	-	-	-	-	1 759 499
Trading portfolio assets	105 739	-	-	-	-	-	105 739
Due from related parties	1 055 185	2 255	18 203	-	-	-	1 075 643
Loans and advances to banks	334 615	-	-	-	-	-	334 615
Derivative financial instruments	-	-	-	-	-	5 485	5 485
Loans and advances to customers	7 395 845	124 079	523 097	1 243 285	89 675	-	9 375 981
Other receivables	-		-	-	-	136 818	136 818
Total assets	11 582 790	194 334	541 300	1 243 285	89 675	1 546 429	15 197 813
Liabilities							
Deposits from banks	404 775	-	-	-	-	-	404 775
Due from related parties	1 195 531	-	-	-	-	-	1 195 531
Derivative financial instruments	-	-	-	-	-	15 475	15 475
Customer accounts	6 179 715	941 968	886 352	414 128	-	2 796 918	11 219 081
Trade and other payables	-	-	-	-	-	254 345	254 345
Provisions	-	-	-	-	-	42 165	42 165
Debt securities in issue	-	58 553	43 600	156 400	-	-	258 553
Subordinated Debt	254 144	-	-	-	-	-	254 144
Total liabilities	8 034 165	1 000 521	929 952	570 528	-	3 108 903	13 644 069
Total interest sensitivity gap	3 548 625	(806 187)	(388 652)	672 757	89 675	(1 562 474)	1 553 744

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Interest Rate Risk (continued)

	Consolidated						
	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2015							
Assets							
Cash	-	-	-	-	-	321 929	321 929
Cash and balances at central bank	911 809	-	-	-	-	463 948	1 375 757
Available-for-sale investments	1 213 518	444 630	100 000	53 200	-	-	1 811 348
Trading portfolio assets	-	-	-	3 578	6 229	-	9 807
Due from related parties	315 475	5 824	-	-	-	268 706	590 005
Loans and advances to banks	335 031	-	-	-	-	31 923	366 954
Derivative financial instruments	-	-	-	-	-	129 188	129 188
Loans and advances to customers	7 436 565	218 354	567 108	1 441 390	119 746	-	9 783 163
Other receivables	-	-	-	-	-	81 803	81 803
Total assets	10 212 398	668 808	667 108	1 498 168	125 975	1 297 497	14 469 954
Liabilities							
Deposits from banks	312 148	60 559	30 182	-	-	27 238	430 127
Due from related parties	-	226 173	316 367	-	-	97 795	640 335
Derivative financial instruments	-	-	-	-	-	132 561	132 561
Customer accounts	4 547 811	1 458 470	946 421	133 722	-	3 965 323	11 051 748
Trade and other payables	-	-	-	-	-	171 168	171 168
Provisions	-	-	-	-	-	55 670	55 670
Debt securities in issue	-	105 647	10 614	235 964	-	-	352 225
Surbodinated debt	-	-	-	-	255 772	-	255 772
Total liabilities	4 859 959	1 850 849	1 303 584	369 686	255 772	4 449 755	13 089 605
Total interest sensitivity gap	5 352 439	(1 182 041)	(636 476)	1 128 482	(129 797)	(3 152 258)	1 380 349

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Interest Rate Risk (continued)

Company

	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2016							
Assets							
Cash	-	-	-	-	-	328 561	328 561
Cash and balances at central bank	999 907	-	-	-	-	1 075 565	2 075 472
Available-for-sale investments	1 691 499	68 000	-	-	-	-	1 759 499
Trading portfolio assets	105 739	-	-	-	-	-	105 739
Due from related parties	1 055 185	2 255	18 203	-	-	-	1 075 643
Loans and advances to banks	334 615	-	-	-	-	-	334 615
Derivative financial instruments	-	-	-	-	-	5 485	5 485
Loans and advances to customers	7 395 845	124 079	523 097	1 243 285	89 675	-	9 375 981
Other receivables	-		-	-	-	136 818	136 818
Total assets	11 582 790	194 334	541 300	1 243 285	89 675	1 546 429	15 197 813
Liabilities							
Deposits from banks	404 775	-	-	-	-	-	404 775
Due from related parties	880 567	-	-	-	-	335 492	1 216 059
Derivative financial instruments	-	-	-	-	-	15 475	15 475
Customer accounts	6 179 715	941 968	886 352	414 128	-	2 796 918	11 219 081
Trade and other payables	-	-	-	-	-	251 553	251 553
Provisions	-	-	-	-	-	21 966	21 966
Debt securities in issue	-	58 553	43 600	156 400	-	-	258 553
Subordinated Debt	254 144	-	-	-	-	-	254 144
Total liabilities	8 034 165	1 000 521	929 952	570 528	-	3 421 404	13 641 606
Total interest sensitivity gap	3 548 625	(806 187)	(388 652)	672 757	89 675	(1 874 975)	1 556 207

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.6 Interest Rate Risk (continued)

							Company
	Less than 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
2015							
Assets							
Cash	-	-	-	-	-	321 929	321 929
Cash and balances at central bank	911 809	-	-	-	-	463 948	1 375 757
Available-for-sale investments	1 213 518	444 630	100 000	53 200	-	-	1 811 348
Trading portfolio assets	-	-	-	3 578	6 229	-	9 807
Due from related parties	315 475	5 824	-	-	-	268 706	590 005
Loans and advances to banks	335 031	-	-	-	-	31 923	366 954
Derivative financial instruments	-	-	-	-	-	129 188	129 188
Loans and advances to customers	7 436 565	218 354	567 108	1 441 390	119 746	-	9 783 163
Other receivables	-	-	-	-	-	81 803	81 803
Total assets	10 212 398	668 808	667 108	1 498 168	125 975	1 297 497	14 469 954
Liabilities							
Deposits from banks	312 148	60 559	30 182	-	-	27,238	430 127
Due from related parties	-	226 173	316 367	-	-	111 130	653 670
Derivative financial instruments	-	-	-	-	-	132 561	132 561
Customer accounts	4 547 811	1 458 470	946 421	133 722	-	3 965 323	11 051 748
Trade and other payables	-	-	-	-	-	144 742	144 742
Provisions	-	-	-	-	-	55 670	55 670
Debt securities in issue	-	105 647	10 614	235 964	-	-	352 225
Subordinated Debt	-	-	-	-	255 772	-	255 772
Total liabilities	4 859 959	1 850 849	1 303 584	369 686	255 772	4 436 664	13 076 514
Total interest sensitivity gap	5 352 439	(1 182 041)	(636 476)	1 128 482	(129 797)	(3 139 167)	1 393 440

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.7 Hedge Accounting

The Bank uses interest rate swaps and foreign exchange contracts to hedge its exposure to changes in exchange rates and interest rates. Hedge instrument counterparty is Barclays PLC.

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

During the year, P15 000 (2015: P205 000) was recognised in the statement of comprehensive income as hedge ineffectiveness.

The fair value of the hedge as at 31 December 2016 is as follows;

	Consolidated and Company	
	2016 P'000	2015 P'000
Fair value of fair value hedged asset	8 181	11 644
Fair value of interest rate swap liabilities	(8 169)	(11 616)
Net fair value of interest rate risk	12	28
Notional amount	67 524	78 474

The Bank assesses the hedging instruments effectiveness in off-setting the exposure to changes in the hedged items' fair value by undertaking both prospective and retrospective testing every three months. The test is considered to be passed if the ratios are within 80% to 125%.

45.8 Capital Management

The Bank manages its capital at Group level, considering both regulatory and economic capital. The Bank's lead regulator Bank of Botswana sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel I framework in respect of regulatory capital in 2015 and Basel II framework in 2016. The Bank will adopt the standardised and basic indicator approaches to credit and operational risk management respectively. The Group calculates requirements for market risk in its trading and banking portfolios based upon the Group's VaR models.

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

45. Risk Management (continued)

45.8 Capital Management

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

The Banks Tier capital is divided into two tiers:

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

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

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

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

Tier 1 Capital

	Consolidated		Company	
	2016	2015	2016	2015
	P'000	P'000	P'000	P'000
Stated capital	8 522	8 522	8 522	8 522
Share premium	8 586	8 586	8 586	8 586
Share capital reserve	2 060	2 060	2 060	2 060
General risk reserve	93 760	98 191	93 760	98 191
Retained earnings	1 626 760	1 423 083	1 620 460	1 427 594
Proposed dividend	(125 000)	(65 000)	(125 000)	(65 000)
Less: Intangible assets	(2 276)	(9 627)	(2 276)	(9 627)
Total Tier 1 Capital	1 612 412	1 465 815	1 606 112	1 470 326
Tier 2 Capital				
Subordinated redeemable debt	250 000	250 000	250 000	250 000
Unencumbered general provisions	46 712	39 603	46 712	39 603
Total Tier 2 Capital	296 712	289 603	296 712	289 603
Total regulatory capital	1 909 124	1 755 418	1 902 824	1 759 929
Risk weighted assets				
Total risk weighted assets	9 628 872	9 044 770	9 628 872	9 044 770
Total risk weighted assets	9 628 872	9 044 770	9 628 872	9 044 770
Capital adequacy ratio	19.8%	19.4%	19.8%	19.5%

Consolidated - Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 16.7% at year end (2015: 16.2%).

Company - Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 16.7% at year end (2015: 16.3%).

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

46. Fair Value of Financial Instruments

46.1 Fair Value of Financial Instruments Not Held At Fair Value

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

46.2. Fair Value Hierarchy Held at Fair Value

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

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

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

Level 2
Items valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

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

Transfers between the levels
There were no transfers between level1, level 2, and level 3 during the year.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

46. Fair Value of Financial Instruments (continued)

46.2. Fair Value Hierarchy Held at Fair Value (continued)

	Consolidated and Company			
	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2016				
Financial Assets				
Trading portfolio assets				
Trading portfolio assets	-	105 739	-	105 739
Treasury bills and other eligible bills				
Treasury bills and other eligible bills	-	1 553 871	-	1 553 871
Treasury bonds	-	200 553	-	200 553
Debt securities				
Debt securities	-	80	-	80
Derivative financial instruments				
Derivative financial instruments	-	5 485	-	5 485
Equity securities				
Equity securities	-	-	4 995	4 995
Financial Liabilities				
Derivative financial liabilities	-	15 475	-	15 475

	Consolidated and Company			
	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2015				
Financial Assets				
Trading portfolio assets				
Trading portfolio assets	-	9 807	-	9 807
Treasury bills and other eligible bills				
Treasury bills and other eligible bills	-	1 806 273	-	1 806 273
Debt securities				
Debt securities	-	80	-	80
Derivative financial instruments				
Derivative financial instruments	-	129 188	-	129 188
Equity securities				
Equity securities	-	-	4 995	4 995
Financial Liabilities				
Derivative financial liabilities	-	(132 561)	-	(132 561)

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

47. Segmental Reporting

47.1. Statement of Financial Position

	Consolidated			Company		
	Retail & Business banking P'000	Corporate & Investment banking P'000	Consolidated P'000	Retail & Business banking P'000	Corporate & Investment banking P'000	Consolidated P'000
2016						
Assets						
Trading portfolio assets	-	105 739	105 739	-	105 739	105 739
Available-for-sale investments	1 759 499	-	1 759 499	1 759 499	-	1 759 499
Derivative financial instruments	-	5 485	5 485	-	5 485	5 485
Loans and advances to customers	6 782 966	2 593 015	9 375 981	6 782 966	2 593 015	9 375 981
Liabilities						
Customer accounts	4 923 920	6 295 161	11 219 081	4 923 920	6 295 161	11 219 081
Derivative financial instruments	8 169	7 306	15 475	8 169	7 306	15 475
Debt securities in issue	258 553	-	258 553	258 553	-	258 553
Subordinated debt	254 144	-	254 144	254 144	-	254 144
2015						
Assets						
Trading portfolio assets	-	9 807	9 807	-	9 807	9 807
Available-for-sale investments	1 811 348	-	1 811 348	1 811 348	-	1 811 348
Derivative financial instruments	-	129 188	129 188	-	129 188	129 188
Loans and advances to customers	6 980 679	2 802 484	9 783 163	6 980 679	2 802 484	9 783 163
Liabilities						
Customer accounts	4 941 072	6 110 676	11 051 748	4 941 072	6 110 676	11 051 748
Derivative financial instruments	11 615	120 946	132 561	11 615	120 946	132 561
Debt securities in issue	352 225	-	352 225	352 225	-	352 225
Subordinated debt	255 772	-	255 772	255 772	-	255 772

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

47. Segmental Reporting (continued)

47.2. Statement of Comprehensive Income

	Consolidated			Company		
	Retail & Business banking P'000	Corporate & Investment banking P'000	Consolidated P'000	Retail & Business banking P'000	Corporate & Investment banking P'000	Consolidated P'000
2016						
Assets						
Net interest income	743 294	250 806	994 100	743 294	250 806	994 100
Net non-interest income	307 204	187 587	494 791	270 593	187 587	458 180
Total income - externally generated	1 050 498	438 393	1 488 891	1 013 887	438 393	1 452 280
Credit impairment charge and other provisions	(261 023)	(946)	(261 969)	(261 023)	(946)	(261 969)
Net operating income	789 475	437 447	1 226 922	752 864	437 447	1 190 311
Operating expenses	(621 042)	(111 410)	(732 452)	(598 149)	(111 410)	(709 559)
Profit before tax	168 433	326 037	494 470	154 715	326 037	480 752
Taxation	(33 498)	(71 728)	(105 226)	(30 591)	(71 728)	(102 319)
Profit for the year	134 935	254 309	389 244	124 124	254 309	378 433
2015						
Net interest income	718 926	190 978	909 904	718 926	190 978	909 904
Net non-interest income	230 262	146 063	374 326	209 356	146 063	355 419
Total income - externally generated	949 189	337 041	1 286 230	928 282	337 041	1 265 323
Credit impairment charge and other provisions	(236 380)	(7 851)	(244 231)	(236 380)	(7 851)	(244 231)
Net operating income	712 809	329 190	1 041 999	691 902	329 190	1 021 092
Operating expenses	(596 109)	(113 705)	(709 814)	(580 053)	(113 705)	(693 758)
Profit before tax	116 700	215 485	332 185	111 849	215 485	327 334
Taxation	(25 621)	(46 063)	(71 684)	(17 442)	(46 063)	(63 505)
Profit for the year	91 079	169 422	260 501	94 407	169 422	263 829

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

48. Share-Based Payments

48.1 Description of the share-based payment arrangements

Barclays Africa Group Limited Joiners Share Value Plan - The Joiners Share Value Plan ("JSVP") is a cash-settled share-based payment arrangement that enables the Group to attract and motivate new employees by buying out the "in the money" portion of a participant's shares or options under their previous employers' share scheme by offering the employees Barclays Africa Group Limited phantom awards. There is no consideration payable for the grant of an award and the vesting of the award is not subject to performance conditions. Dividends accumulate and are reinvested over the vesting period, which can be over one to five years.

Barclays Africa Group Limited Share Value Plan - The Share Value Plan ("SVP") is a cash-settled share-based payment arrangement. The SVP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition. The amount that is paid to the participants is equal to the market value of a number of Barclays Africa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Barclays Africa Limited Retention Plan - The Share Value Retention Plan ("SVP Cliff") is a cash-settled share-based payment arrangement. The SVP Cliff awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Barclays Africa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Equity settled share-based payments

The net charge/(release) for the year arising from equity settled share-based payment schemes

	Consolidated and Company	
	2016 P'000	2015 P'000
Incentive Share Plan	-	-
Share Value Plan	777	(11)
Total share-based payments	777	(11)

Weighted average contractual life of awards outstanding as at 31 December 2016 were as follows:

	Weighted average contractual life years	Weighted average fair value
Equity settled		
SVP	2	165
SVP Cliff	1	118
Cash settled		
JSVP	-	-
SVP	-	-

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

49. Related Parties

Barclays Africa Group Limited (''BAGL'') owns 67.82% of the ordinary shares of the Bank. The rest are widely held on the Botswana Stock Exchange. The Group's ultimate holding company is Barclays Plc.

Significant subsidiaries

The Bank has a 100% owned subsidiary, Barclays Insurance Services (Pty) Limited, which is an insurance sales agent.

	Consolidated			
	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000
2016				
Barclays Africa Group Limited	27 545	8 010	22 492	128 863
Barclays Plc	24 054	696	-	-
Other Barclays Plc Group of Companies	-	29	-	-
	51 599	8 735	22 492	128 863
2015				
Barclays Africa Group Limited	20 803	1 145	13 602	135 648
Barclays Plc	25 474	418	-	-
	46 277	1 563	13 602	135 648

	Current amounts receivable P'000	Current amounts payable P'000
2016		
Barclays Africa Group Limited	587 003	1 157 516
Barclays Plc	488 304	36 434
Other Barclays Plc Group of Companies	336	1 581
	1 075 643	1 195 531
2015		
Barclays Africa Group Limited	344 504	555 393
Barclays Plc	244 138	82 731
Other Barclays Plc Group of Companies	1 363	2 211
	590 005	640 335

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

49. Related Parties (continued)

Transactions with the subsidiary company, Barclays Insurance Services Limited

	Company	
	2016 P'000	2015 P'000
Net income collected on behalf of subsidiary	36 921	20 908
Expenses incurred on behalf of subsidiary	24 347	14 432
Tax paid on behalf of subsidiary	5 848	4 579
Current tax payments of subsidiary utilised by the bank	-	8 741

	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000
2016				
Barclays Africa Group Limited	27 545	8 010	22 492	128 863
Barclays Plc	24 054	696	-	-
Other Barclays Plc Group of Companies	-	29	-	-
	51 599	8 735	22 492	128 863
2015				
Barclays Africa Group Limited	20 803	1 145	13 602	135 648
Barclays Plc	25 474	418	-	-
	46 277	1 563	13 602	135 648

	Current amounts receivable P'000	Current amounts payable P'000
2016		
Barclays Africa Group Limited	587 003	1 157 516
Barclays Plc	488 304	36 434
Other Barclays Plc Group of Companies	336	1 581
Barclays Insurance Services (Proprietary) Limited		20 528
	1 075 643	1 216 059
2015		
Barclays Africa Group Limited	344 504	555 393
Barclays Plc	244 138	82 731
Other Barclays Plc Group of Companies	1 363	2 211
Barclays Insurance Services (Proprietary) Limited	-	13 335
	590 005	653 670

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

49. Related Parties (Continued)

The Bank provides and utilises services of its holding company and other group entities, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. The carrying value of these balances approximates the fair value.

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

There were no bad debt expenses and provisions for bad debts that related to balances and transactions with the parent company, fellow subsidiaries, associates and joint ventures of the parent company.

The Bank has provided a letter of support to the value P25 million to its subsidiary. This support is in force until 31 December 2017.

	Consolidated and Company	
	Remuneration P'000	Total P'000
2016		
Directors compensation for non-executive Directors	1 670	1 670
	1 670	1 670
2015		
Directors compensation for non-executive Directors	1 405	1 405
	1 405	1 405

Transactions with key management personnel

IAS 24 Related Party Disclosures ("IAS 24"), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). A number of banking transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions.

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Group, including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable.

	2016 P'000	2015 P'000
Key management personnel compensation		
Post-employment benefit contributions	982	624
Salaries and other short-term benefits	27 698	20 001
Share-based payments	335	-
	29 015	20 625

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

49. Related Parties (continued)

	Consolidated and Company	
	2016	2015
	P'000	P'000
Transactions with key management personnel		
Loans		
Balance at the end of the reporting period	9 712	12 252
Interest income	348	64
Deposits		
Balance at the end of the reporting period	1 395	4 802
Interest expense	11	165

50. Capital Commitments and Contingencies

Capital commitments		
Authorised and contracted for	8 200	1 700
Authorised but not yet contracted for	17 250	-
	25 450	1 700
Commitments not on the statement of financial position		
Undrawn commitments to customers	657 408	633 815
Letters of credit	25 611	48 852
Performance and bid bonds	233 863	451 939
	916 882	1 134 606

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

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

Performance and bid bonds - These are transaction-related contingencies where the Bank guarantees a transaction or performance. They generally attract a 50% risk weighting unless the nature of the counterparty allows otherwise.

51. Events After the Reporting Date

A final dividend of 14.669 thebe per share for the year ended 31 December 2016 was declared on 16 March 2017, and subject to regulatory approval, will be payable on 12 May 2017 to those shareholders registered at the close of business on 21 April 2017. In accordance with the Republic of Botswana Income Tax (Cap 52:01), as amended, applicable withholding tax will be deducted by the Bank from the gross dividend. There were no material changes to the affairs of the Bank between year end and the date of the approval of the consolidated annual financial statements.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

52. New Accounting Pronouncements

Adoption of new and revised Standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2016. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies.

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

IFRS 2 *Share-based payments* - Amendments to clarify the classification and measurement of share-based payment transactions.

IFRS 10 *Consolidated Financial Statements* - Clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.

IFRS 11 Joint arrangements - Amendments regarding the accounting for acquisitions of an interest in a joint operation.

IFRS 12 *Disclosure of Interest in Other Entities* - Amendments to clarify the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances.

IAS 1 *Presentation of Financial Statements* - Amendments are designed to encourage entities to apply professional judgement in determining what information to disclose, as well as where and in what order information is presented in the financial disclosures provided in the financial statements.

IAS 16 *Property, Plant and Equipment* - Amendments regarding the clarification of acceptable methods of depreciation and amortization, and amendment to include bearer plants in the scope of IAS 16.

IAS 28 *Investments in Associates and Joint Ventures* - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture.

IAS 38 *Intangible Assets* - Amendments regarding the clarification of acceptable methods of depreciation and amortisation.

Annual improvements (2012- 2014 cycle)
Non-urgent but necessary clarifications and amendments to the following standards of IFRS:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 7 Financial Instruments: Disclosure
IAS 19 Employee Benefits
IAS 34 Interim Financial Reporting

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

Standard		Annual periods beginning on or after

52. New Accounting Pronouncements (continued)

New and revised International Financial Reporting Standards issued not yet effective
At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

IAS 7	*Statement of Cash Flows* - Amendments as result of the Disclosure Initiative. Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017
IAS 12	*Income Taxes* - Amendments regarding the recognition of deferred tax assets for unrealised losses.	1 January 2017
IFRS 4	*Insurance contracts* - Applying IFRS 9 Financial instruments (amendments) allow an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are (a) the overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and (b) the deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.	1 January 2018
IFRS 9	*Financial Instruments* - IFRS 9 will lead to significant changes in the accounting for financial instruments. Detail regarding the changes, as well as the expected impact thereof, have been included below.	1 January 2018
IFRS 15	*Revenue from Contracts with Customers* - A new accounting standard that provides a single, principle based, five-step model to be applied to all contracts with customers. New disclosures about revenue are also introduced.	1 January 2018
IAS 40	*Investment Properties* - Amendments regarding when an entity should transfer property into, or out of, investment property	1 January 2018
IFRIC22	*Foreign Currency Transactions and Advance Consideration* - Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018
IFRS 16	*Leases* - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position.	1 January 2019

The Bank is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

52. New Accounting Pronouncements (continued)

IFRS 9 - Financial instruments

IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement* is effective for periods beginning on or after 1 January 2018. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Bank will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide transitional disclosures in accordance with the amended requirements of IFRS 9 *Financial Instruments: Disclosures*. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

Impairment
IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on forward-looking information, replacing the existing incurred loss model which only recognised impairment if there was objective evidence that a loss was already incurred. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The introduction of the revised impairment model is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts recognised as impairment losses will be higher.

Based on the current requirements of Basel II the expected increase in the accounting impairment provision would reduce Tier 1 capital. This impact would be partially mitigated by the impairment provision added back to Tier 2 capital, capped at the approved regulatory capital requirement. However, the Basel Committee on Banking Supervision (BCBS) is currently considering amending the capital rules as a result of IFRS 9 and is considering transitional rules which may mitigate or spread capital impacts from 1 January 2018. IFRS 9 is considered in the Group capital planning.

Key concepts and management judgments
The impairment requirements are complex and require management judgments, estimates and assumptions. Key concepts and management judgments will continue to be refined during the 2017 parallel run and as any further authoritative guidance is issued, and include:

Determining a significant increase in credit risk since initial recognition
IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition or which are credit impaired.

Barclays Bank of Botswana Limited expects to estimate when a significant increase in credit risk has occurred based mainly on qualitative assessments. Qualitative drivers of a significant increase in credit risk are expected to include exposures determined to be higher risk (by credit risk) and subject to closer credit risk monitoring, with a backstop factor of more than 30 days past due. For significant portfolios, an additional quantitative driver based on changes in weighted average cumulative lifetime probabilities of default may be used in conjunction with the qualitative factors.

Definition of default and credit impaired assets
The definition of default for the purpose of determining expected credit losses is expected to be aligned to the Regulatory Capital CRR Article 178 definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such, IFRS 9 requires separate disclosure and interest income to be recognised on the net carrying amount rather than the gross carrying amount.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2016

52. New Accounting Pronouncements (continued)

Project governance and credit risk management
The Barclays Africa Group has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. During 2016, work continued on the design and builds of impairment models, systems, processes, governance, controls and data collection and will continue to be refined during 2017.

Classification and measurement
IFRS 9 will require financial assets to be classified on the basis of two criteria:
1) The business model within which financial assets are managed, and
2) Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

The Barclays Africa Group's classification and measurement implementation programme is in progress. An assessment of potential changes to financial assets have been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

There are classification changes expected but they are not expected to be significant.

Annexure to the Annual Financial Statements

For the year ended 31 December 2016

	2016		2015	
	No. of Ordinary Shares	% Holding	No. of Ordinary shares	% Holding
53. Shareholders Information				
Barclays Africa Group Limited	577 964 146	67.823	577 964 146	67.823
FNB Botswana Nominees(Pty) Ltd RE: BIFM BPOPF-Equity	35 092 828	4.118	26 453 519	3.104
FNB Botswana Nominees(Pty) Ltd RE:AA BPOPF Equity	28 888 203	3.390	28 024 272	3.289
FNB Botswana Nominees(Pty) Ltd RE: ACB BPOPF	26 035 497	3.055	19 338 169	2.269
Stanbic Nominees: BIFM	24 079 925	2.826	26 863 263	3.152
Motor Vehicle Accident Fund	23 736 440	2.785	23 736 440	2.785
FNB BW Nominees (Pty) Ltd RE: IAM BPOPFP 10001031	18 528 278	2.174	18 435 107	2.163
FNB Botswana Nominees (Pty) Ltd RE: ACB BPOPF WPPP	16 000 434	1.878	16 000 434	1.878
FNB Nominees (Pty)Ltd RE:AGRAY BPOPF 10001010	11 677 782	1.370	7 501 084	0.880
Stanbic Nominees Botswana RE: IAM DPF	8 593 113	1.008	8 593 113	1.008
Stanbic Nominees Botswana RE: BIFM DPF	7 701 549	0.904	7 701 549	0.904
SCBN (Pty) Ltd RE:IAM 030/30	4 244 615	0.498	4 244 615	0.498
Stanbic Nominees Botswana RE:IBMF	2 811 958	0.330	3 109 721	0.365
FNB Botswana Nominees (Pty) Ltd RE: IAM BBDCSPF	2 179 518	0.256	2 179 518	0.256
SCBN (Pty) Ltd RE: IAM 030/40	2 114 115	0.248	1 082 519	0.127
Stanbic Nominees Botswana RE BIFM: Debswana ART FU	1 851 794	0.217	-	-
SCBN (Pty) Ltd RE: IAM 030/08	1 704 990	0.200	1 409 035	0.165
SCBN (Pty) Ltd RE: SSB 001/81	1 308 506	0.154	1 308 506	0.154
FNB Nominees Botswana (Pty)Ltd RE: BIFM DPPF 10001063	1 246 667	0.146	1 173 317	0.138
Others	56 400 892	6.619	77 042 923	9.041
	852 161 250	100	852 161 250	100

Value Added Statement

For the year ended 31 December 2016

	Consolidated	
	2016	2015
	P'000	P'000
Value created		
Income from services	1 649 475	1 509 079
Cost of services	(166 107)	(225 068)
Value created by operations	1 483 368	1 284 011
Non-operating income	5 523	2 219
Operating expenditure excluding staff costs and depreciation	(311 324)	(340 494)
Total value created	1 177 567	945 736
Value distributed		
Employees - salaries and benefits	383 541	324 338
Shareholders - dividends	189 998	200 002
Government - taxation	105 226	71 684
Total value distributed	678 765	596 024
Value retained		
Retained income	199 246	2 448
Depreciation and amortisation	37 587	44 982
Total value retained	236 833	47 430
Total value distributed and retained	915 598	643 454

Notice to Shareholders

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

Notice is hereby given that the 31st Annual General Meeting of shareholders of Barclays Bank of Botswana Limited will be held at Masa Square Hotel, Plot 54353, New CBD Corner Khama Crescent & Western Avenue, Gaborone on Thursday 22 June 2017 at 12.30hrs for the following purpose:

1. To receive and adopt the Annual Financial Statements for the year ended 31 December 2016, together with the Directors and Independent Auditor's reports thereon.

2. To confirm the appointment of Tobias Mynhardt as Director effective 24 July 2016, in accordance with Section 20.5 of the Constitution.

3. To confirm the appointment of Oduetse Andrew Motshidisi as Director effective 24 August 2016, in accordance with Section 20.5 of the Constitution.

4. To re-elect as a Director Kenneth Molosi who retires by rotation in accordance with Section 20.10 of the Constitution, and who being eligible, offers himself for re-election.

5. To re-elect as a Director Alfred Dube who retires by rotation and in accordance with Section 20.10 of the Constitution, and who, being eligible, offers himself for re-election.

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

7. To approve the remuneration of the Auditors, Pricewaterhouse Coopers Botswana, for the year ended 31 December 2016.

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

9. To approve, by special resolution, any substantial gifts made by the Company, details of which are available at the Company's registered office for perusal by Shareholders.

In the event that you wish to nominate any person(s) as director(s) or auditors other than one of the directors retiring or KPMG, respectively, you must deliver to the Company Secretary, not less than 7 (seven) nor more than 14 (fourteen) clear days before the date of the meeting, a written nomination document signed by a Shareholder qualified to attend and vote at the meeting with confirmation by the nominated person(s) that he/they are willing to be elected and to act as directors or auditors, as the case may be.

Proxies

A Shareholder entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend, speak and to vote in his/her stead. A proxy need not also be a Shareholder. A proxy form is available at the end of the Annual Report.

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

BY ORDER OF THE BOARD

Kealeboga Bojosi
Company Secretary

Proxy Form

Please complete in block letters.

I/We _____

of _____

being a shareholder of Barclays Bank of Botswana Limited, hereby appoint _____

or failing him/her _____

or failing him/her _____

as my/our proxy to vote for me/us on my/our behalf at the 31st Annual General Meeting of the Shareholders of Barclays Bank of Botswana Limited to be held at Masa Square Hotel, Gaborone on Thursday 22 June 2017 at 12.30hrs.

As witness my hand this _____ day of _____ 2017

Signature _____

Witness _____

NOTE:

1. Each Shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of Barclays Bank of Botswana Limited.

2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/signatories.

3. This form of proxy should be signed and returned so as to reach the Registered Office of the Company, Head Office, Barclays House, Fifth Floor, Building 4, Prime Plaza, Plot 74358, Gaborone, Central Business District no later than 48 hours before the meeting.

Notes

Notes

We have the biggest branch network across Botswana.

Branch Network

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

Bobonong
Express Branch
Plot 430,
Bobonong

Broadhurst Branch
Plot 4748, Kubu Road
Gaborone

Carbo Prestige and Premier
Plot 54518, Carbo Centre,
Riverwalk Mall Gaborone

Francistown Branch
Plot 494/5, Blue Jacket Street
Francistown

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

Gaborone Station Branch
Plot 14, Gaborone Station
Gaborone

Gaborone Industrial Branch
Plot 17952/3, Lithuli Road
Gaborone

Galo Prestige
Plot 1471/2, Galo Mall
Francistown

Game City Branch
Game City Mall,
Gaborone

Ghanzi Branch
Plot 29, The Mall
Ghanzi

Gumare Express Branch
Plot 76, Delta Shopping
Complex
Gumare

Jwaneng Branch
Plot 5477, Choppies Mall
Jwaneng

Kasane Branch
Plot 2208, Shop 8
Kasane

Mall Branch
Plot 1103/07,
Gaborone

Mahalapye Branch
Plot 61,
Mahalapye

Molepolole Branch
Plot 136, Mafenyatlala Mall
Molepolole

Palapye Branch
Plot 47,
Palapye

Mochudi Branch
Plot 76,
Mochudi

Kanye Branch
Plot 89,
Kanye

Letlhakane Branch
Plot 3577, Millennium Tower
Building
Letlhakane

Lobatse Branch
Plot 4649, Jacaranda Street,
Hill Side Mall
Lobatse

Maun Branch
Plot D4/66,
Maun

Masunga
Express Branch
Plot 1107, Masunga Mall
Masunga

Moshupa Express Branch
Plot 1016,
Moshupa

Tsabong Branch
Plot 545, Tsabong Mall
Tsabong

Orapa Branch
Plot 18/98,
Orapa

Personal Prestige
Plot 1188, Debswana House,
Main Mall
Gaborone

Phakalane Mowana Prestige
Plot 63724, Mowana Mall,
Phakalane
Gaborone

Selibe Phikwe Branch
Plot 2579/ 81,
Selibe Phikwe

Serowe Branch
Plot 40/5,
Serowe

Shakawe
Express Branch
Plot 186, Drotsky's Mall
Shakwe

Tutume Branch
Itachi Complex,
Tutume

Nata Express Branch
Caltex Filing Station,
Nata