Agang Boswa

Stanbic Bank Botswana

Integrated Annual Report 2019

Stanbic Bank

CONTENTS

LEGACY221 #AgangBoswa

Our Values:

- Serving our customers
- Growing our people
- Delivering to our shareholder
- Being proactive
- Working in teams
- Constantly raising the bar
- Respecting each other
- Upholding highest levels of integrity

www.stanbicbank.com.bw/botswana/about-us/company-overview/Annual-reports

VISION

To sustainably improve the lives of Batswana by offering market-leading financial solutions.

PURPOSE

Botswana is our home; we drive her growth.

LEGACY221 PILLARS

10 YEAR MILESTONES

2010

Financial Literacy Modules

Stanbic Bank pioneered the introduction of financial literacy modules covering four key financial topics which targeted junior secondary school students. The modules were developed to align to school curriculae and ensure financial literacy begins with our youth.

2011

Morupule Cycle Challenge

In an effort to drive customer partnerships, the Bank's Corporate and Investment Banking division partnered with Morupule Colliery Limited, to sponsor the General Manager's Annual Cycle Challenge. Proceeds from this challenge were donated to communities within the Palapye region.

2012

Chief Executive's 600km Charity Cycle

As part of the Bank's Corporate & Social Investment Strategy, the Chief Executive and various stakeholders embarked on a monumental 600km Charity Cycle from Ghanzi to Gaborone to raise funds for a mobile clinic to donate to the Shakawe District to address National health concerns.

2013

Upgraded Core Banking System

The Bank invested in the largest system upgrade project in its history, by changing its Core Banking System from Bank Master to Finacle . This saw the Bank improve operational efficiencies and enhanced digital capabilities.

2014

Mobile Banking Launch

With the implementation of the Core Banking System came new digital developments and innovations from the Bank. Stanbic Bank launched its first ever Mobile Banking suite to the market so customers can enjoy 24/7 digital banking convenience. The offer comprised MyUpdates, Cellphone Banking, Stanbic Bank App and enhanced Online Banking.

2015

Mobile Branch

Stanbic Bank launched a state-of-the-art, fully-equipped Mobile Branch to address the growing market demand for banking in Botswana. It was the first of its kind in Botswana. The Mobile Branch is part of the Bank's drive to allow easy accessibility and convenience to banking services, while allowing for greater financial inclusion and enhanced customer experience.

2016

Township Rollers Sponsorship

To strongly support sports development in Botswana, Stanbic Bank announced its 3-year sponsorship deal with local football giants, Township Rollers Football Club, valued at P3.6million. The sponsorship positioned the Bank as the main sponsor and a co-sponsor alongside Liberty Life, also a Standard Bank Group subsidiary.

2017

Celebrating 25 years

Stanbic Bank opened it doors to Batswana in 1992. To celebrate its Silver Jubilee milestone, the Bank embarked on various celebratory initiatives across the country with the inclusion of stakeholders, customers, staff and communities.

2018

Appointment of new Chief Executive

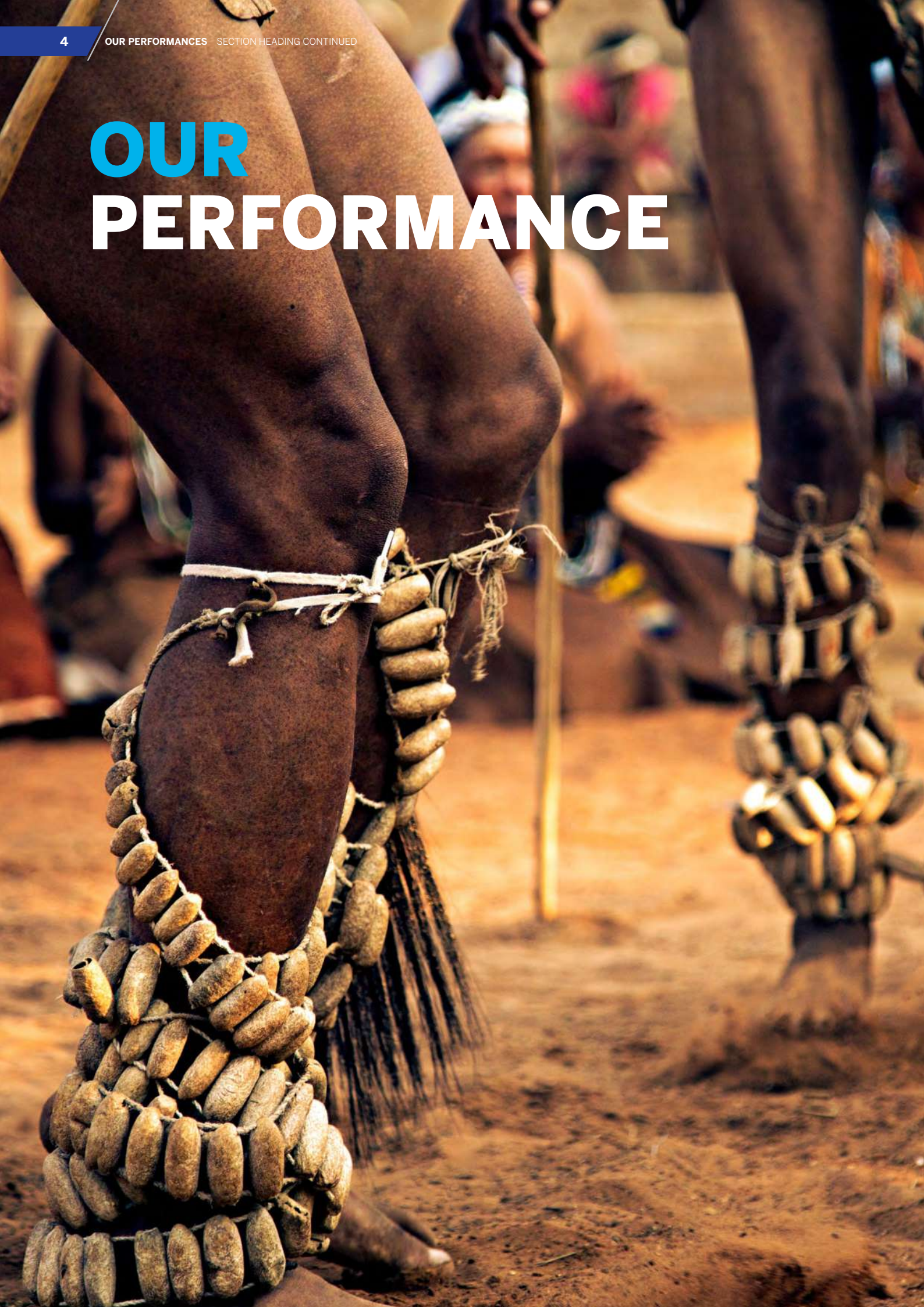
Samuel Minta was promoted to the helm of Stanbic Bank Botswana, having joined the organisation in 2014 as the Chief Financial Officer. Samuel Minta succeeded Leina Gabaraane, who moved to lead Stanbic Bank Zambia.

2019

Launched Acceler8 Incubator

As part of the Youth Employability & Entrepreneurship strategic imperative, Stanbic Bank established the Acceler8 Incubator, a co-working space with the sole vision of supporting entrepreneurs and youth in accessing mentorship, coaching, access to networking, markets and funding in one central place.

OUR PERFORMANCE



CHAIRMAN'S MESSAGE

↓ 6%

P140mn

GROUP HEADLINE EARNINGS

2018: P252 million

The year under review has been one of excitement and anticipation coupled with uncertainty and trepidation. Despite a very tough economic environment and due to a substantial amount of combined effort, 2019 was a very successful year for Stanbic Bank Botswana.

Craig Granville, *Chairman*

2018 saw the end of our **'Road to Excellence'** strategy. This strategy played a substantial part in our growth and provided us with important learnings. 2019 saw us set off on a new strategic journey placing our customers at the centre of all we do and with an aspiration of becoming at least the No.2 Bank in Botswana by the end of 2021. Our **Legacy 221 strategy** is strongly premised on achieving value creation for the customer, with a heavy reliance on digital transformation and enhanced service delivery including the necessary speed and agility.

Our people remain our greatest asset. They are, after all, the ones who ensure our customers are well served and the exceptional experience we promise is delivered. We continue to extend a solid employee value proposition, which assists in ensuring that our people feel **inspired, engaged and involved**. Our emphasis in the past year has been ensuring our people are properly rewarded with attractive remuneration commensurate with performance; encouraging **growth and development** through a number of interventions sponsored by the Bank and demonstrating commitment to equity and fairness through championing of **Inclusive Diversity**.

The Bank has made notable strides in developing our **Social, Economic and Environmental (SEE) pillar** as we do our part in helping our country tackle youth unemployment. Our **Acceler8 Incubator** was opened to the public in November 2019. Through this space we intend to nurture and develop future-ready employees and entrepreneurs. Further details of the **Incubator** can be found in the **SEE** component of this Annual Report.

The appointment of Samuel Minta as the Chief Executive at the beginning of this year has come at a very opportune moment; he has been able to approach our Bank's behaviour with fresh eyes and a different perspective. I commend him on a very good first year of stewardship. His spirited leadership and uncompromising eye will help drive the Bank to achieve its mission.

Economy

Botswana's domestic economy slowed slightly in 2019, responding to muted trends in the global diamond market, with diamond prices falling from US$215 per carat in January 2019 to US$210 in December 2019. In addition, Botswana's diamond exports fell by 27.6 % in Q3 of 2019.

GDP growth dropped from 4.2 to 3.1% in Q3 and remained at this level through to the end of 2019. Real GDP amounted to US$17.7 billion in 2019, down from US$18.6 billion in 2018.

Unemployment rose from 17.94% in 2018 to 18.19% in 2019. This rate is close to the 10 year high of 18.29% seen in 2013. Worryingly, youth unemployment continues to climb, with an increase of 0.38% to 37.52% in 2019.

Inflation was at its lowest point since 1997 in November at 2.1% having fallen sharply from 3.3% in February 2019. It ended at 2.2% in December 2019.

Exports decreased by over 20% by the end of the year on the back of reduced diamond and beef product sales. This decrease in exports coupled with a 35.2% increase in imports resulted in a shift in the trade balance from a surplus of P2.6 million to a deficit of P14.3 million.

Performance

In what is generally considered a flat market our Bank continues to make good progress. Specific focus on driving discipline around costs has borne fruit as our JAWS ratio remains significantly stronger than the neutral market averages, with the outlook remaining positive. The Bank has seen a growth of 4% from non-interest-bearing income, and total income growth of 16% (compared to a market average growth of only 10%). This growth being achieved alongside reduced operating costs.

Unfortunately, these positive results were negatively impacted by impairments, resulting in 44% drop in overall profit from the previous year.

Leadership

During the period under review, we were excited to welcome our new Chief Financial Officer (CFO), Chose Modise.

We have also introduced a new Data and Transformation Unit, which is led by Keamogetse Mpudi, an exciting new addition to our Executive Committee.

Progress was made in localising senior positions with the appointment of Chiko Manokore as Head of Personal and Business Banking (PBB), following the departure of Louis van Rayvesteyn. Mr. van Rayvesteyn was instrumental in the repositioning of our PBB and its subsequent very pleasing growth and development. We look forward with confidence to the continuing strength of PBB under Mr. Manokore's leadership.

Governance

During the year, the Board of Directors has remained unchanged. This cohesive group of skilled and experienced individuals continues to guide and advise the Executive Committee and the organisation as a whole, as we navigate the competitive waters of the international and local banking and financial services sector. We strongly appreciate our role within the organisation, and at all times strive to be exemplary in our leadership, maintaining the highest levels of corporate banking governance, complying with both the Standard Bank Group and domestic legislation in Botswana. As we compete for greater market share, we continue to review compliance and risk management skills, systems and processes where appropriate, adjusting and enhancing as necessary.

The Bank remains adequately capitalised in accordance with the rules of the Basel Capital Adequacy Framework (Basel II), as localised by the Bank of Botswana.

Outlook

The International Monetary Fund's World Economic Outlook for 2020 projects global growth of 3.3 %, which is a downward revision of 0.1 % on previous estimates, reflecting global concerns around social unrest and political instability. We may see these figures further revised as at the time of writing the world is being gripped by a global health crisis that is certain to have a lasting impact on the global economy and our society as a whole.

Despite the challenging times we find ourselves in, it is important that we remain firmly focused on our strategic goals, yet be ready and prepared to respond with the dynamism required to keep up with the dictates of the markets. The Southern African region faces a number of challenges that will not be resolved overnight – unemployment, power production and institutional reforms among the most pressing.

On the home front, the lack of progress in economic diversification beyond the diamond sector remains a concern, especially in light of the decrease in value of this sector and the growing influence of the synthetic diamond market on diamond prices and stocks.

The Bank's renewed focus is on business agility to allow us to serve our customers better and to ensure they receive the best possible experience when interacting with us on all our platforms. We continue to progress towards becoming a truly holistic Universal Financial Services Organisation (UFSO) and have plans to reach out across Botswana with a new and expanding footprint, whilst embracing and elevating digital transformation.

As part of the Standard Bank Group, we are proud to call this continent home, and remain firmly confident in her promise, potential and bountiful opportunities.

Gratitude

On behalf of the Board of Directors, I would like to thank Samuel Minta, his leadership team and our "Blue Team" (our staff) for their ongoing commitment to carrying forward the Bank's strategy and ensuring the Bank's strong performance in 2019.

Finally, I would like to close with thanks to our loyal and growing customer and client base, without whom we would not be where we are today. We look forward to continuing our journey together, delivering sustainable growth in our business whilst contributing to communities and the society within which we operate.

#AgangBoswa!

CHIEF EXECUTIVE'S REPORT

As a Bank, we are operating within a sector that is highly homogenous, with most institutions providing the same or similar offerings – investment, loans, personal banking, business banking and so on. It is for this very reason that we became increasingly motivated as **Stanbic Bank Botswana** to really dig deep and try and find something that could truly be our differentiator, something that would set us apart from the rest of our competition in the market and make us especially proud to be who we are.

Samuel Minta, *Chief Executive*

↑ 30%

P682mn

NET INTEREST INCOME

2018: 525 million

Currently positioned as the number 3 bank in Botswana, our current medium term goal is to move up to number 2, and doing this will require us to channel efforts to ensuring that we respond to the needs of those we exist to serve – primarily **our Customers**, and other stakeholders.

In working towards achievement of this vision, which we dubbed #Legacy221 **#AgangBoswa**, we acknowledge a number of critical building blocks that will take us there; starting first and foremost with our employees.

Our People

Through investing in our staff, we believe that this will in turn translate to them forging lasting and trusting partnerships with our customers. By igniting passion and commitment in our teams, we can sustainably grow our business through a culture of creativity and innovation. Creating an environment of inclusivity and compassion towards our employees' needs inside and outside the workplace will give them the impetus to serve our clients with dedication and to focus on our mission, which is to improve the lives of Batswana. Happy employees equals happy customers.

In line with our People philosophy, we made a number of investments towards our Human Capital in 2019. We have instituted adjustments to salary structures to remain competitive within the sector as a whole; we implemented the LYC **(Love Your Customer, Love Your Colleague, Love Your Community)** approach to support our teams in becoming a united force; we provided growth and development opportunities to those who appreciated that their future relevance required them to be on a continuous learning journey, and we revised our employee value proposition to be attractive beyond just remuneration, but also to include favourable lending conditions to ease their affordability and access to facilities.

Our strong belief is that if we get these elements right and continue to make bold, innovative moves aimed at making a difference to our staff, the improved customer experience will come effortlessly and the financial performance will certainly follow.

Achievements

The 2019 financial year was characterised by strong performance, particularly in comparison against the market, which remained fairly flat. We managed to exceed our strategic target of a P 300 million PAT, but experienced a setback due to a major impairment with one of our clients in the diamond sector, resulting in a final result of P 140 million.

The period under review has seen significant achievements, with positive growth in PBB recorded in Q1, Q2 and Q3 resulting in us winning the Go for Growth award for 3 consecutive quarters – a first within the Standard Bank Group. For this, I would like to sincerely thank PBB, for showing the resilience required to achieve these outcomes, and for pushing the boundaries of what we thought was possible. I thank the Corporate & Investment Banking (CIB) team for extolling the fundamentals of the business, driving a relationship model that really is one of a kind in this country, according to the feedback from our **Customer Satisfaction Survey (CSS)**. Our results are a testament to the confidence our clients place in Stanbic Bank Botswana.

Our efforts were also externally recognised by Global Finance Magazine, who awarded Stanbic Bank Botswana with **Best Treasury & Cash Management Bank in Botswana** and **Best Bank Botswana for 2019**.

With respect to corporate governance, Stanbic Bank subscribes to globally recognised practices of inclusivity and fairness. We consider ourselves to be an equal opportunities employer based in Botswana and committed to driving the growth of Batswana. To this end, during 2019 we set up a **Data and Transformation Unit,** which is led by a woman who also sits on the Executive Committee; furthermore, we have localised the role of Head of PBB through the appointment of Mr. Chiko Manokore.

Social, Environmental and Economic Investments

Stanbic Bank considers itself to be more than just a bank, but an entity that cares for the communities within which it operates and is alive to the societal challenges that prevail across our Africa markets.

We do this through our **Social, Environmental and Economic (SEE)** strategic initiative, which is not just an event, but rather a standard way of doing business by deliberately assessing the impacts of the investments we support society and the environment. In Botswana, we have chosen to focus on the issue of **Youth Employability** through means of developing, nurturing and enhancing the youth's employability and entrepreneurship capabilities. We have developed a model which involves partnerships with such entities as the Human Resources Development Council (HRDC) whose mandate is upskilling Batswana to becoming a knowledge based economy and entities like Local Enterprise Authority (LEA) who are subject matter experts in the area of incubation and enterprise development. We have partnered with the Ministry of Investment, Trade & Industry (MITI) to provide government support and facilitate access to networks and forums such as the Biennial Exporters Forum, which provides a platform to engage industry on issues hampering export diversification. Further, we have signed a memorandum of agreement with the United Nations Development Programme (UNDP) as part of its business Supplier Development Programme (SDP). The SDP assists Small Medium Enterprises (SMEs) to become more effective suppliers to their Buyers, helping them become more efficient, increase access to markets and as a result more profitable. The ultimate goal is to be a key player in reducing the rate of unemployment.

Our focus on **youth empowerment** was also demonstrated by Stanbic Bank Botswana's P2million investment in the new **AcceleR8 Incubator**, located in Fairgrounds Mall, Gaborone. AcceleR8 will focus on developing a future-ready life skills oriented curriculum for youth, including mentoring, coaching interview techniques and CV development, as well as entrepreneurship skills, including innovation, ideation and incubation.

Furthermore, with respect to environmental considerations, we are encouraging job creation and investment in renewable energy and green technologies. We firmly believe that sources of energy such as solar - for communities and individuals - is more cost effective than our traditional fossil fuel, especially in a country of abundant sunlight as Botswana.

The Economy

The economy of Botswana continues to concern us, as diversification has not yet achieved levels needed to create the sustainable growth necessary to reach the targets set out in Vision 2036 of attaining true middle-income status.

Not only is there a need to move away from dependence on the mono-commodity diamond/precious stone market, but we need to increase employment levels and address our balance of payments position – imports vs. exports. Despite the challenges facing our economy, we recognise the opportunities that present themselves to grow and strengthen.

As a banking institution, directly concerned with monetary policy, we continue to engage with Government stakeholders in a wide range of supporting policy matters; fiscal policy, mining and minerals policies, infrastructure, agricultural development, investment and trade, employment and immigration legislation, youth and innovation funding, among others. An example of this is the recent changes to legislation prescribing that 70% of pension fund assets must remain in the country. But, where can that investment be directed? We need to explore mechanisms, coupled with private and foreign direct investment to ensure that these targets can be met. As a society, we need to stimulate entrepreneurship and innovation, enabling Botswana to become a hub for great minds. Such activities will before long enable us to expand our export offerings.

Our Strategy

The Legacy 221 Strategy is a three-year strategic plan designed to drive our ambition of becoming the second largest bank in Botswana by 2021.

The strategy is hinged on adopting agile business principles to deliver integrated financial offerings using a digital based model. Built on five Pillars - **People, Clients, Risk and Conduct, Financial Outcome** and **SEE**, Legacy 221 is intended to drive a process of culture evolution, creating agile structures that retain the fundamentals of the organisation and its services, but delivered with the necessary flexibility to respond to our modern customers' needs. This is an ongoing process that is being achieved through internal policy and structural change. It is premised on the idea of working together to build legacies with and for Batswana - thus the concept of "Agang Boswa" as its tagline.

In order to strengthen our leadership team, and the next wave of leaders that will follow, we have launched a leadership forum, designed to address issues of business culture and individual commitments towards behavioural change. This is supported by various developmental interventions such as the **Leadership Identity, Personal Mastery** course, **Mid-Career Clinic**, to name a few. We have launched the **Blue Sheroes** network for women and **HeForShe** - which are specific towards increasing diversity and inclusion in the Bank. In addition, we have introduced a **Toastmasters Club** to promote and improve public speaking across the management and non-management teams, and the Group has trained a group of data scientists, from which two Stanbic Bank Botswana female staff members were recognised in the top ten finalists.

Digital Transformation

The modern banking environment necessitates a digital-led business model in order to remain relevant.

To support this objective, 2020 will see us upgrading our core financial systems to unlock more capabilities that will enable our customers to interact with our platforms with more ease, efficiency and convenience. This digital migration will be coupled with internal human capital transformation that ensures that we have the right people in the right jobs, and the requisite skills to serve our customers in this changing environment. Another critical component of digital transformation is Data. This highly valuable asset will be the key ingredient that will drive business decision making through insights that will highlight customer needs and interests. In order for digital transformation to gain traction, it will require a quantum shift in thinking and an evolution of rhetoric into action. Customers are now demanding more from their banks, and business as usual will no longer suffice.

Outlook

The outlook, in my opinion, is very promising, founded on the confidence that we have strong leadership, and staff willing to ***Be More*** by going the extra mile to serve our customers. This will invariably make Stanbic Bank Botswana a force to be reckoned with.

We are now entering into our 2nd year of **Legacy 221** and have only bigger and greater things ahead of us to deliver. I believe we are more than ready to face this challenge.

Appreciation

The Stanbic Bank Botswana Board has kept us honest throughout the year, and the Stanbic Bank Executive Committee has equally been phenomenal, demonstrating passion for our vision of bringing life-changing improvements to Batswana. Finally, our other key stakeholder, namely our Regulator, Bank of Botswana, has also been extremely supportive, for which I am immensely grateful.

CHIEF FINANCIAL OFFICER'S REPORT

"The Group's liquidity position remains strong and within approved risk appetite and tolerance limits. The prudential liquidity requirement averaged 14.4% in 2019 exceeding the minimum regulatory requirement of 10%. The Group maintained its Net Stable Funding Ratio in excess of the internal requirement."

Chose Modise, *Chief Financial Officer*

HOW WE PERFORMED

PROFIT AFTER TAX GROUP
P140 m
2018: P252 million

LOANS & ADVANCES
P12,7 b
2018: P11.5 billion

DEPOSITS
P13,8 b
2018: P12.0 billion

COST TO INCOME RATIO
49 %
2018: 56%

JAWS
15.8 %
2018: 1.8%

CAR
17.70 %
2018: 16.99%

ROE
11.2 %
2018: 21.4%

CLR
3.1 %
2018: 0.9%

Economic Climate

Global economy

After slowing sharply in the second half of 2018, global economic activity remained weak in 2019, reflecting a confluence of factors affecting major economies. Rising trade and geopolitical tensions took a toll on the global trading system affecting both business confidence and investment decisions. Trade wars and weakening growth in China negatively impacted global growth. In many parts of the world, the manufacturing sectors were either in recession or close to recession territory.

While financial market sentiments have been undermined by these developments, a shift towards policy accommodation in the United States and many other advanced and emerging market economies has been a counterbalancing force. Most central banks continue to be in a highly accommodative position leaving little room for additional monetary easing.

Local economy

Overall, annual GDP for 2019 is expected to be just above 3.5%. The economic climate has been impacted by falling export revenue as a result of depressed diamond sector performance over most of the year. However, the final diamond sight of the year in December saw a positive turnaround. Nonetheless, the government continues its efforts to diversify the economy, in particular export revenues; sentiments strongly echoed in the recent national budget speech from the Minister of Finance and Economic Development, Honourable Dr Thapelo Matsheka.

Financial Performance of the Bank

Revenue

Total income grew 16% to P1.1 billion. Net interest income (NII) grew 30% to P682 million, whilst Non-Interest Revenue (NIR) grew 0.3% to P460 million. NII growth was supported by strong loan book development particularly from our Personal and Business Banking (PBB) segment. Net interest margin (NIM) increased marginally to 442 bps (2018, 421 bps) despite lower interest rates. Stronger growth in higher-margin unsecured lending and effective margin management yielded positive results.

NIR growth was driven by a 10% growth in fees and commission income on the back of strong underlying transactional volumes mainly from the Corporate and Investment Banking (CIB) segment. However, the growth was diluted by margin compression on FX transactions leading to a decline in trading income. Revenue contribution from our digital platforms continues to grow as clients shift their transactional activities to electronic banking. The Bank will continue to roll out new digital solutions and products to drive new revenue streams.

Credit impairment charges

Credit impairment charges increased from P94 million to P389 million predominantly driven by provision in our CIB segment, which has performed exceptionally well over the years with minimal impairment. This increased our credit loss ratio (CLR) to 309 bps (2018, 86 bps).

Operating expenses

Our cost optimisation strategy yielded very satisfying results. Total operating costs remained flat at P554 million (2018, P552 million). Staff costs grew 6.6% to P292 million as we continue to improve our employee value proposition. Other operating expenses decreased by 6.1% to P262 million driven by strong focus on procurement efficiencies. Cost optimisation together with focus on our revenue base shifted our Cost-to-Income ratio (CTI) from 56%, 2018 to 49% in 2019 and delivered positive jaws of 15.8%.

Capital and liquidity management

The Group maintained strong capital adequacy ratios. The total capital adequacy ratio closed the year at 17.70% (2018, 16.99%), above both the regulatory requirement and our risk appetite. The Group successfully raised tier II funding of P300 million in the local market replacing existing sub debt at a lower cost.

The Group's liquidity position remains strong and within approved risk appetite and tolerance limits. The prudential liquidity requirement averaged 14.4% in 2019 exceeding the minimum regulatory requirement of 10%. The Group maintained its Net Stable Funding Ratio in excess of the internal requirement.

Outlook

We expect the impact of Covid-19 to bring downward pressures on revenue and export opportunities for the country.

Botswana's growth outlook over the medium term is likely to contract as a result of the broad-based impact that the Covid-19 pandemic will have on different sectors of the economy. There are good prospects of recovery in the second half of the year supported by the country's stable institutional frameworks and monetary policy framework.

However, Stanbic Bank Botswana is retaining an overall positive outlook for 2020 of the domestic economy as we take advantage of the strength of our balance sheet, the quality of our clients' engagements and the positive business momentum created in 2019.

OUR ACCOUNTABILITY

CORPORATE GOVERNANCE REPORT

Company registration number
The Bank's company registration number is BW0000732198

Activities
Stanbic Bank Botswana Limited provides personal and business banking and corporate and investment banking services in Botswana. The Bank has thirteen establishments across the country and has a staff compliment of 569 (2018: 592).

Holding Company
Stanbic Bank Botswana Limited is a wholly owned subsidiary of Stanbic Africa Holdings Limited. Stanbic Africa Holdings Limited is a wholly owned subsidiary of the Standard Bank Group Limited, a public company listed on the Johannesburg Stock Exchange.

The Standard Bank Group Limited traces its roots back to 1862 and has a primary listing on the Johannesburg Securities Exchange of South Africa (JSE) with a secondary listing on the Namibian Stock Exchange (NSX).

Registered office
Plot 50371
Fairground Office Park
Gaborone

Shares in issue and stated capital
The total number of shares in issue as at 31 December 2019 is 31 936 205 ordinary shares, at a stated capital of P390 177 000. No shares were issued during the current or previous year.

Group results
The results for the year are set out in the accompanying financial statements and show an after-tax profit of P140 million (2018: P252 million) and P135million (2018: P247 million) for the Group and Bank respectively.

Dividends
No dividend was paid to the shareholder, Stanbic Africa Holdings Limited during the year ended 31 December 2019 (2018: P160 million).

Matters not dealt with
There are no matters not already dealt with which are material to the state of affairs of the Bank or Group.

Post balance sheet events
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 25.

Subsidiaries and associated companies

Stanbic Insurance Services (Pty) Ltd
This company undertakes the provision of asset protection and credit life insurance products in collaboration with various insurance underwriters. Sales of these products have become embedded in the Bank's sales processes. The company reported a profit after tax of P4.4 million (2018: P4.4 million).

Stanbic Nominees Botswana (Pty) Ltd
Stanbic Bank Botswana Limited (the Bank), through its custody business, manages clients' funds and investments in securities. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) requires banks to separate assets managed on behalf of third parties from their own. Stanbic Nominees Botswana (Proprietary) Limited was established to comply with this requirement. The Company was established to ring-fence assets managed on behalf of the Bank's customers. The Company acts in a nominee capacity, which results in securities being registered in its name on behalf of the Bank's customers. The securities are not assets of the company as the company does not control the stocks and no benefits are expected to flow to the company from these investments. As such, the securities are not reflected on the company's statement of financial position.

Standard Bank Group Limited – overview

Standard Bank Group is committed to implementing ongoing initiatives to improve corporate governance for the benefit of all stakeholders. The Standard Bank Group's approach to governance extends beyond compliance.

The Group believes that good governance creates shared value by **underpinning responsive thinking**, and protects shared value by **ensuring responsible behaviour**, deepening competitive advantage through **enhanced accountability**, **effective leadership, robust risk management, clear performance management** and greater **transparency.**

The King Report on Corporate Governance (King Code or King IV) forms the cornerstone of the Group's approach to governance. The Group has adopted and implemented a Subsidiary Governance Framework, which applies to all subsidiaries including Stanbic Bank Botswana Limited. The Subsidiary Framework takes into account the requirements of King IV, the Basel Corporate Governance Principles for Banks and the developments in various jurisdictions in which the Group operates. It is a living document and does not replace in-country local corporate governance codes but establishes a common standard of corporate governance across group subsidiaries.

OUR GOVERNANCE FRAMEWORK

Through the alignment of governance practices and processes, the framework ensures discipline in the execution of the **group's strategy, oversight and transparency**. Through this framework, the board ensures that there are adequate governance structures and processes in place to contribute to the effective supervision of subsidiary companies, taking into consideration the nature, size, and complexity of the different risks facing the group and its subsidiary companies.

1. The Stanbic Bank Botswana Board

The Board of Directors of Stanbic Bank Botswana Limited have deep experience and diverse skills, which collectively ensure that the Board operates effectively to protect and create value in the design and delivery of the Bank's strategy, and in the execution of its duties.

The Stanbic Bank Botswana Limited Board is a unitary board.

2. Appointments and resignations

The Board has a formal and transparent process for appointing directors. The process entails consideration of the current Board skills matrix, a candidate's skills, experience, availability, possible conflicts of interest and likely fit as well as demonstrated integrity, proven leadership and other time commitments. A director appointed by the board holds office until the next annual general meeting in line with the Stanbic Bank's Constitution. All newly appointed directors are taken through an induction programme provided by the Company Secretary which entails the new director being provided with all relevant governance information, including the company's founding documents, mandates, governance structures, significant reports, legislation and policies. Meetings are also scheduled with management and the Company secretary to introduce new directors to the Bank and its operations.

There were no new appointments during the year under review.

DIRECTORS' PROFILES

COMMITTEES
- Human Capital Committee
- Risk Management Committee
- Audit Committee
- Information Technology Committee
- Credit Committee
- Committee Chairman

Craig Anthony Granville

BCompt (UNISA) (FCA - Botswana and Zimbabwe)
Non-Executive Director (Independent) - Board Chairman

1ST APPOINTED TO BOARD in 2014
Board Chairman appointed 2017
Craig Granville is a non-executive Director and Chairman of the Board of Directors. Craig holds a BCompt Hons Degree from the University of South Africa. He is a qualified Chartered Accountant and Fellow of the Botswana Institute of Accountants. He was previously a Partner at PricewaterhouseCoopers and is currently the Managing Director of Accpro Accountants (Proprietary) Limited.

Craig is a member of the Board Human Capital Committee.

Samuel A Minta

MBA, B.Sc.ACI, CA
Chief Executive

APPOINTED September 2018
The Board appointed Sam Minta as the Chief Executive of Stanbic Bank in September 2018 following his service as Acting Chief Executive with effect from January 2018. Sam is a seasoned Chartered Accountant, having served as CFO of Stanbic Bank Botswana since 2015. His appointment to Stanbic Bank Botswana was preceded by various executive appointments within the Group, including CFO at Stanbic Bank Zambia and COO at Standard Bank South Africa.

Jennifer Mary Marinelli

BCompt (FCA)
Non-Executive Director (Independent) - Chairperson Board Audit Committee

APPOINTED 2009
Jennifer Marinelli is a fellow member of the Botswana Institute of Accountants. She is admitted to the Zimbabwe Institute of Accountants as a Fellow Chartered Accountant. Mrs Marinelli holds a Bachelor of Accounting Science from UNISA. She has over twenty-two years' experience employed at Deloitte & Touche and where she was an Audit Partner. She is a founding member of REPSSI and an Audit Committee member of the University of Botswana and Afinitas Limited. She was a director of Sefalana Holding Company Limited from 2001 to 2015 and is also an associate member of the Botswana Institute of Arbitrators.

Jennifer is the Chairperson of the Board Audit Committee and a member of the Board Information Technology and the Board Risk Management Committee.

Orefitlhetse Masire

Bsc (BAdmin) (Auburn), MSc (Strategic Management) (Derby)
Non-Executive Director (Independent) - Chairperson Board Human Capital Committee

APPOINTED 2009
Orefitlhetse Masire is a non-executive director of the Bank. She is a Training & Human Resources Consultant, a director at Laurelton Diamonds Botswana, a subsidiary of Tiffany and Company, and an entrepreneur. She is currently Managing Director at Career Diversity (Pty) Ltd, a council member of Business Botswana and a sub-committee member of the Labour, Immigration Sector of HLCC and also a member of Botho University Advisory Board. Prior to this, Orefitlhetse was employed by BOCCIM (now Business Botswana). She has held a number of Board and Executive Committee positions, including but not limited to: Labour and Immigrants Selection; BOTA Quality Assurance; University of Botswana Foundation; Botswana Defence Force Women's Club; and Women in Business Association.

Orefitlhetse is the Chairperson of the Board Human Capital Committee, a member of the Board Credit Committee and Board Risk Management Committee.

Dale Ter Haar

Bsc (BAdmin)
Non-Executive Director (Independent) - Chairperson Board Risk Management Committee

APPOINTED 2009
Dale Ter Haar is a non-executive director. Dale holds a BSc in Business Administration from Cardiff University and attended Royal Military Academy Sandhurst. Dale is self-employed and runs a successful consultancy business. He previously served as the Managing Director of CIC Energy Botswana. Prior to this, he had a distinguished military career serving 9 years as an officer with a British tank regiment. He is on the Board of Chobe Holdings Limited and its Board Audit Committee and is the Chairman of the Lady Khama Charitable Trust.

Dale is Chairman of the Board Risk Management Committee and a member of the Board Audit Committee and Board Information Technology Committee.

DIRECTORS' PROFILES

COMMITTEES
- Human Capital Committee
- Risk Management Committee
- Audit Committee
- Information Technology Committee
- Credit Committee
- Committee Chairman

Pindie Nyandoro

Bsc, MBA, LLB
Regional Chief Executive

APPOINTED 2011

Pindie was appointed to the Stanbic Bank Botswana Board on 26 May 2011, following her appointment as the Regional Chief Executive for Stanbic Bank Botswana. Pindie has held various positions in the banking industry including Managing Director Stanbic Bank Zimbabwe Limited. She is currently a board member of Standard Bank Eswatini, Stanbic Bank Zambia, Standard Lesotho Bank, Standard Bank Namibia and Stanbic Bank Zimbabwe.

Pindie is a member of the Board Risk Management Committee and an invitee to the Board Audit Committee.

Rudie De Wet

B. Arch, University of Pretoria.
Non-Executive Director (Independent) – Chairperson Board Information Technology Committee

APPOINTED 2015

Rudie is a Director at Dewet Drilling Botswana a company managing / co-managing various drilling and civil engineering projects in Botswana. He is a director and shareholder of Dewet Drilling (Pty) Ltd, DWD Engineering (Pty) Ltd, Albertina Ranch (Pty) Ltd and Seleka Ranch (Pty) Ltd. Rudie also serves as Vice Chairman, Botswana Wildlife Producers Association.

Rudie is the Chairperson of the Board Information Technology Committee and a member of the Board Credit Committee.

Mohamed Ismail

Non-Executive Director (Independent) – Chairperson Board Credit Committee

APPOINTED 2015

Mohamed is a versatile, delivery-focused, assertive business leader with over forty years of experience in leading the Ismail Group of Companies, being a successful diversified portfolio of businesses ranging from petroleum retailing, liquefied petroleum gas (LPG) distribution and Quick Service Restaurants. He is the master franchisee for Chicken Licken outlets in Botswana.

Mohamed is the Chairperson of the Board Credit Committee and is a member of the Board Audit Committee and the Board Human Capital Committee.

Dr. Tebogo TK Matome

Doctor of Philosophy, Master of Social Sciences, Bachelor of Commerce
Non-Executive Director (Independent)

APPOINTED October 2017

Dr. Matome is the founding and former CEO of the LEA. He is also a former CEO of the Botswana Stock Exchange and has worked for BIFM and lectured at University of Botswana. Dr. Matome has held various Board appointments including being Chairman of Bokamoso Private Hospital, Maruapula School Governing Council, Vice Chairman of the Non-Bank Financial Institutions Regulatory Authority, and Board Member at BTA (now BOCRA), CEDA and BCL, among others. Dr Matome has also published several articles in international and overseas refereed journals.

Dr. Matome is a member of the Board Audit Committee and the Board Information Technology Committee.

Mr. Derick Finlayson

Bachelor of Commerce, Chartered Accountant - RSA, H.DIP Tax Law, H.DIP Company Law
Non-Executive Director

APPOINTED November 2018

Derick was employed by the Standard Bank Group in South Africa for 30 years. He held several executive positions including General Manager Corporate and Investment Banking, General Manager Asset Management and General Manager Standard Bank Fund Managers, among others. He currently serves as Chairman of the Investment Committee of the Credit Alternatives Franchise Committee of Stanlib Investment Management Services and as Chairman of the Board of Wealthport Nominees.

Derick is a member of the Board Credit Committee.

EXECUTIVE MANAGEMENT

Samuel Minta
Chief Executive

Chose Modise
Chief Financial Officer

Kgadimo Kelebale
Head of Credit Corporate and Investment Banking (Retired 31st December 2019)

Shathani Molefe
Head of Compliance

Oagile Marafhe
Chief Information Officer

Deon Cronje
Head of Credit Personal and Business Banking (PBB)

Moabi Letsididi
Head of Operations

Chiko Manokore
Head of Personal and Business Banking (PBB)

Chedza Balopi
Head of Human Capital

Stephanie Sandridge
Head of Marketing

Mmoloki Letshwao
Head of Internal Audit

Siamisang Morolong
Head of Legal

Christopher Gwere
Head of Risk

Sheperd Aisam
Head of Corporate and Investment Banking (CIB)

4. Board Composition

In the spirit of good corporate governance and best practice, the Board consists of a majority of independent non-executive directors and the role of the Chief Executive and Chairman are separate. Non-executive directors bring diverse perspectives to Board deliberations and constructively challenge management. This enhances Board's decision making as it safeguards the balance of power within the Board. The Board comprises ten directors – seven independent non-executive directors, one non-executive directors who is non-independent (related) and two executive directors.

The Board promotes diversity in its membership across a variety of attributes, including field of knowledge, skills and experience, age, culture, race and gender. The Board is satisfied that its current members possess the required collective knowledge, skills and experience to carry out its responsibilities, to achieve Stanbic Bank Botswana's objectives and create shareholder value over the long term.

5. Board meetings

The Board meets a minimum of once every quarter with additional meetings scheduled to discuss any other urgent issues not discussed during scheduled meetings. Directors are provided with comprehensive Board documentation at least ten days prior to each of the scheduled meetings.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 4 Special
	05 Mar 2019	28 May 2019	26 Aug 2019	21 Nov 2019	09 Dec 2019
C A Granville (Chair)	√	√	√	√	√
J M Marinelli	√	√	√	√	√
D S Ter Haar	√	√	√	√	√
O Masire	√	√	√	√	√
M Ismail	√	√	√	√	√
P R De Wet	√	√	√	√	-
T T K Matome	√	√	√	√	√
D Finlayson	√	√	√	√	-
P Nyandoro	√	√	√	√	-

6. Board Committees

The Board delegates certain functions to well-structured committees without abdicating its responsibilities. The Committees constitute an integral part of the governance process and are established through clearly defined committee mandates. Feedback on the committees' activities is submitted to the Board at each Board meeting following the relevant committee meeting.

6.1. Board Risk Management Committee (BRMC)

BRMC is mandated with the responsibility to ensure quality, integrity, reliability and independence of the Bank's risk management function. The committee assists the Board of directors in the discharge of its duties relating to corporate accountability and associated risks in terms of management, assurance and reporting. The BRMC reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, to reduce the impact of risk, including fraud, in all areas of operation. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year: Risk appetite and risk profile-considered and approved the risk appetite statement for the Bank's banking operations; on a quarterly basis, reviewed detailed risk management reports which covered key risk types, including credit, operational, country and market risk across the bank; reviewed quarterly reports on legal and reputational risk. The Committee also considered regulatory matters including updates on regulatory developments, with continued focus on AML; and approval of the macroeconomic scenarios for the running of the Internal capital adequacy assessment process (ICAAP) stress testing process.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	25 Feb 2019	20 May 2019	12 Aug 2019	07 Nov 2019
D S Ter Haar (Chair)	√	√	√	√
J M Marinelli	√	√	√	√
O Masire	√	√	√	√
P Nyandoro	√	√	√	√

6.2. Board Credit Committee (BCC)

The purpose of the Bank's Board Credit Committee is to ensure that effective credit governance is in place in order to provide for the adequate management, measurement, monitoring and control of credit risk including country risk. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key strategic focus areas for the year:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	25 Feb 2019	20 May 2019	19 Aug 2019	11 Nov 2019
M Ismail (Chair)	√	√	√	√
O Masire	√	√	√	√
P R De Wet	√	√	√	-
D Finlayson	√	√	√	√

6.3. Board Audit Committee (BAC)

The role of the BAC is to assist the Board of directors with discharging its responsibility to safeguard the Bank's assets, maintain adequate accounting records, develop and maintain effective systems of internal control. The Committee provides a channel of communication between the Board of directors, management, regulatory authorities, internal auditors and the external auditors. The overall objective of the Committee is to ensure that management has created and maintained an effective control environment in the organisation and demonstrates and stimulates the necessary respect of the internal control structure amongst all parties. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year: reviewed and approved internal audit's charter and approved the internal audit plan, reviewed quarterly reports from internal audit, which covered progress with audit plan delivery; review of financial reports, including quarterly financial updates on liquidity and capital planning and management and review of review of reports on fraud and investigations risks; considered and approved the external auditor's appointment.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
	13 Feb 2019	28 Feb 2019	24 May 2019	19 Aug 2019	11 Nov 2019
J M Marinelli (Chair)	√	√	√	√	√
D S Ter Haar	√	√	√	√	√
M Ismail	√	√	√	√	√
T T K Matome	√	√	√	√	√
P Nyandoro*	√	√	√	√	√

*Note – Pindie Nyandoro is an invitee to the Board Audit Committee meetings

6.4. Board Information and Technology Committee (BITC)

The purpose of the Board Information Technology Committee (BITC) is to assist the Board to fulfil its oversight responsibilities for the Bank's investments, operations and strategy in relation to Information Technology (IT) and to ensure that relevant Governance Standards are being effectively implemented by management and that the Board receives assurance on the effectiveness thereof. During 2018, four quarterly committee meetings were held. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year - the approval of IT and data standards including a review of the Bank's IT strategy, and the Chief Information Officer's quarterly reports; considered an overview of cybercrime and cyber sub-risks affecting the financial services industry.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	25 Feb 2019	21 May 2019	13 Aug 2019	12 Nov 2019
P R De Wet (Chair)	√	√	√	√
J M Marinelli	√	√	√	√
D S Ter Haar	√	√	√	-
T T K Matome	√	√	√	√

6. Board Committees (continued)

6.5. Board Human Capital Committee (BHCC)

The Board has delegated the BHCC to provide general oversight on the formulation and implementation of effective and efficient Human Capital Strategy and Policies and ensure that the strategy and policies are consistent with the Bank's culture, objectives, the Bank's overall strategy and control environment. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year: talent and succession planning including the executive management succession plans.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 4 (Special)
	27 Feb 2019	22 May 2019	14 Aug 2019	13 Nov 2019	20 Nov 2019
O Masire (Chair)	√	√	√	√	√
C Granville	√	√	√	√	√
M Ismail	√	√	√	√	√
T T K Matome	√	√	√	√	√

7. Directors' development

Stanbic Bank Botswana Limited encourages on going director development. Directors are kept abreast of applicable legislation and regulation, changes to rules, standards and codes, as well as relevant sector developments that could affect the Bank. During the year, the Board undertook the following key training sessions:

- **Compliance Training**
- **Board IT: IT Security (Always Secure)**
- **IT Architecture (System Integration)**
- **AML**
- **King IV awareness.**

8. Access to Information

Directors have unrestricted access to the Bank's management and company information, as well as the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to directors at the Bank's expense in line with a Board approved policy. The board uses an electronic board paper system, which provides quick, easy and secure access to board papers and materials (including a resource center that contains comprehensive reference materials). Board packs are circulated via this system prior to meetings, with enough time for board members to apply their minds to the content. Information about latest issues affecting the bank is also circulated as appropriate.

9. Board evaluation

The Board is focused on continued improvement to its effectiveness and corporate governance performance.

The Board is committed to conducting a self-assessment evaluation on an annual basis, which is divided into structure, process and effectiveness. The results are used to further improve Board functioning on an ongoing basis.

Shareholder's responsibilities

The shareholder's role is to appoint the Board of directors.

Going concern

The Board has reviewed the facts and assumptions on which it relies and, based on these, continues to view the Bank as a going concern for the foreseeable future.

Sustainability

The Group's commitment to sustainable development and ethical business practice is premised on our belief that the only way to grow shareholder value and manage business risk over the long term is to do our best to meet the needs of all our stakeholders. As such we continue to manage the Group's non-financial impacts and contributions in a balanced and considered manner – seeking to align the interests and expectations of all our stakeholders in a way that unites commercial opportunity with social and environmental responsibility.

It is the policy of the Group to set aside a substantial percentage of it's after tax profits for community development and support.
Social and environmental responsibility remains an important part of the Group's culture. The monitoring and reporting of sustainability issues is still an evolving discipline within our organisation.

Social and environmental responsibility remains an important part of the Group's culture. The monitoring and reporting of sustainability issues is still an evolving discipline within our organisation.

Social responsibility: creating shared value

As an African business, the Bank understands the challenges and benefits of doing business in Africa, and owes its existence to the people and societies within which it operates.

The Bank is committed therefore not only to the promotion of economic development but also to the strengthening of civil society and human well-being.

The Bank concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the country's socio-economic needs change.

Codes and regulations

The Bank operates in a highly regulated industry and is committed to complying with legislation, regulation, and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability.

The Bank complies with all applicable legislation, regulations, standards and codes.

Acknowledgements

Our sincere thanks go to our customers, staff and other stakeholders for their continued support over the past year. The guidance and diversity of the Board gives us added confidence to enable us to take our Bank to the next level.

RISK MANAGEMENT AND CONTROL

RISK MANAGEMENT AND CONTROL

The effective management of risk is critical to the reputation, earnings and financial position of Stanbic Bank Botswana Limited where a culture of encouraging sound economic decision-making, which adequately balances risk and reward, is embedded in all our banking activities.

A disciplined and integrated approach to managing risk is fundamental to the success of our operations. A description of the Bank's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is detailed below.

Risk management approach

The Bank's approach to risk management is based on a well-established governance process and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This key philosophy influences our risk culture and is evident in the actions and behaviour of our employees and leaders as they make decisions that balance risks and reward to optimise risk-based returns.

The Bank has in place governance standards for all major risk types. These standards are applied consistently across the Bank and are approved by the Board. They form an integral part of the Bank's governance structure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Bank. The standards ensure alignment and consistency in the manner that major risk types across the Bank are identified, measured, managed, controlled and reported. The Bank's risk governance structure emphasises and balances strong independent oversight with clear ownership for risk control within each business unit.

THREE LINES OF DEFENCE

The Bank has entrenched three lines of defence for effective risk management.

FIRST LINE OF DEFENSE: BUSINESS UNIT MANAGEMENT

Who are responsible for conducting business to meet set objectives (growth, return etc.) and seek the best risk/return trade-offs. They are primarily responsible for risk management. Their assessment, evaluation and measurement of risk is an ongoing process integrated within the day-to-day activities of the business. This process includes the implementation of the Bank's risk management framework, identification of risk issues and the implementation of remedial action where required. Business unit management owns and manages risks within their business units.

SECOND LINE OF DEFENSE: BANK'S RISK MANAGEMENT FUNCTION

The second line of defense consists of the Bank's Risk Management function which is independent of line management. The Risk Management function is primarily accountable for setting the Bank's risk management framework and policy which emphasises transparency, accountability and supports a common understanding among stakeholders of how the Bank manages risk. The Risk Management function defines mandates, guidelines and limits to keep business within risk appetite; they monitor the risk profile and identify potential breaches, and initiate and track corrective actions. The Risk Management function is also charged with providing oversight and independent reporting to senior management at the risk management oversight committees and to the board at the Board Risk Management Committee (BRMC).

INTERNAL AUDIT FUNCTION

The third line of defense consists of the Internal Audit function which provides an independent review of adherence to risk and control standards, mandates and guidelines, and is responsible for the assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures as well as identification of operational weakness. Internal Audit reports independently to the Board Audit Committee (BAC). The Head of Internal Audit reports and provides independent assurance to the BAC and has unrestricted access to the Chief Executive and the BAC Chairperson.

Risk management and control (continued)

Risk appetite and risk tolerance

Risk appetite is the quantum of risk the Bank is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. It is normal business practice that risks taken within "appetite" may give rise to expected losses, and these are adequately covered by expected earnings through provisioning. In defining its risk appetite, the Bank takes into account its vision, mission, strategy, guiding principles, risk philosophy and capacity to bear risk.

Risk tolerance is an assessment of the maximum risk the Bank is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Bank's capacity to survive unexpected losses.

The capacity to absorb unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Bank's risk appetite.

The Bank's Board has ultimate responsibility for the Bank's strategic direction and an effective risk management culture, which includes evaluating key risk areas and ensuring the processes for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to five committees: the Board Risk Management Committee (BRMC), the Board Audit Committee (BAC), the Board Credit Committee (BCC), the Board Information andTechnology (BITC) and the Board Human Capital Committee (BHCC) with each committee focusing on different aspects of risk management.

Internal audit assurance

The Bank's internal audit function operates under a mandate from the BAC. Internal Audit's primary objective is to provide assurance to BAC on the quality of controls in the Bank's operational activities. It assists the Executive Management team in meeting their business objectives by examining the Bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. It applies a risk based audit approach in executing its mandate. Material or significant control weaknesses and planned management remedial actions are reported to management and the BAC. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue audit issues are also reported to the BAC on a quarterly basis.

Basel II

The Basel Capital Adequacy Framework (Basel II) as defined by the Bank for International Settlements (BIS) is premised on three pillars, Pillar I: Minimum Capital Requirements, Pillar II: Supervisory Review Process, Pillar III: Market Disclosure, and aims at encouraging banks, through minimum capital requirements, to improve their risk management processes.

The Bank complies with all capital adequacy requirements as prescribed by Bank of Botswana under the revised capital standard. The Bank through its Treasury and Capital Management (TCM) unit, monitors capital adequacy with the aim of taking decisions that optimise capital.

The management of all significant risks to Stanbic Bank Botswana Limited and the general banking industry in Botswana are discussed below:

RISK MANAGEMENT IN BANKING ACTIVITIES

CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay the principal amount and interest in full, when these fall due.

The Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk, specifically in the banking activities as described below.

- In lending transactions: credit risk arises through non-performance by a counterparty for credit facilities utilised. Such facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations (e.g. letters of credit and performance guarantees).
- In trading activities: credit risk arises due to non-performance by a counterparty for payments linked to trading related financial obligations.

Approach to managing credit risk

Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities and also the use of relevant credit assessment tools in the evaluation of new and outstanding facilities for customers under the respective business units discussed below.

Corporate and Investment Banking (CIB)

The use of risk rating models combined with an in depth knowledge and understanding of each customer is essential in assessing the credit risk of each CIB counter party. A consistent credit rating framework is in place to assist the Bank in making credit decisions on new commitments and in managing the portfolio of existing exposures. The probabilities of default under these models are an important component of the formal credit assessment process of new and existing businesses. The validation and on-going enhancement of these models is a continuous focus area to ensure that the tools used in these credit assessments remain relevant and adequate.

Personal and Business Banking (PBB)

The nature of the product and strength of historical data is a fundamental dependence under credit risk management for the Personal and Business Banking customers. A diverse range of performance analysis techniques are applied across product sets and potential credits in recognition of the differing asset, maturity and individual or business profiles.

Rehabilitation and recovery forms a key component of the credit cycle. All credit portfolios are closely monitored on a regular basis to evaluate the level of risk assumed against expected risk levels. This role is competently executed by a fully-fledged rehabilitation and recovery unit within the credit function.

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

LIQUIDITY RISK

Liquidity risk arises if the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due or can only do so at materially disadvantageous terms. Liquidity risk can arise from both internal and external risk factors.

A sound and robust liquidity management process is required to measure, monitor and manage liquidity exposures. The Bank's liquidity management framework is principles based and is aimed to measure and manage the liquidity position at various levels to ensure that all payment obligations can be met under both normal and stressed conditions without incurring additional costs.

Approach to managing liquidity risk

The following elements are incorporated as part of a cohesive liquidity management process:

- **Maintaining a structurally sound balance sheet;**
- **Foreign currency liquidity management;**
- **Ensuring the availability of sufficient contingency liquidity;**
- **Preserving a diversified funding base;**
- **Undertaking regular liquidity scenario/stress testing;**
- **Maintaining adequate liquidity contingency plans; and**
- **Short term and long term cash flow management.**

The cumulative impact of the above elements is monitored by the Bank's Asset and Liability Committee (ALCO) and the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose built technology, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system by both internal and external audit.

Active liquidity and funding management is an integrated effort across a number of functional areas. Short term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and ALCO requirements. Long term funding needs are derived from the projected balance sheet structures and positions are regularly updated to ensure the Bank's adherence to all funding governance. Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy. These plans are reviewed periodically for relevance and reliability.

MARKET RISK

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates and credit spreads, as well as implied volatilities on all of the above.

Market risk exposures resulting from trading activities are contained within the Bank's Corporate and Investment Banking trading operations. The Board grants authority to take market risk exposure to ALCO. The Bank manages market risk through a range of market risk limits and triggers. It uses a suite of risk measurement methodologies and tools to establish limits, including securities revaluation models (Mark to Market), PV01 (Present value of the nominal at the adverse interest rates shock by one basis point), stress testing, loss triggers and other basic risk management measures and internal controls.

A clear segregation of duties as well as independent reporting lines exists between the Bank's Global Markets, Global Markets Operations and Market Risk functions.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

IRRBB refers to the current and/or future risk to the Bank's earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book positions.

Changes in interest rates affect a bank's earnings by altering the level of NII generated from interest rate sensitive assets, liabilities and off-balance sheet items. The economic value of a bank is also affected when interest rates change, as the present value and timing of future cash flows change, influencing the underlying value of a bank's assets, liabilities and off-balance sheet items.

The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls. The interest rate gap analysis is shown under note 22.5.

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

OPERATIONAL RISK

Operational risk is the potential for loss resulting from the inadequacy of, or a failure in, internal processes, people, systems or external events.

The Bank recognises the significance of operational risk, and the fact that it is inherent in all business units. The Bank's operational risk governance standard codifies the core governing principles for operational risk management and defines a common framework with the basic components for the identification, assessment, management, monitoring and reporting of operational risk. This common framework defines the minimum requirements whilst ensuring an element of flexibility for each business unit's particular operating environment. This framework is further supported by a set of comprehensive operational risk management policies.

Approach to managing operational risk

The Bank's approach to managing operational risk has been the adoption of practices that are designed to improve the efficiency and effectiveness in the utilisation of the Bank's resources, minimising losses and effectively exploiting opportunities. This approach is aligned to the Bank's enterprise wide risk management framework and adopts sound risk management practices recommended by the Basel II Accord's Sound Practices for the Management and Supervision of Operational Risk.

The Bank's independent operational risk management function performs control and oversight roles, including the implementation of a set of appropriate policies, governance standards and tools. These tools include:

- **A centralised operational loss database providing management reports which are used to identify improvements to processes and controls arising from loss trends**
- **Risk and Control Self-Assessments through which existing and emerging risks and their related controls are identified and assessed**
- **Key Risk Indicators, which measure specific factors to provide an early warning to proactively address potential exposures**
- **An escalation matrix that supports the identification, assessment, quantification and timely escalation of risks and risk incidents to management for appropriate decision-making**
- **A robust business resilience framework, with disaster recovery plans to ensure that the Bank appropriately manages the adverse impact from unforeseeable disasters to the business and continues to provide services to its clientele at acceptable predefined levels.**

INSURANCE RISK

Insurance Risk Management includes oversight of the effective use of insurance aligned with the Bank's risk management strategy and risk appetite.

To provide additional protection from loss, the Bank manages a comprehensive portfolio of insurance and other risk mitigating arrangements.

The Bank further maintains a comprehensive insurance programme to cover residual risk as a result of losses from fraud, theft, potential liability claims, and damage to physical assets while additionally operating comprehensive internal audit and risk assurance programmes on the entire Bank's operations.

The Bank has set up an Investigations & Fraud Risk (IFR) unit, mandated by the BAC, and this unit is responsible for supporting the implementation of the Bank's fraud risk management framework.

The strategic approach of IFR focuses on fraud prevention, detection, investigation and whistle blowing activities. The Bank maintains a zero tolerance approach towards fraud and dishonesty.

INFORMATION TECHNOLOGY RISK

Part of operational risk management speaks to the Information Technology (IT) component of the operational environment.

The nature of the IT world dictates that the Bank implements an effective risk management and control environment and to this end the Bank has adopted the following Frameworks:

Control Objective for Information and Related Technology (COBIT): This framework is used for governance and management of an IT enterprise. A robust control environment driven by clearly defined policies, processes and procedures as well as close monitoring of all system performance and access to the technology enabled assets are at the core of managing the technology risks. This also includes the availability of services offered through the technology domain.

Information Technology Infrastructure Library (ITIL): The Bank has adopted the ITIL framework to manage IT service delivery which is at the core of our strategic delivery to ensure a continuation of service to our customers and our industry partners.

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

INFORMATION TECHNOLOGY RISK

Part of operational risk management speaks to the Information Technology (IT) component of the operational environment.

Information Security Forum's Standard of Good Practice: The Bank has adopted this Standard as it is the most comprehensive and current source of information security controls available, enabling the Bank to adopt good practice in response to evolving threats and changing business requirements.

In keeping with sound Corporate Governance practices, the Board ensures that prudent and reasonable steps have been taken with respect to fulfilling its responsibilities for Information Technology (IT) Governance. To assist the Board to fulfil this obligation, the Executive Committee has been delegated the authority of oversight of the management of IT Governance. The IT Steering Committee has therefore been formed as a sub-Committee of the Executive Committee and provides assurance to the Board regarding the performance of IT as a strategic asset.

The purpose of the Committee is to provide assurance to the Executive Committee and the Board that management has implemented effective Technology Governance structures that support the effective and efficient management of resources, the optimisation of costs and the mitigation of risk in a secure and sustainable manner. The Committee meets on a monthly basis and has a mandate from the BITC to which it reports on a quarterly basis.

HUMAN CAPITAL RISK

The Human Capital Committee serves as a subcommittee of the Executive Committee.

The purpose of the Committee is to provide focus and direction on Human Capital matters to ensure successful delivery of Human Capital strategies and plans and to ensure that the Bank is resourced sustainably with a pool of diverse, highly skilled, motivated and effective workforce, capable of delivering on the Bank's Strategy.

The Committee meets on a monthly basis and is under a mandate of the BHCC to which it reports on a quartery basis.

BUSINESS RESILIENCE

Within the Bank, Business Resilience is a specialist operational risk discipline enabled by three capabilities, which are integrated in a single framework to provide an agile, cohesive and coordinated suite of point-in-time response and recovery interventions to counter the financial and reputational impacts of worst case operational disruptions.

The three Business Resilience capabilities within the Bank are Emergency Response, Crisis Management and Business Continuity Management (BCM) which includes IT Service Continuity. Business Resilience ensures timely availability of all key processes which are required to support essential activities and customer services in the event of a disruption of business. The Bank tests, both periodically and as appropriate, its business continuity plans, IT Disaster Recovery plan and conducts evacuation drills across all its points of representation with a view of testing the adequacy, reliability and resilience of the plans.

In keeping with sound Corporate Governance practices, the Board ensures that prudent and reasonable steps have been taken with respect to fulfilling its responsibilities for Information Technology (IT) Governance.

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

COMPLIANCE RISK

Compliance is an independent core risk management function of the Bank, which has unrestricted access to the BRMC, Chief Executive and the Chairman of the Board.

The Bank ensures compliance to various Regulatory prescriptions such as laws, guidelines and policies by embedding the compliance risk management framework across all business areas.

The Bank operates a centralised Compliance function which is run by a fully resourced specialised unit that provides oversight on all compliance related matters. The Compliance unit provides leadership and the Bank with guidance on existing and emerging legislative developments through training and stakeholder engagements where the compliance issues specific to the business area are discussed. The aim of which, is to ensure that compliance risk is managed by all staff and stakeholders of the Bank in their respective positions. Once the knowledge of an Act, Regulations, Guidelines and Policies is embedded in the business unit's operations, the Compliance function conducts a monitoring review to determine the adequacy of the controls and ascertain the level of compliance risk the Bank faces in relation to the business function.

MONEY LAUNDERING CONTROL

The Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF) landscape was enhanced significantly in 2018 to align with the Financial Action Task Force (FATF) recommendations

As a result, the Financial Intelligence Act and regulations were amended for adoption across the country. The changes in legislation have been incorporated into the Bank's risk management framework and mitigating controls have been incorporated into the operational policies, processes and procedures to combat risks of money laundering and financing of terrorism across the Bank's network.

OCCUPATIONAL HEALTH AND SAFETY

The health and safety of employees, clients and other stakeholders and the environment continues to be a priority.

The Bank seeks to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The Bank continues to focus on ensuring compliance with current legal and regulatory framework and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

TAXATION RISK

Taxation risk is the possibility of suffering losses, financial or otherwise, as a result of the misapplication of tax systems (whether in legislative systems, rulings or practices) applicable to the entire spectrum of taxes and other fiscal imposts to which the Bank is subject.

The Bank fulfils its responsibilities under tax law in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the Bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

The identification and management of tax risk is the primary objective of the Bank's tax and regulatory function, and this objective is achieved through the application of a tax risk matrix approach, which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the Bank is exposed, in the context of the various types of activity the Bank conducts.

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

REPUTATIONAL RISK

Safeguarding the Bank's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff.

Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Stanbic Bank's strong reputation is dependent upon the way in which it conducts its business, but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Management of all operating activities is required to establish a strong internal control structure to minimise the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken. The Bank sets clear standards and policies on all major aspects of the business and these standards and policies are integral to the Bank's system of internal controls and are communicated through procedures, manuals and appropriate staff training.

BUSINESS / STRATEGIC RISK

Strategic risk is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, markets, products, activities or structures.

Major potential sources of strategic risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

It is not cost effective to attempt to eliminate all business or strategic risk and it would not, in any event, be possible to do so. Events of small significance are expected to occur and are accepted as inevitable; events of material significance are rare and the Bank seeks to reduce the risk from these in a framework consistent with its expected risk profile and appetite.

RISK DATA AGGREGATION AND RISK REPORTING (RDARR)

After the financial crisis in 2008, it became clear that banks did not have the necessary risk information readily available to understand their exposures to counterparties.

Poor decisions were being made, based on poor data and supervisory regulators failing to identify and address large concentrations of risk taken on by some banks

To rectify this the Basel Committee on Banking Supervision (BCBS) published BCBS 239, "The Principles for Effective Risk Data Aggregation and Risk Reporting". The BCBS 239 standard introduces a global, overarching risk data aggregation and risk data reporting framework. It comprises a set of principles aimed at making sure the aggregation of data is such that banks can monitor risks accordingly and, importantly, report on them accurately and in a timely fashion.

RDARR is a business initiative within the Bank that aims to strengthen our risk data aggregation capabilities, and internal risk reporting practices. RDARR is underpinned by the 11 BCBS 239 principles that are relevant to banks. RDARR provides openings to think and do things differently - to optimise the competitive advantages and market opportunities that comprehensive risk reporting and management of risk information can provide.

The backbone of the RDARR programme is risk data, how we aggregate, trace its origins, improve its quality and overall use of risk data as an asset from which to make informed and proactive business decisions.

RDARR will enable the Bank to:

- **Formulate our business strategies and aspirations taking into account a transparent and accurate assessment of our risks and opportunities to drive a competitive advantage**
- **It will provide us with the opportunity to enhance the infrastructure for reporting key information so as to support the board and senior management in identifying, monitoring and managing risks**
- **It will improve confidence in the information that is made available and shorten the decision-making process throughout the Bank**

RISK MANAGEMENT IN BANKING ACTIVITIES (CONTINUED)

RESOLUTION AND RECOVERY PLANNING (RRP)

Resolution and Recovery Planning (RRP) seeks to identify management actions which would be adopted during periods of severe stress to ensure the survival of the Bank and the sustainability of the economy of Botswana.

This calls for identification of options available to the Bank to regain full financial viability in times of severe financial stress.

The four major building blocks of the Bank's RRP are:

- **Strategy setting and defining risk appetite;**
- **Risk identification and measurement;**
- **Capital adequacy planning and stress testing; and**
- **Monitoring, management and communication.**

When we say **"Botswana is our home and we drive her growth"** we mean it. We have our ears to the ground, our eyes open, and our hearts beating to the tune of a nation we are proud to call home.

#AgangBoswa

Capital adequacy

Minimum requirements

The capital adequacy ratio reflects the capital strength of an entity.

Stanbic Bank Botswana Limited is required to meet the Bank of Botswana capital requirements, set at a minimum capital adequacy ratio of 15 percent.

Qualifying capital

Qualifying capital is divided into two tiers: primary and secondary.

Primary capital (Tier I) comprises funds raised through the issue of ordinary shares, non-redeemable, non-cumulative preference shares, retained earnings and reserves (other than regulatory reserves).

Secondary capital (Tier II) comprises cumulative preference shares, certain subordinated loan funding and general debt provisions net of any related deferred tax.

Risk weighted assets

Risk-weighted assets (RWA) represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in a bank. The aggregation considers credit, market and operational risk. RWA for credit risk are determined by applying a set risk-weighting to on and off-balance sheet financial investments, according to the relative credit risk of the counterparty.

RWA for market risk is determined by applying prescribed risk weights to market risk exposures. Market risk factors considered are changes in the Bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices and other indicators whose values are set in a public market.

RWA for operational risk is calculated using a methodology consistent with the qualitative and quantitative criteria as defined in Basel II.

CORPORATE SOCIAL INVESTMENT

CORPORATE SOCIAL INVESTMENT REPORT

SOCIAL, ECONOMIC AND ENVIRONMENTAL (SEE)

The Bank's sustainability and success are inextricably linked to the prosperity and wellbeing of all. To achieve our purpose, our core business activities must support and contribute to this prosperity and wellbeing.

The reality facing us is that the Bank's business activities have wide and far-reaching SEE impacts in the economies and communities in which we operate. We are committed to understanding these impacts, which are direct and indirect, and using this understanding to inform our decision-making at every level.

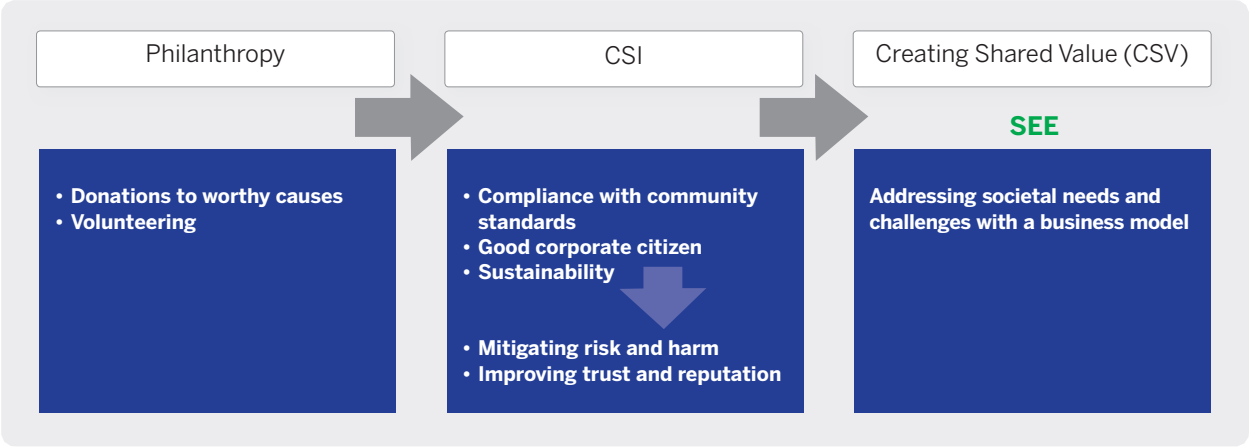
This enables us to maximise the positive impacts of our business, and minimise and mitigate the negative impacts, while simultaneously generating new business opportunities and financial returns for the group. We've adopted SEE impact as one of the five value drivers which informed our Legacy221 Strategy, and against which we measure our performance.

In 2019, we identified 6 impact areas in which we believe that Stanbic Bank can make a significant positive SEE impact over the 3-year strategy period. Our key focus for 2019 being **Job Creation and Enterprise Growth.**

IMPACT AREAS:

1. EDUCATION
2. FINANCIAL INCLUSION
3. INFRASTRUCTURE
4. JOB CREATION & ENTERPRISE GROWTH
5. AFRICAN TRADE & INVESTMENT
6. CLIMATE CHANGE & ENVIRONMENTAL SUSTAINABILITY

We identified these areas by considering at the overlap between our core business as a provider of financial services, and the needs of Batswana, businesses and economy. The priority issues and targets contained in the UN's Global Sustainable Development Goals (SDGs), the African Union's Agenda 2063 and most importantly Botswana's National Development Plan (NDP11) informed our thinking. For the Bank, SEE is now the overarching way we do business. SEE underlines much of what we do as a business – including but not limited to our Corporate Social Investment (CSI) approach. it is however important to note the distinction we make when we speak of SEE and CSI, as illustrated below:



CORPORATE SOCIAL INVESTMENT (CSI) UPDATE

Taking into consideration our wider SEE Pillars and, notably, our focus pillar of Job Creation and Enterprise Growth, the Bank seeks to make a sustainable impact through three broad themes. These are in keeping with our Purpose, that is *"Botswana is our home; we drive her growth"* and are noted in our CSI Policy.

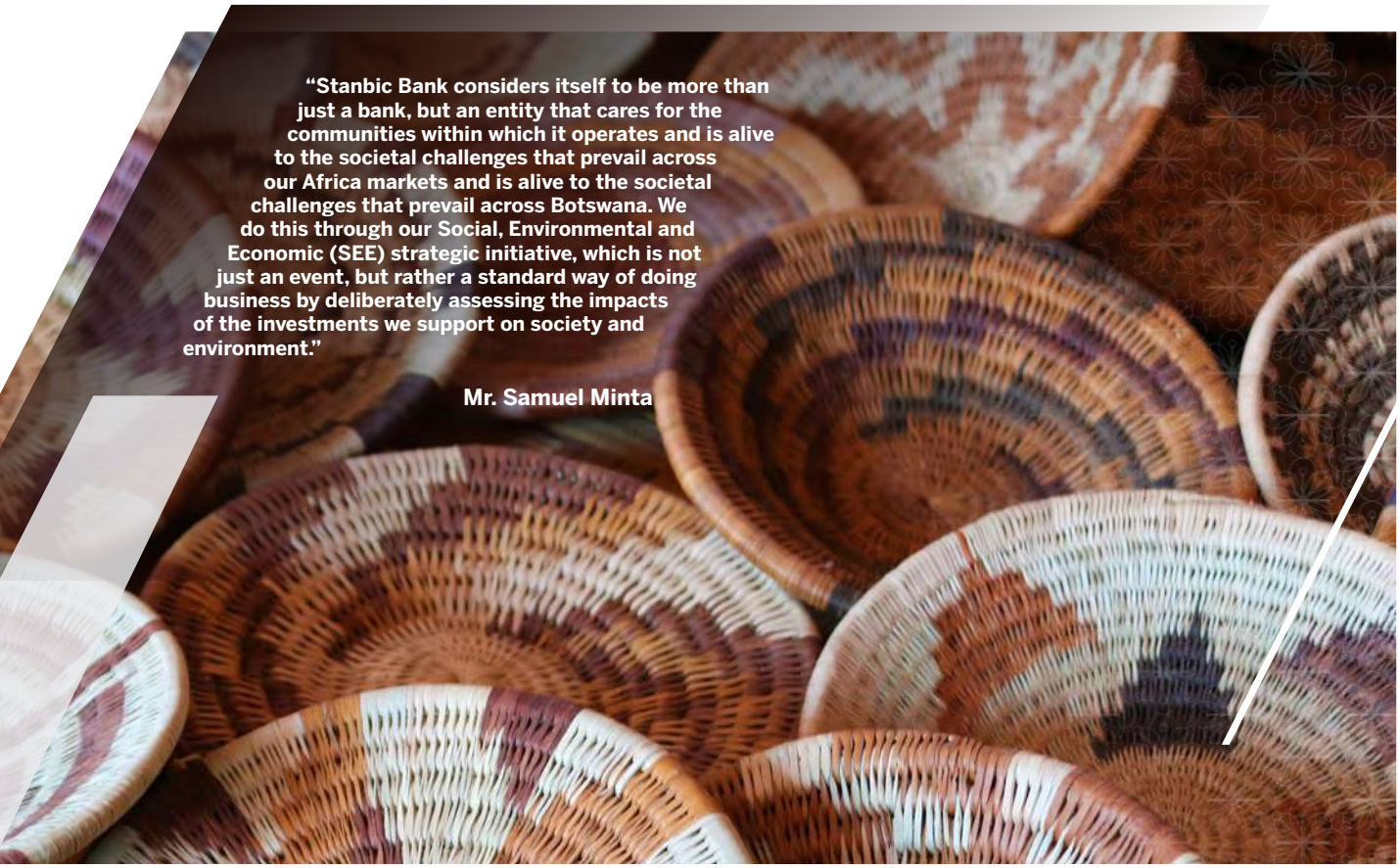
THESE THEMES ARE:

- YOUTH EMPLOYABILITY AND ENTREPRENEURSHIP
- EDUCATION
- HEALTH

Our CSI approach further contributes towards building an environment where staff feel that they are making a difference, through a **Staff Matching Scheme** that motivates and promotes staff community volunteerism, building further on our culture of sustainably giving back in a manner that is aligned with business strategies, at the same time making sustained social contributions that include mentoring, coaching, motivating and skills transfer.

CSI GOVERNANCE

Sound corporate governance is central to our business philosophy. In order to ensure we do business in the right way and guard against any issues and risks, be it governance or reputational an Exco Sub-Committee was established to manage oversee and guide the CSI operations. The committee is called the CSI Committee. The committee comprises the Chief Executive, Head of Personal and Business Banking (PBB), Head of Corporate and Investment Banking (CIB), Head of Legal, Head of Compliance and Head of Marketing.

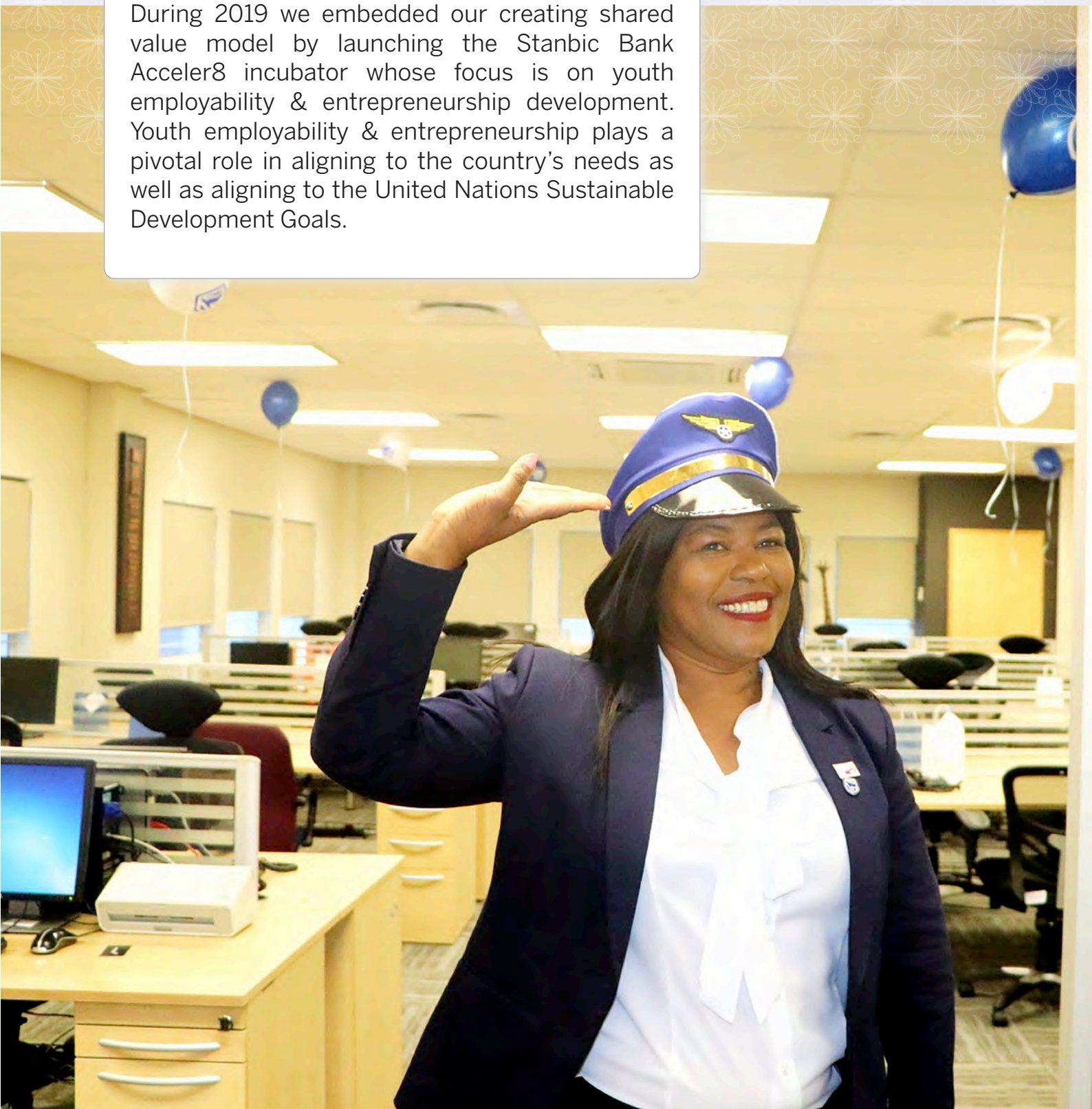


"Stanbic Bank considers itself to be more than just a bank, but an entity that cares for the communities within which it operates and is alive to the societal challenges that prevail across our Africa markets and is alive to the societal challenges that prevail across Botswana. We do this through our Social, Environmental and Economic (SEE) strategic initiative, which is not just an event, but rather a standard way of doing business by deliberately assessing the impacts of the investments we support on society and environment."

Mr. Samuel Minta

YOUTH EMPLOYABILITY AND ENTREPRENEURSHIP

During 2019 we embedded our creating shared value model by launching the Stanbic Bank Acceler8 incubator whose focus is on youth employability & entrepreneurship development. Youth employability & entrepreneurship plays a pivotal role in aligning to the country's needs as well as aligning to the United Nations Sustainable Development Goals.



Activity during the year was largely in Entrepreneurial Skills Development, noting this as an ongoing challenge in Botswana and one that the Government has called the private sector to help deliver upon.

In this vein, efforts were made in investing in mentorship programmes and finding new ways of growing entrepreneurs' skills in challenging markets. This is with the long-term objective of reducing of youth unemployment, and ensuring a knowledgeable, informed youth, equipped with skills for the future. Notable investments in this regard are as follows:

Acceler8, The Stanbic Bank Incubator: Stanbic Bank is committed towards making an indelible contribution to the Youth Employability and Entrepreneurship narrative in Botswana. In this regard, the Bank launched a space coined "AcceleR8", an incubator and co-working space with the sole vision of supporting entrepreneurs and youth in accessing mentorship, coaching, access to networking, markets and funding in one central place. Acceler8 was officially launched by the Honourable Minister of Investment, Trade and Industry, Ms. Peggy Serame, in November 2019. The facility will anchor our SEE agenda for Youth Employability and Entrepreneurship. It will be dedicated to exposing the youth to the skills required for the future world of work and for enterprise capacity development among young business leaders. It is a hybrid co-working space, meant for early-stage incubation, networking events, partnerships and collaboration. The establishment of the Acceler8 incubator has seen the Bank incur capital costs of P1,733,934 and there are recurring monthly costs in excess of P50,000, all of which will be covered by the Bank.

Acceler8 Incubator Activity

Post the launch of Acceler8, with it being fully operational as a co-working space, as part of our networking events and supporting youth to accelerate in their own right, the Bank co-hosted the following events, providing the venue, supporting with refreshments, media support and social media marketing:

- In partnership with Global Entrepreneurship Week and the World Bank, on 5 December 2019, we co-hosted a Tech Entrepreneurship (Startups & Entrepreneurs) High-Level Breakfast Meeting where tenants of the Digital Economy were discussed together with the support structures available in Botswana.
- Also on the 5th December, we co-hosted Youth Alive Foundation's 'Convo Lounge', which is an effort to recognise the importance of entrepreneurship education, inclusion and investing in youth. The Youth Alive Foundation Botswana conducts programmes comprising of interactive seminars, mentorship programmes, workshops and business simulation activities.

National Human Resource Development Conference (NHRDC) 2019: The NHRDC 2019 conference, under the theme 'Competitive Human Resource – a Leading driver for the Economy in the 21st Century', was hosted by the HRDC and held at the Gaborone International Convention Centre (GICC) on 23 to 24 May 2019. An exhibition comprising partners further enhanced the impact of NHRDC 2019 Conference. We were the main sponsor and partner, contributing P250,000. The Conference brought together International partners such as HRDC - South Africa, National and International Experts, Senior Administrators, Public and Private Training Institutions, Decision Makers, Research Luminaries, Civil Society and Non-Governmental Stanbic Bank Botswana. We leveraged this platform to position the Stanbic Bank focus on Youth Employability and Entrepreneurship and to lobby for a different, unified and impact led approach to deliberations, as the significance of Human Resource Development as a driver of the economy in the 21st century cannot be understated.

Social Entrepreneurship Seminar: Stanbic Bank Botswana reaffirmed its unwavering commitment towards advancing the Youth Employability agenda through a partnership with the Embassy of the United States of America and Botswana Network of HIV/AIDS Services Organizations (BONASO) to host a three-day civil society organization seminar on social entrepreneurship, held on 11 September 2019. The seminar, facilitated by Dr. Latha Poonamallee, Associate Professor & Chair of Management Programs at The New School in the United States, is part of a wider agenda to help foster the development of a social entrepreneurship ecosystem and civil society organization sustainability in Botswana. Social entrepreneurship strives to embed social and cultural goals into creative business models. Not only does social entrepreneurship have the potential to address high unemployment among the youth population in Botswana, but it can also address other pressing socio-economic and environmental challenges. The Bank contributed P80,000 towards the initiative.

United Nations Development Programme (UNDP) Memorandum of Understanding: In our continued effort to build legacies, Stanbic Bank Botswana signed a Memorandum of Understanding (MoU) with the United Nations Development Programme (UNDP) as part of their Supplier Development Programme (SDP). The platform assists Small and Medium Enterprises (SMEs) towards an effective supply chain to their customers, who are also enrolled on the programme. The flagship ten-month long programme is designed to offer support to entrepreneurs in a bid to help them become more efficient, increase their access to markets and be more profitable and sustainable.

Seedstars International: Stanbic Bank Botswana supported the Seedstars Gaborone Competition once again, with a view towards promoting promising tech entrepreneurs from Botswana to the larger global market, through the Seedstars World platform. The Bank supported the competition with $17,500, led by the Enterprise Banking division, supporting entrepreneurs to be upskilled and compete, and be exposed on a global stage. During the year, the platform allowed 10 Batswana entrepreneurs to present their innovative business ideas in the hopes of being the team selected to share the global Seedstars stage and earn even greater exposure. This was one of the most successful instalments of the competition to date, with increased interest, participation, and quality of submission.

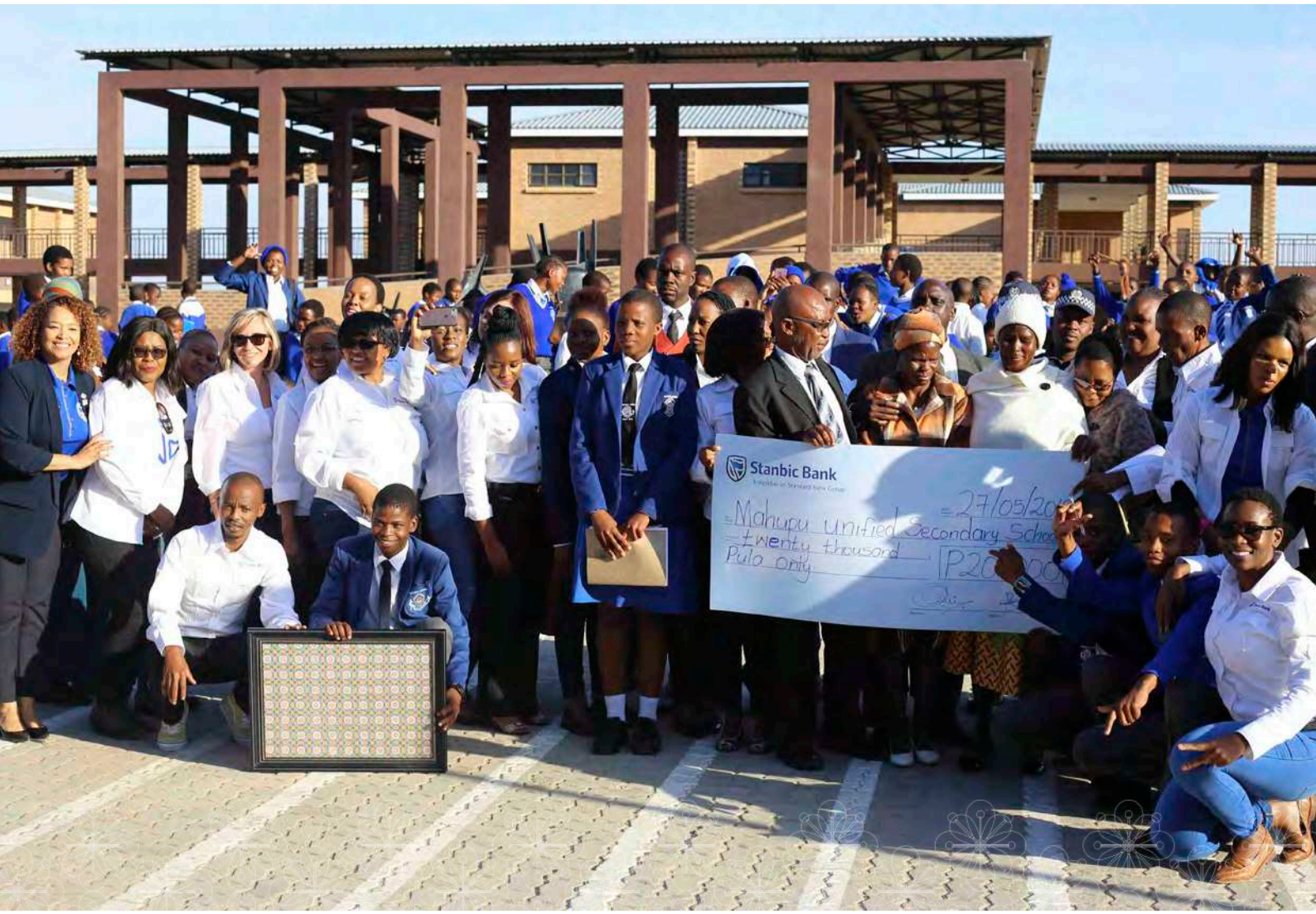
TAWLA Graduation 2019: Stanbic Bank Botswana's AcceleR8 Incubator hosted The African Women Leadership Academy (TAWLA) graduation ceremony. This was held for the young boys and girls who took part in the TAWLA Leadership and Mentorship Programme. The Bank has been deliberate in its efforts to support the wider community and partners, with a focus on youth. A total of 35 youth; 25 female and ten male, from eight secondary schools, both private and public, were able to graduate from TAWLA's one-year leadership and mentorship programme, which the Bank funded. TAWLA is a non-profit organisation established in 2010 to empower youth through leadership skills training, mentoring and creating networking opportunities.

EDUCATION

Our aim is to empower Botswana's youth with the necessary motivation and infrastructure to help promote academic excellence.

This is part of a nationwide financial literacy drive we are proud to champion. It is a long-term vision, ensuring we educate our youth and support the journey of productive and sustainable knowledge-creation further. Our efforts in this space during the year are as follows:

Botswana International University of Science and Technology (BIUST) graduation: As a Diamond Sponsor of the ceremony, we were proud to witness 240 graduates taking the next step in their professional aspirations. Supporting this initiative is in line with our ambition of motivating youth to strive for gainful employment but also maintaining an open mind around solving Botswana's problems and invariably generating employment. A total of P350,000 was donated to the event.



Empowering Mahupu Unified Secondary School students: In May 2019, we made a donation to Mahupu Unified Secondary School in Takatokwane.

We handed over 700 sanitary towels, 100 scientific calculators, financial literacy books and P20,000 towards educational and recreational games. This brought the total value of the donation to approximately P40,000.

This was through fundraising efforts championed by the Human Capital department, and through Bank-wide contributions toward the cause.

We handed over **700 sanitary towels**, **100 scientific calculators**, **financial literacy books** and **P20,000** towards educational and recreational games. This brought the total value of the donation to approximately **P40,000**.

Thought Leadership and Financial Literacy Driven Insights: Stanbic Bank disseminates thought leadership and financial literacy driven insights in local print and radio publications on a regular basis. This comes as part of our effort to position the Bank and its human capital as thought leaders in the local financial services sector as well as to contribute to our wider financial literacy efforts.

Giving Back to Motswedi Junior Secondary School: In November 2019, Corporate and Investment Banking team donated scientific calculators to Motswedi Junior Secondary School valued at P11,600. The donation was a testament to Stanbic Bank's continued effort to make a positive, meaningful difference in the education sector, and part of the Staff Matching Programme.

Tsholofelo Trust Centre in Old Naledi: Stanbic Bank's Credit Department team extended a helping hand to the students of Tsholofelo Trust Centre in Old Naledi, driving a strong focus upon academic inclusion and financial literacy. The team donated amenities to the value of P17,975 including desktops, printer cartridges, tables and study chairs. Also part of the Staff Matching Programme.

Gamodubu Project: In November 2019, the Stanbic Bank Kgale Branch team donated amenities to the Gamodubu Child Trust. The team raised P4,000, which the Bank matched to make P8,000, to purchase stationery, school uniforms and sanitary towels to 70 underprivileged students from Standard 6 to Form 4.

Financial Literacy Modules: We have developed four financial literacy modules which tackle topics such as personal finances and business budgeting. They are targeted at youth and provide better insight into the world of finances. This is an ongoing project and we continue to distribute these widely amongst communities, and these efforts are very well received.

Botswana Examinations Council (BEC) Donation: Stanbic Bank partnered with the Botswana Examinations Council (BEC) to once again sponsor the BEC Annual Excellence Awards. This was the 10th year of the Awards, and the 5th year in which Stanbic Bank sponsored prizes for the top 10 Achievers. The 2019 sponsorship stood at over P150,000 a notable increase from the prior year.

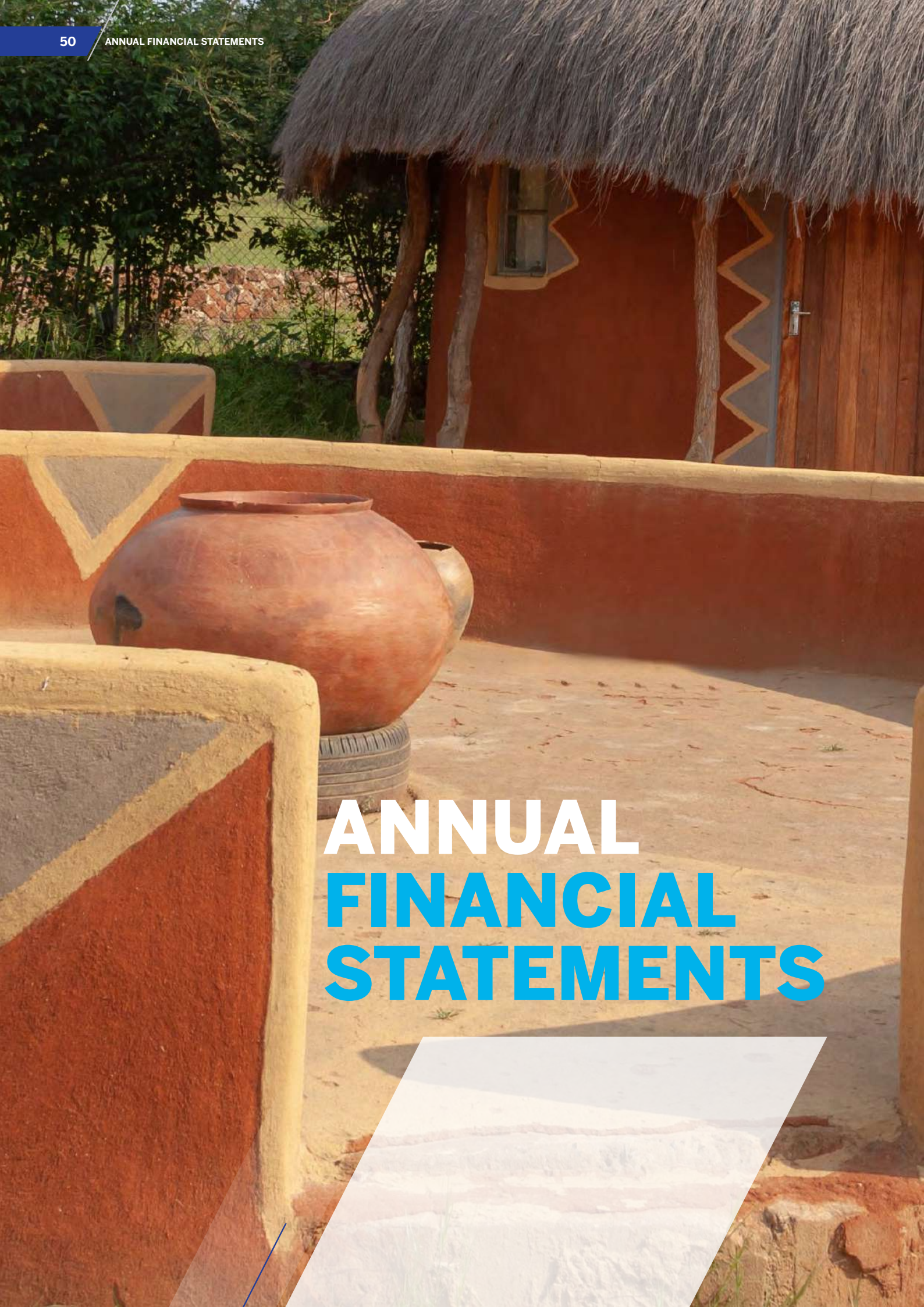
University of Botswana (UB) Foundation: Building on an annual show of support, Stanbic Bank contributed P102,000 towards the UB Foundation's fundraising, which goes towards support of underprivileged students' tuition fees. To date, hundreds of students have benefitted from this platform. Stanbic Bank's leadership showed further support by attending the annual UB Foundation Gala Dinner, further contributing to fundraising efforts through ticket purchase.

Masa Square Hotel Fashion Show Talk Factory: Stanbic Bank's Head of Secured Lending, Wabo Moswate, and Manager - Commercial Relationships - Vehicle & Asset Finance, Gosata Kgari, engaged fashion designers and artists in a formidable discussion at the final Masa Fashion Show 2019 Talk Factory. Centred upon a desire for driving financial literacy, topics of discussion at the night's proceedings included "Budgeting 101," "Crowd funding" and "Positioning your business to attract investors".

HEALTH

Within the Health pillar, investment is mainly directed towards HIV/AIDS and non-communicable disease programmes.

The Bank continues to liaise with the local authority, National AIDS and Health Promotion Agency (NAHPA), to identify a suitable project. As Stanbic Bank continues to deliver on our mandate and live true to our Purpose, our resolve to ensure sustainable and meaningful impact through our CSI efforts was the compass of all efforts in the period under review, anchored by SEE, and central to delivery of our Strategy. This resolve will only strengthen in the coming periods.



ANNUAL FINANCIAL STATEMENTS

Statement of directors' responsibilities

For the year ended 31 December 2019

The Group is required by the Companies Act to prepare financial statements for each financial period.

The directors are responsible for the preparation of the Group and Company financial statements of Stanbic Bank Botswana Limited that give a true and fair view; comprising the statements of financial position at 31 December 2019, profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, significant accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board(IASB).

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

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

The directors have made an assessment of the Bank and its subsidiaries' ability to continue as going concerns and have no reason to believe these entities will not continue as going concerns in the foreseeable future. An impact assessment of the COVID -19 pandemic is provided in note 25 of these financial statements.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the Group's financial statements and financial statements of the Bank:

The Group and the Bank's financial statements were approved by the directors on 31 March 2020 and are signed on their behalf by:

.....	.....
S.A. Minta	**C.A. Granville**
Director	Director

Independent auditor's report

For the year ended 31 December 2019

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

Independent auditor's report

To the shareholder of Stanbic Bank Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of Stanbic Bank Botswana Limited (the Group and Company), which comprise the statements of financial position at 31 December 2019, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, accounting policies and the notes to the financial statements, as set out on pages 60 to 146.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Stanbic Bank Botswana Limited at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana.

Basis for opinion

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

Independent auditor's report (continued)

For the year ended 31 December 2019

Other matter

The impact of uncertainties due to the Covid-19 on our audit

The CoVid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to various levels of uncertainty. These effects could impact the future financial position and performance of the Group and Company. Uncertainties related to the potential effects of CoVid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Group and Company, the related disclosures and the appropriateness of the going concern assumption of the financial statements. The appropriateness of the going concern assumption depends on assessments of the future economic environment and the Group's and Company's future prospects and performance. An audit cannot predict the unknown factors or all possible future implications for a Group and Company and this is particularly the case in relation to CoVid-19.

Key audit matters

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

Impairment of loans and advances to customers

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

Refer to accounting policy 7, note 1.1 relating to key management assumptions, note 2.8 on credit impairment charges, note 7 on loans and advances and note 22.3 on credit risk.

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

Independent auditor's report (continued)

For the year ended 31 December 2019

The Group's and Company's core business involves providing loans and advances to individuals and commercial and corporate sectors Consequently the main component of the Group's and Company's financial assets comprise loans and advances to customers which is significant to the total assets of the Group and Company. Expected credit losses (ECL) relating to loans and advances to customers represent management's best estimate of the losses expected within the loan and advances portfolio. ECL Management applies significant judgement in respect of the following: — Evaluation of significant increase in credit risk (SICR). — Determination of macroeconomic inputs and forward looking information into the SICR assessment and ECL measurement. — Evaluation of the ECL raised for stage 3 exposures. — The estimation of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). Due to the significance of the loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL's, impairment of loans and advances to customers was considered to be a key audit matter.	Our procedures included: — We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan impairment process, focusing on the identification of the ECL, the governance processes implemented for credit models and inputs, and management's oversight over the ECL. — We evaluated the design and implementation and the operating effectiveness of controls relating to the loan origination process and credit reviews. — We critically evaluated the ECL models and key assumptions applied in the calculation of the ECL relating to both the specific and portfolio ECL. This included use of credit risk specialists who evaluated the reasonableness of the assumptions used in the models and evaluated the accuracy of the calculations in the models. — We assessed and challenged the data inputs into these models, including key assumptions, evaluation of SICR, estimated macroeconomic inputs and forward looking information, present value of collateral , timing of cash flows, stage classification of exposures and the estimated PD, EAD and LGD by comparing the macroeconomic factors used to the economic scenarios provided by the Bank of Botswana and approved by the Asset and Liability Committee — We benchmarked the calculated model outcomes to other banking entities to assess the

Independent auditor's report (continued)

For the year ended 31 December 2019

	reasonableness thereof. — Where management's experts provided valuations in respect of collateral, we assessed the experts' competence and evaluated management's controls in respect of appointment of the experts, including assessment of their professional qualifications, experience and independence. — We assessed the adequacy of the disclosure made in the financial statements against the requirements of IFRS 9 *Financial Instruments*.

Independent auditor's report (continued)

For the year ended 31 December 2019

Other information

The directors are responsible for the other information. The other information comprises all the information contained in the Stanbic Bank Botswana Group and Company Annual Report 2019, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements which give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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.

Independent auditor's report (continued)

For the year ended 31 December 2019

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Company's internal control.

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

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

- Evaluate the overall presentation, structure and content of the

Independent auditor's report (continued)

For the year ended 31 December 2019

consolidated and separate financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG
Certified Auditors
Practicing member: Gosego Motsamai (20030026)
Certified Auditor of Public Interest Entity
BAOA Certificate Number CAP 035 2019

Gaborone
08 April 2020

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Note	Group 2019 P000's	Group 2018 P000's	Company 2019 P000's	Company 2018 P000's
Interest income	2.1	**913 911**	741 548	**913 911**	741 693
Interest expense[1]	2.2	**(232 243)**	(216 528)	**(232 257)**	(216 556)
Net interest income		**681 668**	525 020	**681 654**	525 137
Fee and commission income	2.3	**268 829**	238 484	**258 803**	228 901
Fee and commission expense	2.4	**(52 270)**	(40 959)	**(52 273)**	(40 959)
Net fee and commission income		**216 559**	197 525	**206 530**	187 942
Net trading income	2.5	**222 048**	251 296	**222 048**	251 296
Other income	2.6	**21 977**	9 895	**25 679**	16 237
Other gains and losses on financial instruments	2.7	**(237)**	226	**(237)**	226
Non-interest income		**460 347**	458 942	**454 020**	455 701
Total income		**1 142 015**	983 962	**1 135 674**	980 838
Credit impairment charges	2.8	**(389 046)**	(93 549)	**(389 046)**	(93 549)
Net income		**752 969**	890 413	**746 628**	887 289
Staff costs	2.9	**(291 851)**	(273 561)	**(291 851)**	(273 561)
Other operating expenses[1]	2.10	**(261 660)**	(278 641)	**(261 406)**	(282 121)
Total operating expenses		**(553 511)**	(552 202)	**(553 257)**	(555 682)
Profit before indirect tax		**199 458**	338 211	**193 371**	331 607
Indirect tax	2.12	**(22 590)**	(17 748)	**(22 459)**	(17 730)
Profit before direct tax		**176 868**	320 463	**170 912**	313 877
Direct tax	2.12	**(37 142)**	(68 912)	**(35 559)**	(66 738)
Profit after tax		**139 726**	251 551	**135 353**	247 139
Total comprehensive income for the year		**139 726**	251 551	**135 353**	247 139

1 The group and company have, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information has been prepared on an IAS 17 basis. Refer to page 66, for more detail on the adoption of IFRS 16.

S.A. Minta
Director

C.A. Granville
Director

Statements of financial position

At 31 December 2019

	Note	Group 2019 P000's	Group 2018 P000's	Company 2019 P000's	Company 2018 P000's
Assets					
Cash and balances with the Central Bank	3	**608 600**	497 252	**608 600**	497 252
Derivative assets	4	**29 142**	25 425	**29 142**	25 425
Trading portfolio assets	5	**37 808**	632 794	**37 808**	632 794
Financial investments	6	**2 550 381**	1 441 949	**2 550 381**	1 441 949
Loans and advances	7	**12 687 741**	11 505 568	**12 687 741**	11 505 568
Loans and advances to banks	7	**4 078 666**	3 336 683	**4 078 666**	3 336 683
Loans and advances to customers	7	**8 609 075**	8 168 885	**8 609 075**	8 168 885
Other assets	8	**101 568**	41 151	**101 445**	46 177
Current tax asset		**7 005**	-	**5 576**	-
Investment in subsidiaries	9	**-**	-	**33**	33
Intangible assets	10	**165 004**	185 949	**165 004**	185 949
Property, equipment and right of use assets[1]	11	**152 264**	117 864	**152 264**	117 864
Deferred tax asset	12	**64 606**	29 643	**64 606**	29 643
Total assets		**16 404 119**	14 477 595	**16 402 600**	14 482 654
Liabilities and equity					
Derivative liabilities	4	**15 491**	9 939	**15 491**	9 939
Deposits	13	**13 767 170**	11 951 786	**13 799 074**	11 983 296
Deposits from banks	13	**1 484 980**	534 368	**1 484 980**	534 368
Deposits from customer accounts	13	**12 282 190**	11 417 418	**12 314 094**	11 448 928
Current tax liability		**-**	10 753	**-**	11 391
Accruals, deferred income and other liabilities[1]	14	**321 679**	243 112	**315 197**	238 591
Debt securities in issue	15	**989 500**	1 088 100	**989 500**	1 088 100
Liabilities		**15 093 840**	13 303 690	**15 119 262**	13 331 317
Equity					
Stated capital	16.1	**390 177**	390 177	**390 177**	390 177
Reserves	16.2	**920 102**	783 728	**893 161**	761 160
Equity - attributable to ordinary shareholders		**1 310 279**	1 173 905	**1 283 338**	1 151 337
Total liabilities and equity		**16 404 119**	14 477 595	**16 402 600**	14 482 654

1 The group and company have, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information has been prepared on an IAS 17 Leases (IAS 17) basis. Refer to page 66, for more detail on the adoption of IFRS 16

S.A. Minta
Director

C.A. Granville
Director

Statements of changes in equity

For the year ended 31 December 2019

	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earnings P000's	Total equity P000's
Group					
Balance at 1 January 2019		**390 177**	**111 497**	**672 231**	**1 173 905**
IFRS 16 transition adjustment1	**16.2**	**-**	**-**	**1 193**	**1 193**
Transfer from retained earnings – IFRS 9 day 1 correction				**(4 545)**	**(4 545)**
Restated balance at 1 January 2019		**390 177**	**111 497**	**668 879**	**1 170 553**
Total comprehensive income for the year		**-**	**-**	**139 726**	**139 726**
Profit after tax		**-**	**-**	**139 726**	**139 726**
Decrease in statutory credit reserve	**16.2**	**-**	**(807)**	**807**	**-**
Balance at 31 December 2019		**390 177**	**110 690**	**809 412**	**1 310 279**

1 - Refer to the accounting policy elections and transition on page 66, for more detail on the IFRS 16 transition.

	Note	Stated capital P000's	Statutory credit reserve P000's	Available-for-sale reserve P000's	Revaluation reserve P000's	Share based payments reserve P000's	Retained earnings P000's	Total equity P000's
Group								
Balance at 1 January 2018		390 177	52 869	3 229	1 057	147	726 782	1 174 261
IFRS 9	16.2	-	-	(3 229)	-	-	(88 678)	(91 907)
Adjusted balance at 1 January 2018		390 177	52 869	-	1 057	147	638 104	1 082 354
Total comprehensive income for the year		-	-	-	-	-	251 551	251 551
Profit after tax		-	-	-	-	-	251 551	251 551
Increase in statutory credit reserve	16.2	-	58 628	-	-	-	(58 628)	-
Dividends paid		-	-	-	-	-	(160 000)	(160 000)
Transfer to retained earnings		-	-	-	(1 057)	-	1 057	-
Share based payment scheme	16.2	-	-	-	-	(147)	147	-
Balance at 31 December 2018		390 177	111 497	-	-	-	672 231	1 173 905

Statements of changes in equity (continued)

For the year ended 31 December 2019

	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earnings P000's	Total equity P000's
Company					
Balance at 1 January 2019		**390 177**	**111 497**	**649 663**	**1 151 337**
IFRS 16 transition adjustment1	**16.2**	**-**	**-**	**1 193**	**1 193**
Transfer from retained earnings – IFRS 9 day 1 correction		**-**	**-**	**(4 545)**	**(4 545)**
Restated balance at 1 January 2019		**390 177**	**111 497**	**646 311**	**1 147 985**
Total comprehensive income for the year		**-**	**-**	**135 353**	**135 353**
Profit after tax		**-**	**-**	**135 353**	**135 353**
Decrease in statutory credit reserve	**16.2**	**-**	**(807)**	**807**	**-**
Balance at 31 December 2019		**390 177**	**110 690**	**782 471**	**1 283 338**

1 - Refer to the accounting policy elections and transition on page 66, for more detail on the IFRS 16 transition.

	Note	Stated capital P000's	Statutory credit reserve P000's	Available-for-sale reserve P000's	Revaluation reserve P000's	Share based payments reserve P000's	Retained earnings P000's	Total equity P000's
Company								
Balance at 1 January 2018		390 177	52 869	3 229	1 057	147	708 626	1 156 105
IFRS 9	16.2	-	-	(3 229)	-	-	(88 678)	(91 907)
Adjusted balance at 1 January 2018		390 177	52 869	-	1 057	147	619 948	1 064 198
Total comprehensive income for the year		-	-	-	-	-	247 139	247 139
Profit after tax		-	-	-	-	-	247 139	247 139
Increase in statutory credit reserve	16.2	-	58 628	-	-	-	(58 628)	-
Dividends paid		-	-	-	-	-	(160 000)	(160 000)
Transfer to retained earnings		-	-	-	(1 057)	-	1 057	-
Share based payment scheme	16.2	-	-	-	-	(147)	147	-
Balance at 31 December 2018		390 177	111 497	-	-	-	649 663	1 151 337

Statements of cash flows

For the year ended 31 December 2019

	Note	Group 2019 P000's	Group 2018 P000's	Company 2019 P000's	Company 2018 P000's
Net cash flows from operating activities		**238 103**	65 325	**238 103**	65 325
Cash flows generated from operations		**349 027**	148 103	**347 705**	145 541
Profit before tax from operations		**199 457**	338 211	**193 371**	331 607
Adjusted for:					
Amortisation and impairment of intangible assets		**20 945**	21 592	**20 945**	21 592
Credit impairment charges on loans and advances	2.8	**413 851**	115 661	**413 851**	115 661
Depreciation - property and equipment	11.2	**16 999**	21 469	**16 999**	21 469
Depreciation - right of use assets	11.2	**13 190**	-	**13 190**	-
Share based payment reserve	16.3	**-**	147	**-**	147
IFRS9 day 1 correction		**(4 545)**	-	**(4 545)**	-
Interest expense on lease liabilities	2.2	**1 484**	-	**1 484**	-
Gain on sale of property and equipment	2.10	**(350)**	(273)	**(350)**	(273)
Decrease in income-earning and other assets	19.1	**(2 203 144)**	(2 483 543)	**(2 197 866)**	(2 483 616)
Increase in deposits and other liabilities	19.2	**1 891 139**	2 134 839	**1 890 626**	2 138 954
Indirect tax paid	2.12	**(22 590)**	(17 748)	**(22 459)**	(17 730)
Direct tax paid	19.3	**(88 334)**	(65 030)	**(87 143)**	(62 486)
Net cash flows in investing activities		**(28 155)**	(39 798)	**(28 155)**	(39 798)
Capital expenditure on:					
- property	11.2	**(5 915)**	(4 274)	**(5 915)**	(4 274)
- equipment	11.2	**(23 076)**	(20 045)	**(23 078)**	(20 045)
Proceeds from disposal of equipment		**836**	739	**838**	739
Acquisition of subsidiaries		**-**	(16 218)	**-**	(16 218)
Net cash flows in financing activities		**(98 600)**	(160 000)	**(98 600)**	(160 000)
Maturity of subordinated debt		**(398 600)**	-	**(398 600)**	-
New issue of subordinated debt		**300 000**	-	**300 000**	-
Dividends paid		**-**	(160 000)	**-**	(160 000)
Net movement in cash and cash equivalents		**111 348**	(134 473)	**111 348**	(134 473)
Cash and cash equivalents at beginning of the year		**497 252**	631 725	**497 252**	631 725
Cash and cash equivalents at end of the year		**608 600**	497 252	**608 600**	497 252

Accounting Policies

For the year ended 31 December 2019

Stanbic Bank Botswana Limited is a company incorporated in the Republic of Botswana. The Bank's registration number is BW0000732198. The consolidated financial statements of the Bank for the year ended 31 December 2019 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group and Company are primarily involved in investment, corporate and retail banking, and in providing asset management services.

The financial statements were approved by the Board of directors on 31 March 2020.

The principal accounting policies applied in the presentation of the financial statements are set out below.

1. Basis of preparation

Statement of compliance

The Group and Company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and its interpretations adopted by the IASB, and in the manner required by Banking Act (Cap 46:04) of Botswana.

Basis of measurement

The following principles and accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies indicated in brackets:

- purchases and sales of financial assets are recognised and derecognised using trade date accounting (accounting policy 6);
- intangible assets and property and equipment are accounted for using the cost model (accounting policy 7 and 8).

Functional and presentation currency

The Group and Company financial statements are presented in Botswana Pula, which is the functional currency of the Stanbic Bank Botswana Limited Group. All amounts are stated in thousands of Pula (P000's), unless indicated otherwise.

Use of estimates and judgments

The preparation of the financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 1.

Changes in accounting policies

Adoption of new standards and interpretations effective for the current financial year

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial period

- IFRS 9 Financial Instruments (amendment) (IFRS 9), the amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively.

- IAS 19 Employee Benefits (amendments) (IAS 19), the amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively.

- IAS 28 Interest in Associates and Joint Ventures (amendment) (IAS 28), this amendment clarifies that an entity should apply IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively.

- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23), this interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively only if possible without the use of hindsight. The adoption of the standard has not resulted in a significant impact on the annual financial statements.

- Annual improvements 2015-2017 cycle, the IASB has issued various amendments and clarifications to existing IFRS.

Accounting Policies (continued)

For the year ended 31 December 2019

1. Basis of preparation (continued)

Changes in accounting policies (continued)

Adoption of new and amended standards effective for the current financial period (continued)

Early adoption of revised standards:

- IAS 1 Presentation of Financial Statements (IAS 1) and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), the amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively.

The adoption of the above new and amended standards on 1 January 2019 did not affect the group's and company previously reported financial results, disclosures or accounting policies and did not impact the group's results upon transition.

IFRS 16 Leases

IFRS 16 with effect from 1 January 2019, replaced IAS 17 as well as the related interpretations. IFRS 16 introduced a single lease accounting model for lessees which impacted the group's results upon transition and materially impacted the group's accounting policies for lessees. Please see below for more detail on IFRS 16 transition.

Background

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by IAS 17, and introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

Adoption and transition

The Group and Company adopted the modified retrospective method of IFRS 16 on 1 January 2019 with an adjustment to the Group and Company's opening 1 January 2019 reserves and, as permitted by IFRS 16, did not restate its comparative financial results. Accordingly, the group and company's previously reported financial results up to 31 December 2018 are presented in accordance with the requirements of IAS 17 and for 2019, and future reporting periods, are presented in terms of IFRS 16.

On adoption of IFRS 16, the Group and Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. This incremental borrowing rate was calculated for each legal entity in the Group utilising the internal funding rate of each entity.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

Practical expedients applied:

In applying IFRS 16 for the first time, the Group and Company used the following practical expedients permitted by IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases provided there was no option to extend the term
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- the Group and Company have also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the group and company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group and Company's leasing activities and how these are accounted for:

- The Group and Company lease various offices, branch space and ATM space. Rental contracts are typically made for fixed average periods of between three to five years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

- Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

- From 1 January 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right of use asset and a corresponding lease liability.

Accounting Policies (continued)

For the year ended 31 December 2019

1. Basis of preparation (continued)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

Extension and termination options:

- Extension and termination options are included in a number of building and branch space leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised. The assessment of reasonable certainty is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IFRS 16 key financial impacts

The single lessee accounting model, which comprises IFRS 16's most material impact for the Group and Company, results in an increase of P29.828 million in total assets, P28.877 million increase in total liabilities and an increase in reserves of P1.193 million due to the release of the IAS 17 straight-line lease liability provision. The total undiscounted operating lease commitments as at 31 December 2018 amount to P1.193 million, the lease liability as at 1 January 2019 amounted to P28.877 million, this difference primarily relates to discounting the operating lease commitments balance at the group's weighted average incremental borrowing rate of approximately 4.85%, due to the multiple locations the Group operates within.

Table 1: Impact on the group's summarised statement of financial position on 1 January 2019

	31 December 2018 P000's	IFRS 16 transition adjustment at 1 January 2019 P000's	1 January 2019 P000's
Assets			
Property, equipment and right of use asset	117 864	29 828	29 828
Other financial and non-financial assets	16 286 255	-	-
Total assets	16 404 119	29 828	16 433 947
Equity and liabilities			
Equity			
Equity attributable to the ordinary shareholder	1 173 905	1 193	1 175 098
Other liabilities[1]	1 193	27 684	28 877
Total equity and liabilities	1 175 098	28 877	1 203 975

[1] Materially relates to the recognition of lease liabilities of P28 827 and the release of the IAS 17 straight-line lease provision of P1 193.

Table 2: Impact on the Group's summarised statement of changes in equity on 1 January 2019

	31 December 2018 P000's	IFRS 16 transition adjustment at 1 January 2019 P000's	1 January 2019 P000's
Ordinary share capital and share premium	390 177	-	390 177
Retained earnings	783 728	1 193	784 921
Other	-	-	-
Total ordinary shareholders' equity	1 173 905	1 193	1 175 098
Other equity instruments	-	-	-
Total equity	1 173 905	1 193	1 175 098

Accounting Policies (continued)

For the year ended 31 December 2019

2. Basis of consolidation

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains/(losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interest are determined on the basis of the group's present ownership interest in the subsidiary.

Subsidiaries are consolidated from the date on which the group acquires control up to the date that control is lost. Control is assessed on a continuous basis. For mutual funds the group further assesses its control by considering the existence of either voting rights or significant economic power.

Foreign currency translations

Group companies

The results and financial position of foreign operations that have a functional currency that is different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date;
- income and expenses are translated at average exchange rate; and
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the Group's FCTR.

Transactions and balances

Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of other revenue (trading revenue).

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's FCTR.

3. Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

4. Foreign currency translations

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 (functional currency). The Group and Company financial statements are presented in Botswana Pula, which is the functional currency of Stanbic Bank Botswana Limited.

Transactions and balances

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Accounting Policies (continued)

For the year ended 31 December 2019

5. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and statement of cash flows consist of cash and balances with the Central Bank. Cash comprises coins and bank notes.

Coins and bank notes and the reserving requirements held with the Central Bank have been classified at fair value through profit or loss - default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.

6. Financial instruments

Initial measurement - financial instruments

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Group and Company commits to purchase (sell) the instruments (trade date accounting).

Financial assets

Nature

Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.
Held for trading	Financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss - default	Financial assets that are not classified into one of the above mentioned financial asset categories.

Accounting Policies (continued)

For the year ended 31 December 2019

6. Financial instruments (continued)

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss - default	**Debt instruments** - Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue. **Equity instruments** - Fair value gains and losses on the financial asset recognised in the income statement as part of other gains and losses on financial instruments. Dividends received on equity instruments are recognised in other revenue within non-interest revenue.

Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

Accounting Policies (continued)

For the year ended 31 December 2019

6. Financial instruments (continued)

Impairment (continued)

The key components of the impairment methodology are described as follows:

Significant increase in credit risk (SICR)	At each reporting date the group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or Groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider. Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Group's impairment methodology calculations and in the group's assessment of SICR. The Group includes all forward looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (Group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (Group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Group changes its business model or management of financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments.

- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value
- The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Accounting Policies (continued)

For the year ended 31 December 2019

6. Financial instruments (continued)

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis • where the financial liability contains one or more embedded derivatives that significantly modify the financial liabilty's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Accounting Policies (continued)

For the year ended 31 December 2019

6. Financial instruments (continued)

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

Derivatives and embedded derivatives

In the normal course of business, the Group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Accounting Policies (continued)

For the year ended 31 December 2019

6. Financial instruments (continued)

Derivatives and embedded derivatives (continued)

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

7. Intangible assets

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the Group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, and the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (five to twelve years), and are measured at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

8. Property and equipment

Property and equipment items are initially recognised at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred.

Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment. Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values.

The estimated useful lives of property and equipment items are as follows:

Equipment	- computer equipment - office equipment - furniture and fittings	5 years 10 years 13 years
Motor vehicles		5 years
Leasehold buildings		Lease period
Freehold buildings		40 years
Land		Not depreciated

The residual values, useful lives and depreciation method applied are reviewed, and adjusted if appropriate, at each reporting date.

There has been no change to the estimated useful lives from those applied in the previous financial year.

Accounting Policies (continued)

For the year ended 31 December 2019

8. Property and equipment (continued)

Impairment

Non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use.

Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

9. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's provisions typically (when applicable) include the following:

- **Provisions for legal claims**
  Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.
- **Provision for onerous contracts**
  A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
- **Contingent assets**
  Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.
- **Contingent liabilities**
  Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

10. Employee benefits

Post-employment benefits

Defined contribution plans

The Group operates a defined contribution plan, based on a percentage of pensionable earnings funded by both Group and employees, the assets of which are held in separate trustee administered funds. Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Accounting Policies (continued)

For the year ended 31 December 2019

10. Employee benefits (continued)

Post-employment benefits (continued)

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

11. Tax

Type	Description, recognition and measurement	Offsetting
Direct taxation: current tax	Current tax is recognised in the direct taxation line in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill; • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and • investments in subsidiaries and associates (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the group the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable

Accounting Policies (continued)

For the year ended 31 December 2019

12. Fair value

In terms of IFRS, the Group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Fair value hierarchy

The Group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1

Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3

Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

Accounting Policies (continued)

For the year ended 31 December 2019

12. Fair value (continued)

Inputs and valuation techniques (continued)

Item and description	Valuation technique	Main inputs and Assumptions
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • Discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples. For level 2 and 3 fair value hierarchy items discount rate*
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities. **Financial investments** Financial investments are trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	
Loans and advances to banks and customers Loans and advances comprise: Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks. Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	
Deposits and debt funding Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items • discount rate*

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Accounting Policies (continued)

For the year ended 31 December 2019

12. Fair value (continued)

Portfolio valuations

The Group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis,with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

13. Equity

Ordinary shares are classified as equity. Stated capital is recognised at the fair value of consideration received. Incremental costs directly attributable to the issue of new shares or options are deducted from the initial measurement of the equity instrument.

Dividends on ordinary shares

Dividend distribution to ordinary shareholders is recognised within equity upon approval by the Company's directors. Dividends on ordinary shares are charged to equity in the period in which they are declared. Dividends declared after the statement of financial position date are disclosed in the notes to the financial statements.

14. Equity-linked transactions

Equity-settled share-based payments

The ultimate holding company, Standard Bank Group Limited, operates two equity settled share based compensation plans through which certain key management staff of the Bank are compensated.

The fair value of equity settled share options is determined on the grant date and accounted for as an employee service expense over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. At each statement of financial position date the estimate of the number of options expected to vest is reassessed and adjusted against income over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to Group share capital and premium.

Cash-settled share based payments

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

Accounting Policies (continued)

For the year ended 31 December 2019

15. Leases – leseee accounting policies

Type	Statement of financial position	Income Statement
	IFRS 16 – lessee accounting policies	
Single lessee accounting model All leases are accounted for by recognising a right-of use asset and a lease liability except for: • leases of low value assets; and • leases with a duration of twelve months or less.	**Lease liabilities:** Initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the group) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. The group's internal funding rate is the base on which the incremental borrowing rate is calculated. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes: • Amounts expected to be payable under any residual value guarantee; • The exercise price of any purchase option granted in favour of the group, should it be reasonably certain that this option will be exercised; • Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised. Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.	**Interest expense on lease liabilities:** A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.
	Right of use assets: Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for: • lease payments made at or before commencement of the lease; • initial direct costs incurred; and • the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset. The Group applies the cost model subsequent to the initial measurement of the right of use assets	**Depreciation on right of use assets:** Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right of use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

Accounting Policies (continued)

For the year ended 31 December 2019

15. Leases – leseee accounting policies (continued)

Type	Statement of financial position	Income Statement
IFRS 16 – lessee accounting policies (continued)		
Single lessee accounting model (continued)	**Termination of leases:** When the group or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised.	**Termination of leases:** On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.
All leases that meet the criteria as either a lease of a low value asset or a short term lease are accounted for on a straight-line basis over the lease term.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Reassessment and modification of leases	**Reassessment of lease terms and lease modifications that are not accounted for as a separate lease:** When the group reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss. For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.	
	Lease modifications that are accounted for as a separate lease: When the group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modifications as a separate new lease. This accounting treatment equally applies to leases which the group elected the short-term lease exemption and the lease term is subsequently modified.	

Accounting Policies (continued)

For the year ended 31 December 2019

15. Leases – leseee accounting policies (continued)

Type	Statement of financial position	Income Statement
IFRS 16 and IAS 17 – lessor accounting policies		
Finance leases Leases, where the group transfers substantially all the risk and rewards incidental to ownership, are classified as finance leases	Finance lease receivable, including intial direct costs and fees, are primarily accounted for as financing transaction in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.
Operating leases All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straightline basis, or a more representative basis where applicable, over the lease term and is recognised in operating income. When an operating lease is terminated before the lease period has expired, any payment received/(paid) by the group by way of a penalty is recognised as income/(expense) in the period in which termination takes place.
Finance leases	When the Group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modifications as a separate new lease. All other lease modifications that are not accounted for as a separate lease are accounted for in terms of IFRS 9, unless the classification of the lease would have been accounted for as an operating lease had the modification been in effect at inception of the lease. These lease modifications are accounted for as a separate new lease from the effective date of the modification and the net investment in the lease becomes the carrying amount of the underlying asset.	
Operating leases	Modifications are accounted for as a new lease from the effective date of the modification.	

IAS 17 Leases (Comparatives)

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or an operating lease. Lease of assets under which the Group transfers substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Similarly leases of assets under which the Group retains a significant portion of the risks and rewards of ownership are classified as operating leases.

Finance leases – lessee

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

The leased asset is capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments together with an associated liability to the lessor.

Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the Group's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.

A lease finance cost, determined with reference to the interest rate implicit in the lease or the Group's incremental borrowing rate, is recognised within interest expense over the lease period.

Finance leases – lessor

Leases, where the Group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases

Finance leases receivable, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.

Accounting Policies (continued)

For the year ended 31 December 2019

15. Leases – leseee accounting policies (continued)

Operating leases - lessee (continued)

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Operating leases - lessee

All leases that do not meet the criteria of a financial lease are classified as operating leases. Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised. Payments made under operating leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

Operating leases - lessor

All leases that do not meet the criteria of a financial lease are classified as operating leases. The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised. Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term and is recognised in operating expenses.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

16. Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) is recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Net fee and commission income

Fee and commission income, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expenses included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expense where the expenditure is linked to the production of fee and commission revenue.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes dividends on equity financial assets, underwriting profit from the Group's short-term insurance operations and related insurance activities and re-measurement gains and losses from contingent consideration on disposals and purchases.

Accounting Policies (continued)

For the year ended 31 December 2019

16. Revenue and expenditure (continued)

Other gains/losses on financial instruments

Includes:

- Fair value gains and losses on debt financial assets that are at fair value through profit or loss;
- Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost:
- Gains and losses arising from the reclassification of a financial asset from amortised cost to fair value:
- Gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost.

Dividend income

Dividends are recognised in profit or loss when the right to receive is established.

Offsetting

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

17. Segment reporting

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group's identification of segments and the measurement of segment results are based on the Group's internal reporting to management.

18. Fiduciary activities

The Group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these financial statements as they are not assets of the Group. However, fee income earned and fee expenses incurred by the Group relating to the Group's responsibilities from fiduciary activities are recognised in profit or loss.

19. Statutory credit risk reserve

The statutory credit risk reserve represents the amount by which local regulatory authorities within the group's African Regions operations require in addition to the IFRS impairment provision. Changes in this reserve are accounted for as transfers to and from retained earnings as appropriate.

20. New standards and interpretations not yet adopted

The following new or revised standards and amendments that are applicable to the Group and its subsidiaries are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these financial statements.

Pronouncement	Title	Effective date
IFRS 3	**Business Combinations (amendment)** The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the Group.	1 January 2020 with earlier application permitted
IFRS 7	**IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments (amendments) and IAS 39 Financial Instruments: Recognition and Measurement** Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.	1 January 2020 with earlier application permitted
IFRS 10 and IAS 28 (amendments)	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the Group's financial statements.	Deferred indefinitely

Accounting Policies (continued)

For the year ended 31 December 2019

20. New standards and interpretations not yet adopted (continued)

Pronouncement	Title	Effective date
IAS1 and IAS8 (amendments)	**IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the Group's annual financial statements	1 January 2020
Conceptual Framework amendments	**Amendments to References to Conceptual Framework in IFRS Standards** The amendments address certain important issues not covered and certain guidance that is unclear or out of date. The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.	1 January 2020
IFRS 17	**IFRS 17 Insurance Contracts** This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets. IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a "shock absorber" in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features. An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time. The requirement to eliminate all treasury shares has been amended such that treasury shares held for a group of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets. These requirements will provide transparent reporting about an entities' financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17. The standard will be applied retrospectively. This will not be applicable to the Group and Company.	1 January 2021 (proposed deferral to 1 January 2022) with earlier application permitted

Notes to the Financial Statements

For the year ended 31 December 2019

1. Key management assumptions

1.1. Credit impairment losses on loans and advances

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. Post the implementation of IFRS 9, unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

Expected credit loss (ECL) on financial assets

For the purpose of determining the ECL:

- The Personal and Business Banking (PBB) portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. To ensure consistency with market practice in the region, the IFRS 9 impairment provision calculation has been amended to exclude post write-off recoveries (PWOR) from the loss given default (LGD) in calculating the expected credit loss impairments. This change in the modelling assumption and estimates have been applied prospectively.
- Corporate Investment Banking (CIB) exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

- The ECL measurement period for stage 1 exposures is 12 months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12 months).
- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime periods and the potential ECL.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance-sheet exposures.

Significant increase in credit risk (SICR) and low credit risk

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are delinquency based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The Group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's non-rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

CIB (including certain PBB business banking exposures)

The Group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Group's 25-point master rating scale. Ratings are mapped to probability of default (PDs) by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the group's master rating scale as investment grade are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes.

Group master rating scale band	SICR trigger (from origination)
SB 1 - 12	Low credit risk
SB 13 - 20	Medium credit risk
SB 21 - 25	High credit risk

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Key management assumptions (continued)

1.1. Credit impairment losses on loans and advances (continued)

Incorporation of forward looking information in ECL measurement

The Group determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the Group's global outlook and its global view of commodities.

For PBB these forward looking economic expectations are included in the ECL where adjustments are made based on the Group's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the Group's macro-economic outlook expectations. In addition to forward-looking macroeconomic information (FLI), other types of FLI, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments.

The Group's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the Group's internal credit risk management approach and definitions. Whilst the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. VAF, homes loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectations of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Group's CIB or PBB Credit Risk Management Committee, such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

The Group's forward-looking economic expectations which were applied in the determination of the ECL at the reporting date:

A range of base, bullish and bearish forward looking economic expectations were determined, as at 31 December 2019, for inclusion in the Group's forward-looking process and ECL calculation.

Economic expectation

- Due to the unfavorable base effects from the high 2018 GDP outcome, a growth of 4.1% is forecasted y/y in 2019 and 3.8% y/y in 2020. Headwinds from sub-par global demand will continue to slow diamond production and sales, which will constrain the economy.
- There is no reason to believe that there would be a sovereign rating downgrade, supported by low public debt levels and high FX reserves.
- In absence of changes in trade patterns, the exchange rate policy is unlikely to change substantively in the forecast period
- Conservative macro policy management will likely ensure that FX reserves remains adequate with more than 12m imports cover.
- Inflation pressures remain muted, around the lower-end of the 3.0% y/y – 6.0% y/y objective range. Sometimes dropping below the objective range. It is only likely to revert within the objective range by H2:20.
- The BOB will likely maintain its accommodative stance.
- The MPC is likely keep the policy rate unchanged at 4.75% with an easing bias towards 2020.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Key management assumptions (continued)

1.1. Credit impairment losses on loans and advances (continued)

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base case, bullish and bearish scenario, the average values of the factors over the next 12 months and over the remaining forecast period are presented below:

	Base scenario		Bearish scenario		Bullish scenario	
	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)
2019						
Inflation	**2.87**	**2.98**	**2.50**	**2.35**	**3.43**	**3.23**
Real GDP	**3.83**	**4.89**	**3.40**	**4.31**	**3.99**	**5.05**
6 months T-bill	**1.86**	**1.71**	**1.66**	**1.42**	**2.51**	**2.42**
Bank rate	**4.56**	**4.50**	**3.75**	**4.19**	**5.63**	**5.50**
Exchange rate (USD/BWP)	**10.91**	**10.65**	**11.72**	**11**	**10.27**	**10.07**

	Base scenario		Bearish scenario		Bullish scenario	
	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)
2018						
Inflation	3.9	3.4	5.7	3.9	5.7	3.9
Real GDP	4.5	4.6	4.7	4.2	4.7	4.2
6 months T-bill	1.5	1.9	2.2	2.8	2.2	2.8
Bank rate	5.0	4.9	5.5	6.0	5.5	6.0
Exchange rate (USD/BWP)	10.6	10.5	9.5	9.7	9.5	9.7

Sensitivity analysis of CIB forward looking impact on IFRS 9 provision

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward looking information. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore the impact of forward looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall CIB IFRS 9 provision.

Sensitivity analysis of PBB forward looking impact on IFRS 9 provision

The following table shows a comparison of the forward looking impact on the IFRS 9 provision as at 31 December 2019 based on the probability weightings of the above three scenarios resulting from recalculating each of the scenario using a 100% weighting of the above factors.

Sensitivity Analysis of PBB forward looking impact on IFRS 9

	Allowances for credit losses (P000's)
Forward looking impact on IFRS 9 provision	
Scenarios	
100% Bear	65 875
100% Base	26 385
100% Bull	47 174

Forward looking expectations

- The Standard Bank Group Economics Research team assists the country to determine the macroeconomic outlook commodities over a planning horizon of at least three years. The outlook is provided to the Chief Financial Officer for review and the Asset and Liability Committee (ALCO) for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives of economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Key management assumptions (continued)

1.2. Fair value of financial instruments

In terms of IFRS, the Group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The Group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the Group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to:
- credit spreads on illiquid issuers
- implied volatilities on thinly traded instruments
- correlation between risk factors
- prepayment rates
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:
- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing the exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the Group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the Group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the Group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the Group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Key management assumptions (continued)

1.2. Fair value of financial instruments (continued)

Portfolio exception: The Group has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis. Other financial instruments, not at level 3, are utilised to mitigate the risk of these changes in fair value.

The fair value of financial instruments, such as Treasury Bills, Corporate and Government Bonds which are not actively traded on open markets but are purchased via an auction process are determined by using valuation techniques. Wherever possible, models use only observable market data such as bid prices and market yields. Changes in assumptions could affect the reported fair values of financial instruments.

1.3. Income taxes

The Group is subject to direct and indirect taxation. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 19 and note 12, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets.

2. Statements of profit or loss and other comprehensive income information

2.1. Interest income

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Interest on loans and advances	**862 493**	718 375	**862 493**	718 520
Interest on financial investments	**51 418**	23 173	**51 418**	23 173
	913 911	741 548	**913 911**	741 693

2.2. Interest expense

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Interest on deposits - current and savings accounts	**5 548**	5 097	**5 562**	5 125
Interest on deposits - Call, term and debt securities in issue	**189 865**	179 415	**189 865**	179 415
Interest on lease liabilities[1]	**1 484**	-	**1 484**	-
Interest on deposits with banks	**35 346**	32 016	**35 346**	32 016
	232 243	216 528	**232 257**	216 556

[1] The group and company have, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information has been prepared on an IAS 17 basis. Refer to page 66 for more detail on the adoption of IFRS 16.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Statements of profit or loss and other comprehensive income information (continued)

2.3. Fee and commission income

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Documentation and admin fees	**50 130**	43 050	**50 130**	43 050
Electronic banking transaction fees	**19 319**	13 287	**19 320**	13 288
Point of presentation transaction fees	**12 664**	10 301	**12 664**	10 301
Guarantee fees	**11 888**	9 707	**11 889**	9 708
Insurance commissions	**10 032**	9 587	**-**	-
Card based commission	**96 249**	82 040	**96 249**	82 040
Foreign currency service fees	**19 420**	20 496	**19 420**	20 496
Service and penalty fees on current accounts	**19 750**	24 510	**19 750**	24 510
ATM fees	**8 156**	8 532	**8 156**	8 532
Script and security fees	**9 883**	8 858	**9 883**	8 858
Other	**11 338**	8 116	**11 342**	8 118
	268 829	238 484	**258 803**	228 901

2.4. Fee and commission expense

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Card based expenses	**51 609**	40 702	**51 609**	40 702
Other fees	**661**	257	**664**	257
Fee and commission expense	**52 270**	40 959	**52 273**	40 959

The net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss but includes income of P268 829 for Group and P258 803 for Company (2018: P238 484, P228 901 respectively) and expense of P52 270 for Group and P52 273 for Company (2018: P40 959 both years) relating to such financial assets and financial liabilities

2.5. Net trading income

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Gain on items measured at ammortised cost	**216 990**	226 245	**216 990**	226 245
Net gains on financial instruments held for trading	**5 058**	25 051	**5 058**	25 051
	222 048	251 296	**222 048**	251 296

2.6. Other income

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Preference dividend (21.5)	**9 929**	8 490	**9 929**	8 490
Sundry income	**12 048**	1 405	**12 692**	4 697
Management fees (21.5)	**-**	-	**3 058**	3 050
	21 977	9 895	**25 679**	16 237

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. Statements of profit or loss and other comprehensive income information (continued)

2.7. Other gains and losses on financial instruments

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Other gains and (losses) on financial instruments	**(237)**	226	**(237)**	226
	(237)	226	**(237)**	226

2.8. Credit impairment charges

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Net expected credit loss raised and released	**413 851**	115 661	**413 851**	115 661
Financial investments (note 6)	**35**	(17)	**35**	(17)
Loans and advances (note 7)	**414 316**	115 660	**414 316**	115 660
Letters of credit, guarantees and commitments	**(500)**	18	**(500)**	18
Recoveries on loans and advances previously written off	**(24 805)**	(22 112)	**(24 805)**	(22 112)
	389 046	93 549	**389 046**	93 549

2.9. Staff costs

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Salaries and allowances	**268 382**	251 081	**268 382**	251 081
Retirement benefit costs	**23 469**	22 480	**23 469**	22 480
	291 851	273 561	**291 851**	273 561

The total number of persons employed by the Group is 569 (2018: 592).

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. Statements of profit or loss and other comprehensive income information (continued)

2.10. Other operating expenses

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Amortisation – intangible assets (note 10)	**20 945**	21 592	**20 945**	21 592
Auditor's remuneration	**2 757**	2 863	**2 757**	2 863
- Audit fees (current year)	**2 757**	2 563	**2 757**	2 563
- Audit fees under/(over)provision prior year	**-**	300	**-**	300
Depreciation property plant and equipment (note 11.2)	**30 190**	21 469	**30 190**	21 469
- Property - Freehold	**794**	245	**794**	245
- Property - Leasehold	**(4 412)**	2 955	**(4 412)**	2 955
- Equipment – Computers and office equipment	**15 875**	14 173	**15 875**	14 173
- Equipment – Motor vehicles	**1 498**	1 235	**1 498**	1 235
- Equipment – Furniture and fittings	**3 245**	2 861	**3 245**	2 861
- Right of use of assets[1]	**13 190**	-	**13 190**	-
Operating lease rentals[1]	**1 526**	15 126	**1 526**	20 105
-Expenses relating to leases of low-value items	**216**	-	**216**	-
-Expenses related to short-term leases	**1 310**	15 126	**1 310**	20 105
Information technology	**27 905**	61 646	**27 905**	61 646
Communication, marketing and advertising	**32 518**	29 742	**32 518**	29 742
Repairs and maintenance	**8 994**	9 384	**8 994**	9 384
Professional fees	**10 563**	11 498	**10 563**	11 498
Head office franchise fee	**34 212**	29 126	**34 212**	29 126
Profit on sale of plant and equipment	**(350)**	(273)	**(350)**	(273)
Travel and entertainment	**15 275**	13 512	**15 275**	13 512
Training expenses	**6 265**	4 047	**6 265**	4 047
Administration and general expenses	**70 860**	58 909	**70 606**	57 410
	261 660	278 641	**261 406**	282 121

1 The group and company have, as permitted by IFRS 16, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative annual financial information has been prepared on an IAS 17 basis. Refer to page 66 for more detail on the adoption of IFRS 16.

2.11 Directors' emoluments

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Short-term employment benefits	10 270	7 322	10 270	7 322
	10 270	7 322	10 270	7 322

2.12 Taxation

(a) Amounts recognised in profit or loss

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Indirect taxation				
- Value added tax	**22 590**	17 748	**22 459**	17 730
Direct taxation				
- Current year	**37 142**	68 912	**35 559**	66 738
- current tax	**72 105**	68 755	**70 522**	66 581
- deferred tax (note 12)	**(34 963)**	157	**(34 963)**	157

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. Statements of profit or loss and other comprehensive income information (continued)

2.12 Taxation (continued)

(b) Botswana tax rate reconciliation (%)

	Group		Company	
	2019 %	2018 %	**2019 %**	2018 %
Direct taxation charge for the year as a percentage of profit after indirect tax:	**21**	21	**21**	21
The charge for the year has been reduced as a consequence of:				
- preference dividends	**1**	1	**1**	1
Statutory tax rate	**22**	22	**22**	22

3. Cash and cash balances with the Central Bank

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Coins and bank notes	**128 091**	90 952	**128 091**	90 952
Balances with the Central Bank	**480 509**	406 300	**480 509**	406 300
	608 600	497 252	**608 600**	497 252

Coins and bank notes and the reserving requirements held with the Central Bank have been classified at fair value through profit or loss - default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding. Included in this balance is P416 000 million (2018: P395 000 million) that is not available for use by the Group. These balances primarily comprise of reserving requirements held with the Central Bank and are available for use by the Group subject to certain restrictions and limitations levied by the Central Bank. These balances are held at fair value.

4. Derivative financial instruments

All derivatives are classified as derivatives held for trading.

4.1. Fair values

The fair value of a derivative financial instrument, for quoted instruments is the quoted market price and for unquoted instruments the present value of the positive or negative cash flows and is based on those which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at year end.

4.2. Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount should be used only as a means of assessing the Group's participation in derivative contracts.

4.3. Derivative assets and liabilities

	Maturity analysis of net fair value						
	Within 1 year P000's	**After 1 year, within 5 years P000's**	**After 5 years P000's**	**Net fair value P000's**	**Fair value of assets P000's**	**Fair value of liabilities P000's**	**Net notional amount P000's[1]**
2019 Group							
Derivatives held for trading							
Foreign exchange derivatives	**13 651**	**-**	**-**	**13 651**	**29 142**	**(15 491)**	**9 159**
- Forwards	**13 651**	**-**	**-**	**13 651**	**29 142**	**(15 491)**	**9 159**
2019 Company							
Derivatives held for trading							
Foreign exchange derivatives	**13 651**	**-**	**-**	**13 651**	**29 142**	**(15 491)**	**9 159**
- Forwards	**13 651**	**-**	**-**	**13 651**	**29 142**	**(15 491)**	**9 159**

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

4. Derivative financial instruments (continued)

4.3. Derivative assets and liabilities (continued)

	Maturity analysis of net fair value						
	Within 1 year P000's	After 1 year, within 5 years P000's	After 5 years P000's	Net fair value P000's	Fair value of assets P000's	Fair value of liabilities P000's	Net notional amount P000's[1]
2018 Group							
Derivatives held for trading							
Foreign exchange derivatives	15 486	-	-	15 486	25 425	(9 939)	10 796
- Forwards	15 486	-	-	15 486	25 425	(9 939)	10 796
2018 Company							
Derivatives held for trading							
Foreign exchange derivatives	15 486	-	-	15 486	25 425	(9 939)	10 796
- Forwards	15 486	-	-	15 486	25 425	(9 939)	10 796

1. The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Group's participation in derivative contracts.

4.4. Use and measurement of derivative instruments

In the normal course of business, the Group enters into a variety of derivative transactions for trading that include swaps and forwards.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised on the statement of financial position and is only netted to the extent that a legal right of set-off exists and there is an intention to settle on a net basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major type of swap transactions undertaken by the Group are cross currency interest rate swaps.

Cross currency interest rate swaps involve the exchange of interest payments based on two different currency principle balances and interest reference rates and generally also entail exchange of principal amounts at the start and / or end of the contract.

Forwards are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the market.

4.5. Derivatives held for trading

The Bank trades derivative instruments on behalf of customers and for its own positions. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale market and in structuring tailored derivatives for customers. The Group also takes proprietary positions for its own accounts. Trading derivative products include foreign exchange derivatives. Foreign exchange derivatives consist of forward exchange contracts and swaps.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. Trading portfolio assets

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Listed – Government bonds	**37 808**	-	**37 808**	-
Unlisted – other	**-**	632 794	**-**	632 794
	37 808	632 794	**37 808**	632 794
Bank of Botswana Bonds (BOBCs)	**37 808**	-	**37 808**	-
Placement with banks	**-**	632 794	**-**	632 794
	37 808	632 794	**37 808**	632 794
Maturity analysis:				
Maturing within 1 month	**-**	520 495	**-**	520 495
Maturing after 1 month but within 6 months	**-**	83 531	**-**	83 531
Maturing after 6 months but within 12 months	**-**	28 768	**-**	28 768
Maturing after 12 months	**37 808**	-	**37 808**	-
	37 808	632 794	**37 808**	632 794

a. Redemption value

Dated trading assets had a redemption value at 31 December 2019 of P37 808 (2018: P632 794) for the Group and Company.

b. Valuation

The fair value of unlisted investments is equal to the carrying value. All unlisted investments were fair valued at 31 December 2019. Refer to note 17.2 for the fair value hierarchy.

6. Financial assets

6.1. Classification

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Listed – Government bonds	**132 842**	72 216	**132 842**	72 216
Unlisted – Other	**2 417 539**	1 369 733	**2 417 539**	1 369 733
	2 550 381	1 441 949	**2 550 381**	1 441 949
Comprising:				
Government bonds	**132 842**	72 216	**132 842**	72 216
Corporate bonds	**220 852**	220 925	**220 852**	220 925
Bank of Botswana Certificates	**2 196 687**	1 148 808	**2 196 687**	1 148 808
	2 550 381	1 441 949	**2 550 381**	1 441 949
Maturity analysis:				
The maturities represent periods to contractual redemption of the investment securities recorded.				
Maturing within 1 month	**1 598 365**	949 255	**1 598 365**	949 255
Maturing after 1 month but within 6 months	**598 322**	199 545	**598 322**	199 545
Maturing after 6 months but within 12 months	**12 076**	-	**12 076**	-
Maturing after 12 months	**341 618**	293 149	**341 618**	293 149
	2 550 381	1 441 949	**2 550 381**	1 441 949
Net financial investments measured at amortised cost	**2 550 381**	1 441 949	**2 550 381**	1 441 949
Gross financial investments measured at amortised cost	**2 550 425**	1 441 958	**2 550 425**	1 441 958
Less: Expected credit loss for financial investments measured at amortised cost	**(44)**	(9)	**(44)**	(9)
	2 550 381	1 441 949	**2 550 381**	1 441 949

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. Financial assets (continued)

6.2. Redemption value

Dated investment securities had a redemption value at 31 December 2019 of P2 550 381 (2018: P1 441 949) for the Group and for the Company. Included in these amounts are dated pledged assets with a redemption value at 31 December 2019 of P416 000 (2018: P395 000) for the Group and Company (refer to note 18.3 for further details).

6.3. Investment registers

Registers of the investment securities are available for inspection by members, or their authorised agents at the registered offices of the Group and its subsidiaries.

6.4. Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value. All unlisted investments were fair valued at 31 December 2019 based on ruling prices at reporting date. Refer to note 17.2 for the fair value hierarchy.

6.5. Reconciliation of expected credit losses for debt financial investments measured at amortised cost

		Income statement movements					
	Opening ECL 1 January 2019 P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Change in ECL due to derecognition P000's	Net ECL raised/ (released)1 P000's	**Closing ECL 31 December 2019 P000's**
Group and Company							
Corporate	**1**	19	-	-	-	19	**20**
Stage 1	**1**	19	-	-	-	19	**20**
Stage 2	**-**	-	-	-	-	-	**-**
Stage 3	**-**	-	-	-	-	-	**-**
Sovereign	**8**	17	-	(7)	-	10	**18**
Stage 1	**8**	17	-	(7)	-	10	**18**
Stage 2	**-**	-	-	-	-	-	**-**
Stage 3	**-**	-		-	-	-	**-**
Bank	**-**	6	-	-	-	6	**6**
Stage 1	**-**	6	-	-	-	6	**6**
Stage 2	**-**	-	-	-	-	-	**-**
Stage 3	**-**	-	-	-	-	-	**-**
Other instruments	**-**	-	-	-	-	-	**-**
Stage 1	**-**	-	-	-	-	-	**-**
Stage 2	**-**	-	-	-	-	-	**-**
Stage 3	**-**	-	-	-	-	-	**-**
Total	**9**	42	-	(7)	-	35	**44**

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. Financial assets (continued)

6.5. Reconciliation of expected credit losses for debt financial investments measured at amortised cost (continued)

		Income statement movements					
	Openning ECL 1 January 2018 P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Changes in ECL due to derecognition P000's	Net ECL raised/ (released)1 P000's	Closing ECL 31 December 2018 P000's
Group and Company							
Corporate	1	-	-	-	-	-	1
Stage 1	1	-	-	-	-	-	1
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Sovereign	25	9	-	(23)	(3)	(17)	8
Stage 1	25	9	-	(23)	(3)	(17)	8
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-		-	-	-	-
Bank	-	-	-	-	-	-	-
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
		-					
Total	26	9	-	(23)	(3)	(17)	9

Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

6.6. Pledged assets and assets not derecognised

Assets are pledged as collateral under repurchase agreements with the Central Bank. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements.

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Fair value of trading assets pledged as security	**416 000**	395 000	**416 000**	395 000

Maturity analysis

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Maturing within 1 month	**416 000**	395 000	**416 000**	395 000

The carrying amount of total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2019 is P416 000 (2018: P395 000) for the Group and Company. The assets pledged comprises Bank of Botswana certificates.

The assets pledged by the Group are strictly for the purpose of providing collateral to the counterparty. The counterparty is permitted to sell and/or re-pledge the assets to the extent reflected above. These transactions are conducted under terms that are usual and customary to security lending, securities borrowing and lending activities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Loans and advances

The Group extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings. A significant portion of the Groups advances to commercial and corporate borrowers consist of advances made to companies engaged in manufacturing, finance, mining and service industries.

7.1 Loans and advances net of impairment and interest in suspense

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Loans and advances to banks*	**4 078 666**	3 336 683	**4 078 666**	3 336 683
- Balances with banks	**4 082 374**	3 338 112	**4 082 374**	3 338 112
- Expected credit loss for unimpaired loans	**(3 708)**	(1 429)	**(3 708)**	(1 429)
Net loans and advances to banks	**4 078 666**	3 336 683	**4 078 666**	3 336 683
Loans and advances to customers	**8 609 075**	8 168 885	**8 609 075**	8 168 885
Gross loans and advances to customer	**9 260 983**	8 478 910	**9 260 983**	8 478 910
- Mortgage lending	**2 149 721**	1 474 914	**2 149 721**	1 474 914
- Instalment sales and finance leases (note 7.2)	**908 239**	712 912	**908 239**	712 912
- Overdrafts and other demand lending	**748 407**	525 065	**748 407**	525 065
- Medium-term advances	**4 809 417**	4 936 811	**4 809 417**	4 936 811
- Card debtors	**41 615**	38 190	**41 615**	38 190
- Other loans	**603 584**	791 018	**603 584**	791 018
Credit impairments for loans and advances to customers	**(651 908)**	(310 025)	**(651 908)**	(310 025)
Net loans and advances	**12 687 741**	11 505 568	**12 687 741**	11 505 568
Comprising				
Gross loans and advances	**13 343 357**	11 817 022	**13 343 357**	11 817 022
Less: credit impairments (note 7.3)	**(655 616)**	(311 454)	**(655 616)**	(311 454)
Net loans and advances	**12 687 741**	11 505 568	**12 687 741**	11 505 568

* Included in the loans and advances to banks are related party balances further disclosed under note 21.6.

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Maturity analysis: The maturities represent periods to contractual redemption of the loans and advances recorded.				
Redeemable on demand	**1 427 277**	2 684 511	**1 427 277**	2 684 511
Maturing within 1 month	**1 773 420**	937 843	**1 773 420**	937 843
Maturing after 1 month but within 6 months	**1 634 771**	1 189 159	**1 634 771**	1 189 159
Maturing after 6 month but within 12 months	**293 475**	218 786	**293 475**	218 786
Maturing after 12 months	**7 558 798**	6 475 269	**7 558 798**	6 475 269
	12 687 741	11 505 568	**12 687 741**	11 505 568

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Loans and advances(continued)

7.2. Instalment sale and finance leases

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Gross investment in instalment finance lease	**1 059 598**	837 806	**1 059 598**	837 806
Unearned finance charges deducted	**(151 359)**	(124 894)	**(151 359)**	(124 894)
Net investment in instalment finance lease	**908 239**	712 912	**908 239**	712 912
Receivable within 1 year	**64 715**	49 720	**64 715**	49 720
Receivable after 1 year and within 5 years	**727 915**	560 132	**727 915**	560 132
Receivable after 5 years	**115 609**	103 060	**115 609**	103 060

7.3 Credit impairments for loans and advances (continued)

Reconciliation of expected credit losses for loans and advances measured at amortised cost

A reconciliation of the expected credit loss for loans and advances, by class:

	Openning ECL 1 January 2019 P000's	Total Transfer between stages P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Changes in ECL due to derecognition P000's	New impairments raised/(released)[1] P000's	Impaired accounts written-off P000's	Exchange and other movements P000's	Closing ECL 31 December 2019 P000's
Group										
Mortgages	**(91 956)**	**-**	**1 474**	**(560)**	**(23 719)**	**(2)**	**(22 807)**	**18 042**	**(1 205)**	**(97 926)**
Stage 1	(7 986)	(7 226)	1 019	-	7 610	(2)	8 627	-	2	(6 583)
Stage 2	(20 150)	7 191	455	(108)	(1 624)	-	(1 277)	-	1	(14 235)
Stage 3	(63 820)	35	-	(452)	(29 705)	-	(30 157)	18 042	(1 208)	(77 108)
Vehicle and asset Finance	**(31 959)**	**-**	**5 113**	**(78)**	**(12 049)**	**-**	**(7 014)**	**3 803**	**384**	**(34 786)**
Stage 1	(8 878)	5 251	4 114	-	(9 149)	-	(5 035)	-	-	(8 662)
Stage 2	(10 167)	(3 625)	999	(79)	2 748	-	3 668	-	-	(10 124)
Stage 3	(12 914)	(1 626)	-	1	(5 648)	-	(5 647)	3 803	384	(16 000)
Card Debtors	**(5 954)**	**-**	**1 402**	**-**	**(5 424)**	**-**	**(4 022)**	**3 651**	**779**	**(5 546)**
Stage 1	(1 821)	(329)	884	-	(343)	-	541	-	-	(1 609)
Stage 2	(3 227)	116	327	-	4	-	331	-	-	(2 780)
Stage 3	(906)	213	191	-	(5 085)	-	(4 894)	3 651	779	(1 157)
Corporate	**(13 215)**	**-**	**(283 586)**	**-**	**(21 280)**	**3 998**	**(300 868)**	**-**	**-**	**(314 083)**
Stage 1	(6 149)	133	(4 713)	-	839	3 539	(335)	-	-	(6 351)
Stage 2	(7 066)	(133)	(3 776)	-	(22 119)	459	(25 436)	-	-	(32 635)
Stage 3	-	-	(275 097)	-	-	-	(275 097)	-	-	(275 097)
Sovereign	**(1 074)**	**-**	**(69)**	**-**	**(2 476)**	**92**	**(2 453)**	**-**	**-**	**(3 527)**
Stage 1	(1 074)	433	-	-	(125)	92	(33)	-	-	(674)
Stage 2	-	(433)	(69)	-	(2 351)	-	(2 420)	-	-	(2 853)
Other Instruments	**(167 296)**	**-**	**62 919**	**119**	**(140 190)**	**-**	**(77 152)**	**61 939**	**(17 239)**	**(199 748)**
Stage 1	(42 567)	(16 899)	37 024	(55)	(35 609)	-	1 360	-	-	(58 106)
Stage 2	(53 301)	23 946	20 341	197	(49 432)	-	(28 894)	-	-	(58 249)
Stage 3	(71 428)	(7 047)	5 554	(23)	(54 865)	-	(49 618)	61 939	(17 239)	(83 393)
							-			
Total	**(311 454)**	**-**	**(212 747)**	**(519)**	**(205 138)**	**4 088**	**(414 316)**	**87 435**	**(17 281)**	**(655 616)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Loans and advances(continued)

7.3 Credit impairments for loans and advances (continued)

Reconciliation of expected credit losses for loans and advances measured at amortised cost
A reconciliation of the expected credit loss for loans and advances, by class:

	Openning ECL 1 January 2019 P000's	Total Transfer between stages P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Changes in ECL due to derecognition P000's	New impairments raised /(released)[1] P000's	Impaired accounts written-off P000's	Exchange and other movements P000's	Closing ECL 31 December 2019 P000's
Group										
Mortgages	**(97 523)**	**-**	**(2 084)**	**-**	**(18 713)**	**-**	**(20 797)**	**19 674**	**6 690**	**(91 956)**
Stage 1	(7 666)	22 263	(1 543)	-	(34 106)	-	(35 649)	-	13 066	(7 986)
Stage 2	(20 786)	(13 423)	(541)	-	17 297	-	16 756	-	(2 697)	(20 150)
Stage 3	(69 071)	(8 840)	-	-	(1 904)	-	(1 904)	19 674	(3 679)	(63 820)
Vehicle and asset Finance	**(34 724)**	**-**	**(8 023)**	**-**	**(13 249)**	**-**	**(21 272)**	**20 000**	**4 037**	**(31 959)**
Stage 1	(7 480)	11 726	(7 385)	-	296	-	(7 089)	-	(6 035)	(8 878)
Stage 2	(16 813)	(174)	(638)	-	1 422	-	784	-	6 036	(10 167)
Stage 3	(10 431)	(11 552)	-	-	(14 967)	-	(14 967)	20 000	4 036	(12 914)
Card Debtors	**(8 300)**	**-**	**(669)**	**-**	**(2 612)**	**-**	**(3 281)**	**3 486**	**2 141**	**(5 954)**
Stage 1	(2 403)	1 454	(561)	-	(124)	-	(685)	-	(187)	(1 821)
Stage 2	(4 042)	(135)	(108)	-	873	-	765	-	185	(3 227)
Stage 3	(1 855)	(1 319)	-	-	(3 361)	-	(3 361)	3 486	2 143	(906)
Corporate	**(7 281)**	**-**	**(5 949)**	**-**	**2 131**	**2 449**	**(1 369)**	**-**	**(4 565)**	**(13 215)**
Stage 1	(3 320)	(1 801)	(2 366)	-	2 375	1 815	1 824	-	(2 852)	(6 149)
Stage 2	(3 961)	1 801	(3 583)	-	(244)	634	(3 193)	-	(1 713)	(7 066)
Sovereign	**(538)**	**-**	**(548)**	**-**	**(222)**	**234**	**(536)**	**-**	**-**	**(1 074)**
Stage 1	(538)		(548)	-	(222)	234	(536)	-	-	(1 074)
Other Instruments	**(181 049)**	**-**	**(39 972)**	**-**	**(28 433)**	**-**	**(68 405)**	**85 122**	**(2 964)**	**(167 296)**
Stage 1	(39 483)	69 983	(21 086)	-	(45 746)		(66 832)	-	(6 235)	(42 567)
Stage 2	(57 176)	(28 940)	(18 886)	-	42 107	-	23 221	-	9 594	(53 301)
Stage 3	(84 390)	(41 043)	-	-	(24 794)	-	(24 794)	85 122	(6 323)	(71 428)
Total	**(329 415)**	**-**	**(57 245)**	**-**	**(61 098)**	**2 683**	**(115 660)**	**128 282**	**5 339**	**(311 454)**

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer note 2.8 on credit impairment charges).

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Loans and advances(continued)

7.4 Credit impairments for loans and advances (continued)

Modifications on loans and advances measured at amortised cost

	Group and Company			
	Stage 2		**Stage 3**	
	Gross amortised cost before modification P000's	**Net modification gain or loss P000's**	**Gross amortised cost before modification P000's**	**Net modification gain or loss P000's**
2019				
Mortgage loans	**14 235**	**(108)**	**69 076**	**(452)**
Vehicle and asset finance	**10 123**	**(79)**	**16 000**	**1**
Other loans and advances	**62 541**	**197**	**91 717**	**(23)**
Total	**86 899**	**10**	**176 793**	**(474)**

P86 899 is the gross carrying amount for modifications during the reporting period that resulted in no economic loss (i.e. no net modification gain or loss) to the Group.

Modifications on loans and advances measured at amortised cost

	Group and Company			
	Stage 2		Stage 3	
	Gross amortised cost before modification P000's	Net modification gain or loss P000's	Gross amortised cost before modification P000's	Net modification gain or loss P000's
2018				
Mortgage loans	6 414	34	866	13
Vehicle and asset finance	1 130	216	-	-
Other loans and advances	5 533	212	4 102	(389)
Total	13 077	462	4 968	(376)

P13 077 is the gross carrying amount for modifications during the reporting period that resulted in no economic loss (i.e. no net modification gain or loss) to the Group.

7.5 Credit impairments for loans and advances

	Group and Company	
	2019 P000's	2018 P000's
Agriculture	**14 203**	14 219
Construction	**3**	25
Finance, real estate and other business services	**29 471**	36 418
Individuals	**130 641**	97 408
Manufacturing	**277 572**	999
	451 890	149 069

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

8. Other assets

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Items in the course of collection	**58 007**	11 036	**57 884**	16 062
Prepayments and other debtors	**43 561**	30 115	**43 561**	30 115
	101 568	41 151	**101 445**	46 177

Maturity analysis

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Receivable within 12 months	**101 568**	41 151	**101 445**	46 177
	101 568	41 151	**101 445**	46 177

9. Investment in subsidiaries

	Company	
	2019 P000's	2018 P000's
Investment in subsidiaries:		
- Stanbic Insurance Services (Pty) Ltd	**30**	30
- Stanbic Nominees Botswana (Pty) Ltd	**3**	3
Carrying value at end of the year	**33**	33

Total investments at cost of P33 (2018: P33) relate to the investment by the Bank in Stanbic Insurance Services (Proprietary) Limited and Stanbic Nominees Botswana (Proprietary) Limited. Interests in subsidiaries are listed in Note 23.

10. Intangible assets

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Computer software				
Cost at beginning of year	**253 269**	253 487	**253 269**	253 487
Transfers	**-**	(218)	**-**	(218)
Cost at end of the year	**253 269**	253 269	**253 269**	253 269
Accumulated amortisation at beginning of the year	**67 320**	45 728	**67 320**	45 728
Amortisation	**20 945**	21 592	**20 945**	21 592
Accumulated amortisation at end of the year	**88 265**	67 320	**88 265**	67 320
Balance at end of the year	**165 004**	185 949	**165 004**	185 949

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

11. Property and equipment

11.1 Summary 2019

	2019 Cost P000's	2019 Accumulated depreciation P000's	2019 Net book value P000's	2018 Cost P000's	2018 Accumulated depreciation P000's	2018 Net book value P000's
Group and Company						
Property						
Freehold	**44 136**	**8 444**	**35 692**	46 272	7 767	38 505
Leasehold	**31 835**	**20 900**	**10 935**	23 785	17 783	6 002
Right of use of assets[1]	**43 338**	**13 190**	**30 148**	-	-	-
	119 309	**42 534**	**76 775**	70 057	25 550	44 507
Equipment						
Computer and office equipment	**144 506**	**97 335**	**47 171**	128 503	81 457	47 046
Motor vehicles	**11 088**	**6 303**	**4 785**	8 791	5 812	2 979
Furniture and fittings	**43 872**	**20 339**	**23 533**	40 426	17 094	23 332
	199 466	**123 977**	**75 489**	177 720	104 363	73 357
Total property and equipment	**318 775**	**166 511**	**152 264**	247 777	129 913	117 864

11.2 Movement 2019

	2018 Net book value P000's	2019 Additions/ transfers P000's	2019 Net book value of disposals P000's	2019 Depreciation Cost P000's	2019 Net book Value P000's
Group and Company					
Property					
Freehold	38 505	**(2 135)**	**-**	**(794)**	**35 576**
Leasehold	6 002	**620**		**4 412**	**11 034**
Right of use of assets[1]	-	**43 338**	**-**	**(13 190)**	**30 148**
	44 507	**41 823**	**-**	**(9 572)**	**76 759**
Equipment					
Computer and office equipment	47 046	**16 003**	**-**	**(15 875)**	**47 174**
Motor vehicles	2 979	**3 602**	**(304)**	**(1 498)**	**4 779**
Furniture and fittings	23 332	**3 471**	**(6)**	**(3 245)**	**23 552**
	73 357	**23 076**	**(310)**	**(20 617)**	**75 505**
Total property and equipment	117 864	**64 900**	**(310)**	**(30 190)**	**152 264**

[1] Net book value at the beginning of the year relates to 31 December 2018 for property and equipment and 1 January 2019 for right of use assets.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

11. Property and equipment (continued)

11.3 Summary 2018

	2018 Cost P000's	2018 Accumulated depreciation P000's	2018 Net book value P000's	2017 Cost P000's	2017 Accumulated depreciation P000's	2017 Net book value P000's
Group and Company						
Property						
Freehold	46 272	7 767	38 505	14 452	7 362	7 090
Leasehold	23 785	17 783	6 002	27 498	14 930	12 568
	70 057	25 550	44 507	41 950	22 292	19 658
Equipment						
Computer and office equipment	128 503	81 457	47 046	109 139	67 285	41 854
Motor vehicles	8 791	5 812	2 979	10 050	5 977	4 073
Furniture and fittings	40 426	17 094	23 332	40 396	14 351	26 045
	177 720	104 363	73 357	159 585	87 613	71 972
Total property and equipment	247 777	129 913	117 864	201 535	109 905	91 630

11.4 Movement 2018

	2017 Net book value P000's	2018 Additions/ transfers P000's	2018 Net book value of disposals P000's	Depreciation Cost P000's	2018 Net book Value P000's
Group and Company					
Property					
Freehold	7 090	24 606	-	(245)	31 451
Leasehold	12 568	3 518		(2 955)	13 131
	19 658	28 124	-	(3 200)	44 582
Equipment					
Computer and office equipment	41 854	19 289	-	(14 173)	46 970
Motor vehicles	4 073	611	(466)	(1 235)	2 983
Furniture and fittings	26 045	145	-	(2 861)	23 329
	71 972	20 045	(466)	(18 269)	73 282
Total property and equipment	91 630	48 169	(466)	(21 469)	117 864

11.5 Leasehold property

The leasehold property at Lot 14437, Gaborone is occupied under a fifty year fixed period state grant lease commencing 8 August 1986.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

11. Property and equipment (continued)

11.6 Leases

Leases as lessee

The Group leases properties for its branches and ATMs. These leases typically run for a period of 5 years with an option to renew the lease at the end of the lease term. Lease payments are negotiated at the end of every lease term to align with market rentals.

The branch and ATM leases were previously classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below:

a) Right of use assets

Right of use assets refer to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see note 11.1)

	Land and buildings P000's	Total P000's
Group and Company		
Balance at 1 January 2019	29 828	29 828
Depreciation charge for the year	(13 190)	(13 190)
Additions to the right of use assets	13 510	13 510
Derecognition of right of use assets	-	-
Balance 31 December 2019	**30 148**	**30 148**

b) Amounts recognised in profit or loss

	Land and buildings P000's
Group and Company	
2019 – Leases under IFRS 16	
Interest on lease liabilities	(1 484)
Expenses relating to short term leases	(1 310)
Expenses relating to low value assets, excluding short term leases of low value assets	(216)
Total expenses under IFRS 16	**(3 010)**

	Land and buildings P000's
Group and Company	
2018 – Operating leases under IAS 17	
Expenses relating to lease expenses	15 615
Gains relating to straightline smoothening	489
Total expenses under IAS 17	(15 126)

c) Amounts recognised in profit or loss

	2019 P000's	2018 P000's
Group and Company		
Total cash outflow for leases	**(12 699)**	(20 328)

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

12. Deferred tax

Deferred tax analysis

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Property and equipment timing differences	**(9 562)**	(6 995)	**(9 562)**	(6 995)
Fair value adjustments of financial instruments	**(344)**	(1 507)	**(344)**	(1 507)
Deferred income	**7 328**	6 249	**7 328**	6 249
Royalties accrued	**1 664**	5 482	**1 664**	5 482
Bonuses accrued	**1 155**	1 062	**1 155**	1 062
Credit impairment charges	**43 852**	26 294	**43 852**	26 294
Other differences	**(1 102)**	(942)	**(1 102)**	(942)
IFRS 9 transition adjustment: Remaining temporary differences	**21 753**	-	**21 753**	-
IFRS 16-Right of use of asset	**(138)**	-	**(138)**	-
Deferred tax asset	**64 606**	29 643	**64 606**	29 643

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Deferred tax balance at beginning of the year	**29 643**	3 506	**29 643**	3 506
IFRS 9 adjustment	**-**	26 294	**-**	26 294
Deferred tax opening balance 1 January 2019	**29 643**	29 800	**29 643**	29 800
Various categories of (reversing) / originating temporary differences for the year:	**34 963**	(157)	**34 963**	(157)
- Depreciation	**(2 567)**	834	**(2 567)**	834
- Excess on 1.5% cap on credit impairment charges	**43 852**	-	**43 852**	-
- Unwindung of IFRS Day 1 tax asset	**(4 541)**	-	**(4 541)**	-
- Fair value adjustments of financial instruments	**1 163**	(4 428)	**1 163**	(4 428)
- Other differences	**(2 944)**	3 437	**(2 944)**	3 437
Deferred tax balance at end of the year	**64 606**	29 643	**64 606**	29 643

The deferred tax asset is recognised for all temporary differences on the basis that it is probable that taxable profits will be available against which these deductible temporary differences will be utilised in the foreseeable future.

13. Customer and bank deposits

Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit.

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Deposits from banks	**1 484 980**	534 368	**1 484 980**	534 368
Deposits from customers	**12 282 190**	11 417 418	**12 314 094**	11 448 928
- Current and savings accounts	**2 641 405**	2 217 348	**2 673 309**	2 248 858
- Call, term and negotiable certificates of deposits	**9 640 785**	9 200 070	**9 640 785**	9 200 070
Customer and bank deposits	**13 767 170**	11 951 786	**13 799 074**	11 983 296
Maturity analysis: The maturity analysis is based on the remaining periods to contractual maturity from year end.				
Redeemable on demand	**10 090 552**	8 553 890	**10 122 456**	8 585 400
Maturing within 1 month	**1 960 511**	1 282 225	**1 960 511**	1 282 225
Maturing after 1 month but within 6 months	**1 123 419**	1 503 736	**1 123 419**	1 503 736
Maturing after 6 months but within 12 months	**89 886**	120 459	**89 886**	120 459
Maturing after 12 months	**502 802**	491 476	**502 802**	491 476
	13 767 170	11 951 786	**13 799 074**	11 983 296

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

14. Accruals, deferred income and other liabilities

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Items in the process of clearing	**150 882**	179 948	**144 400**	175 427
Provisions	**10 044**	7 315	**10 044**	7 315
Expected credit loss for off-balance sheet exposures	**2 867**	4 231	**2 867**	4 231
Deferred income	**33 311**	28 252	**33 311**	28 252
Other liabilities and accruals	**92 422**	23 366	**92 422**	23 366
Lease liability	**32 153**	-	**32 153**	-
	321 679	243 112	**315 197**	238 591

Maturity analysis

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Payable within 1 year	**277 548**	230 234	**271 066**	225 713
Payable after 1 year but before 5 years	**44 082**	12 648	**44 082**	12 648
Payable after 5 years	**49**	230	**49**	230
	321 679	243 112	**315 197**	238 591

Reconciliation of expected credit losses for off-balance sheet exposures

Group and Company	**Opening balance P000's**	Net ECL (released)/ raised P000's	**Exchange and other movements P000's**	Closing balance P000's
Letters of credit, bank acceptances and guarantees				
2019				
Stage 1	**(1 532)**	(912)	**723**	(1 721)
Stage 2	**(2 700)**	1 441	**143**	(1 116)
Stage 3	**-**	(30)	**-**	(30)
Total	**(4 231)**	500	**866**	(2 867)
2018				
Stage 1	**(2 736)**	(1 075)	**2 280**	(1 532)
Stage 2	**(1 477)**	(2 243)	**1 020**	(2 700)
Stage 3	**-**	-	**-**	-
Total	**(4 213)**	(3 318)	**3 300**	(4 231)

The Group has entered into various non-cancellable operating lease agreements in respect of rented premises. Leases are contracted up to periods of 5 years, some with renewal options. Rental charges under these contracts escalate at fixed percentages of 5% to 10% per annum and include minimum monthly payments.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

14. Accruals, deferred income and other liabilities (continued)

Reconciliation of lease liabilities

	Balance at 1 January 2019 P000's	Additions/ modification P000's	Terminations/ modifications and/or cancellations P000's	Interest expense[1] P000's	Payments[2] P000's	Exchange and other movements P000's	Balance at 31 December 2019 P000's
Group							
Buildings	**29 828**	**4 783**	**-**	**8 727**	**1 484**	**(12 669)**	**32 153**
Total	**29 828**	**4 783**	**-**	**8 727**	**1 484**	**(12 669)**	**32 153**
Company							
Buildings	**29 828**	**4 783**	**-**	**8 727**	**1 484**	**(12 669)**	**32 153**
Total	**29 828**	**4 783**	**-**	**8 727**	**1 484**	**(12 669)**	**32 153**

1. As at 31 December 2019, P1.5 million of this interest expense was included in income from banking activities.
2. These amounts relate to the principal lease payments as disclosed in the cash flow statement.

	2019 P000's	2018 P000's
Opening lease liabilities	**1 193**	1 638
Movement for the year	**(1 193)**	(445)
Closing lease liabilities	**-**	1 193

The operating lease liabilities reverse as follows:

	2019 P000's	2018 P000's
Within 1 year	**-**	155
After 1 year but within 5 years	**-**	1 038
	-	1 193

The future minimum lease payments under non-cancellable operating leases are as follows:

	2019 P000's	2018 P000's
Within 1 year	**-**	9 527
After 1 year but within 5 years	**-**	18 475
	-	28 002

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

15. Debt securities in issue

Unsecured subordinated redeemable bonds qualifying as secondary capital in terms of applicable banking legislation:

			Group		Company	
	Redeemable Date	Start date	**2019 P000's**	2018 P000's	**2019 P000's**	2018 P000's
SBBL 067	**15-Jun-27**	**15-May-17**	**60 000**	60 000	**60 000**	60 000
SBBL 066	**15-Jun-27**	**15-Jun-17**	**140 000**	140 000	**140 000**	140 000
SBBL 068	**28-Nov-29**	**28-Nov-19**	**212 000**	-	**212 000**	-
SBBL 069	**28-Nov-29**	**28-Nov-19**	**88 000**	-	**88 000**	-
SBSA bond	**28-Nov-29**	**28-Nov-19**	**-**	300 000	**-**	300 000
Total subordinated debt			**500 000**	500 000	**500 000**	500 000

			Group		Company	
	Redeemable Date	Start date	**2019 P000's**	2018 P000's	**2019 P000's**	2018 P000's
SBBL 063	**15-Oct-19**	**15-Oct-14**	**-**	98 600	**-**	98 600
SBBL 059	**12-Dec-22**	**12-Dec-12**	**84 000**	84 000	**84 000**	84 000
SBBL 060	**12-Mar-23**	**12-Mar-13**	**24 000**	24 000	**24 000**	24 000
SBBL 061	**11-Mar-23**	**11-Mar-13**	**100 000**	100 000	**100 000**	100 000
SBBL 064	**18-Jun-20**	**18-Jun-15**	**128 400**	128 400	**128 400**	128 400
SBBL 065	**18-Jun-20**	**18-Jun-15**	**153 100**	153 100	**153 100**	153 100
Total unsubordinated debt			**489 500**	588 100	**489 500**	588 100
Total debt			**989 500**	1 088 100	**989 500**	1 088 100

Subordinated liabilities

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
More than 1 year but less than 5 years	**-**	300 000	**-**	300 000
More than 5 years	**500 000**	200 000	**500 000**	200 000
Total subordinated debt	**500 000**	500 000	**500 000**	500 000

Unsubordinated liabilities

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Within 1 year	**281 500**	98 600	**281 500**	98 600
More than 1 year but less than 5 years	**208 000**	489 500	**208 000**	489 500
Total unsubordinated debt	**489 500**	588 100	**489 500**	588 100

The Group and Company did not default on principal or interest and there were no other breaches with respect to its liabilities during the current and prior periods.

The bonds constitute direct subordinated and unsecured obligations of the Group and Company and are subordinated to the un-subordinated, unsecured claims of general creditors of the Group and claims of depositors. The notes are not subordinated to any categories of share capital or other subordinated obligations of the Group. They rank pari passu among themselves.

The subordinated bonds form part of the Tier II Capital for the purpose of calculating capital adequacy.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

16. Stated capital and other reserves

16.1. Stated capital

Unsecured subordinated redeemable bonds qualifying as secondary capital in terms of applicable banking legislation:

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
31 936 205 (2018: 31 936 205) ordinary shares of no par value	**390 177**	390 177	**390 177**	390 177
Total subordinated debt	**390 177**	390 177	**390 177**	390 177

Stated capital comprises the total amount authorised and subscribed for 31.936 million issued and fully paid ordinary shares of no par value (2018: 31.936 million).

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

16.2. Statutory credit risk reserve

Local legislation requires the Bank to make appropriation to a general banking reserve for unforeseeable risks and future losses. The general provisions eligible for inclusion in Tier II is limited to a maximum of 1.25 percentage points of credit risk weighted assets, this is the amount that is also considered as the statutory credit reserve.

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Opening balance	**111 497**	52 869	**111 497**	52 869
Movement	**(807)**	58 628	**(807)**	58 628
Closing balance	**110 690**	111 497	**110 690**	111 497

16.3. Reserves

Share-based payment reserve

Standard Bank Group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is settled by the issue of shares equivalent, in value, to the value of rights.

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model.

The two schemes have five different sub-types of vesting categories as illustrated by the following table:

Vesting category	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 years
Type B	5, 6, 7	50, 75, 100	10 years
Type C	2, 3, 4	50, 75, 100	10 years
Type D	2, 3, 4	33, 67, 100	10 years
Type E	3, 4, 5	33, 67, 100	10 years

A reconciliation of the movement of share options and appreciation rights is detailed below. Since the share based schemes are managed and administrated in the Republic of South Africa the amounts are shown in Rands:

Group Share Incentive Scheme	Option price range (Rands)	Number of options	
	2019	**2019**	**2018**
Options outstanding at the beginning of the year	**-**	**4 000**	7 500
Net Transfers	**-**	**-**	(3 500)
Exercised	**-**	**-**	-
Lapsed	**-**	**-**	-
Options outstanding at the end of the year		**4 000**	4 000

The weighted average share price for the year was R183.51 (2018: R192.35).

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

16. Stated capital and other reserves (continued)

16.3. Reserves (continued)

The following options granted to employees, including executive directors, had not been exercised as at 31 December 2019:

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
4 000	**98.80**	**98.80**	**Year to 31 December 2021**
4 000			

The following options granted to employees, including executive directors, had not been exercised as at 31 December 2018:

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
4 000	98.80	98.80	Year to 31 December 2021
4 000			

Group Equity Growth Scheme	Average price range (Rands)		Number
	2019	**2019**	**2018**
Rights outstanding at the beginning of the year	-	**6 000**	7 000
Net Transfers	-	-	-
Exercised[1]	-	-	(1 000)
Rights outstanding at the end of the year [2]		**6 000**	6 000

Notes:
1 During the year, Standard Bank Group shares (SBG) Nil (2018: 659) were issued to settle the appreciated rights value.
2 At the end of the year the Group would need to issue 2 010 (2018: 2 244) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2019:

Number of rights	Average price range (Rands)	Weighted average price (Rands)	Rights expiry period
6 000	**111.94**	**111.94**	**Year to 31 December 2020**
6 000			

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2018:

Number of rights	Average price range (Rands)	Weighted average price (Rands)	Rights expiry period
6 000	111.94	111.94	Year to 31 December 2020
6 000			

The net financial movement on share-based payment reserves in Pula is reflected below.

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Opening balance	-	147	-	147
Shares options exercised	-	-	-	-
Share-based payment reserve	-	(147)	-	(147)
Closing balance	-	-	-	-
Summary total reserves				
Statutory credit risk reserve	**110 690**	111 497	**110 690**	111 497
Retained earnings	**809 412**	672 231	**782 471**	649 663
Closing total reserves	**920 102**	783 728	**893 161**	761 160

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

17. Classification of assets and liabilities

17.1 Accounting classification and fair values

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

		Fair value through profit or loss					
Group	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
31 December 2019							
Assets							
Cash and balances with the central bank	3	-	601 649	6 951	-	608 600	608 600
Derivative assets	4	29 142	-	-	-	29 142	29 142
Trading assets	5	37 808	-	-	-	37 808	37 808
Financial assets	6	-	-	2 550 381	-	2 550 381	2 550 381
Loans and advances to banks	7	-	-	4 078 666	-	4 078 666	4 031 340
Loans and advances to customers	7	-	-	8 609 075	-	8 609 075	8 609 075
Other assets		-	-	54 558	435 889	490 447	510 015
		66 950	601 649	15 299 631	435 889	16 404 119	16 376 361
Liabilities							
Derivative liabilities	4	15 491	-	-	-	15 491	15 491
Deposits from banks	13	-	-	1 484 980	-	1 484 980	1 484 980
Deposits from customers	13	-	-	12 282 190	-	12 282 190	12 282 190
Debt securities in issue	15	-	-	989 500	-	989 500	1 096 520
Other liabilities		-	-	51 211	270 486	321 679	321 679
		15 491	-	14 807 881	270 486	15 093 840	15 200 860

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

		Fair value through profit or loss					
Group	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
31 December 2018							
Assets							
Cash and balances with the central bank	3	-	490 928	6 324	-	497 252	497 252
Derivative assets	4	25 425	-	-	-	25 425	25 425
Trading assets	5	632 794	-	-	-	632 794	632 794
Financial assets	6	-	-	1 441 949	-	1 441 949	1 441 949
Loans and advances to banks	7	-	-	3 336 683	-	3 336 683	3 336 683
Loans and advances to customers	7	-	-	8 168 885	-	8 168 885	8 168 885
Other assets		-	-	10 045	364 562	374 607	398 546
		658 219	490 928	12 963 886	364 562	14 477 595	14 501 534
Liabilities							
Derivative liabilities	4	9 939	-	-	-	9 939	9 939
Deposits from banks	13	-	-	534 368	-	534 368	534 368
Deposits from customers	13	-	-	11 417 418	-	11 417 418	11 417 418
Debt securities in issue	15	-	-	1 088 100	-	1 088 100	1 016 243
Other liabilities		-	-	77 959	175 906	253 865	253 865
		9 939	-	13 117 845	175 906	13 303 690	13 231 833

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

17. Classification of assets and liabilities (continued)

17.1 Accounting classification and fair values (continued)

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

		Fair value through profit or loss					
Company	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
31 December 2019							
Assets							
Cash and balances with the central bank	3	-	601 649	6 951	-	608 600	608 600
Derivative assets	4	29 142	-	-	-	29 142	29 142
Trading assets	5	37 808	-	-	-	37 808	37 808
Financial assets	6	-	-	2 550 381	-	2 550 381	2 550 381
Loans and advances to banks	7	-	-	4 078 666	-	4 078 666	4 031 340
Loans and advances to customers	7	-	-	8 609 075	-	8 609 075	8 609 075
Other assets				54 434	434 494	488 928	508 626
		66 950	601 649	15 299 507	434 494	16 402 600	16 374 972
Liabilities							
Derivative liabilities	4	15 491	-	-	-	15 491	15 491
Deposits from banks	13	-	-	1 484 980	-	1 484 980	1 484 980
Deposits from customers	13	-	-	12 314 094	-	12 314 094	12 314 094
Debt securities in issue	15	-	-	989 500	-	989 500	1 096 520
Other liabilities		-	-	51 211	263 986	315 197	315 197
		15 491	-	13 850 285	263 986	15 119 262	15 226 282

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

		Fair value through profit or loss					
Company	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
31 December 2018							
Assets							
Cash and balances with the central bank	3	-	490 928	6 324	-	497 252	497 252
Derivative assets	4	25 425	-	-	-	25 425	25 425
Trading assets	5	632 794	-	-	-	632 794	632 794
Financial assets	6	-	-	1 141 949	-	1 441 949	1 441 949
Loans and advances to banks	7	-	-	3 336 683	-	3 336 683	3 336 683
Loans and advances to customers	7	-	-	8 168 885	-	8 168 885	8 168 885
Other assets		-	-	15 070	364 596	379 666	396 511
		658 219	490 928	12 968 911	364 596	14 482 654	14 506 593
Liabilities							
Derivative liabilities	4	9 939	-	-	-	9 939	9 939
Deposits from banks	13	-	-	534 368	-	534 368	534 368
Deposits from customers	13	-	-	11 448 928	-	11 448 928	11 448 928
Debt securities in issue	15	-	-	1 088 100	-	1 088 100	1 016 243
Other liabilities		-	-	73 436	176 546	249 982	249 982
		9 939	-	13 140 673	176 546	13 331 317	13 259 460

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

17. Classification of assets and liabilities (continued)

17.2. Fair value hierarchy

	2019				2018			
Group	**Level 1 P000's**	**Level 2 P000's**	**Level 3 P000's**	**Total P000's**	Level 1 P000's	Level 2 P000's	Level 3 P000's	Total P000's
Assets								
Cash and balances with central bank	**601 649**	**-**	**-**	**601 649**	490 928	-	-	490 928
Trading assets	**37 808**	**-**	**-**	**37 808**	-	632 794	-	632 794
Derivative assets	**-**	**29 142**	**-**	**29 142**	-	25 425	-	25 425
Total assets at fair value	**639 457**	**29 142**	**-**	**668 599**	490 928	658 219	-	1 149 147
Liabilities								
Derivative liabilities	**-**	**15 491**	**-**	**15 491**	-	9 939	-	9 939
Total liabilities at fair value	**-**	**15 491**	**-**	**15 491**	-	9 939	-	9 939

- The above table reflects all assets and liabilities measured at fair value. All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of debt securities in issue as per note 17.1 above.
- Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period

	2019				2018			
Company	**Level 1 P000's**	**Level 2 P000's**	**Level 3 P000's**	**Total P000's**	Level 1 P000's	Level 2 P000's	Level 3 P000's	Total P000's
Assets								
Cash and balances with central bank	**601 649**	**-**	**-**	**601 649**	490 928	-	-	490 928
Trading assets	**37 808**	**-**	**-**	**37 808**	-	632 794	-	632 794
Derivative assets	**-**	**29 142**	**-**	**29 142**	-	25 425	-	25 425
Total assets at fair value	**639 457**	**29 142**	**-**	**668 599**	490 928	658 219	-	1 149 147
Liabilities								
Derivative liabilities	**-**	**15 491**	**-**	**15 491**	-	9 939	-	9 939
Total liabilities at fair value	**-**	**15 491**	**-**	**15 491**	-	9 939	-	9 939

- The above table reflects all assets and liabilities measured at fair value. All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of property and equipment and debt securities in issue as per note 17.1 above.
- Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

18. Commitments and contingencies

18.1. Contingent liabilities

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Letters of credit	**72 891**	20 641	**72 891**	20 641
Guarantees	**1 173 048**	1 052 773	**1 173 048**	1 052 773
Irrevocable unutilised facilities	**510 799**	587 352	**510 799**	587 352
Revocable unutilised facilities	**295 088**	287 012	**295 088**	287 012
	2 051 826	1 947 778	**2 051 826**	1 947 778

Expected credit losses of P2 867 were recognised in respect of off-balance sheet items at the reporting date (2018:4 231).

These are commitments which the bank would only be liable to settle upon satisfaction of certain requirements, however, if the requirements are deemed successful the bank would be liable to a total cost of P1 541 027 which is fully colletarized. Management assessment of the expected credit losses in relation to the above mentioned liabilities and the credit risk associated with the customers, it is highly unlikely that the bank would incur such a liability.

18.2 Capital commitments

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Capital expenditure authorised	**3 103**	2 997	**3 103**	2 997
	3 103	2 997	**3 103**	2 997

Capital expenditure will be funded from internal resources.

18.3 Operating lease liabilities

The Group has entered into various non-cancellable operating lease agreements in respect of rented premises. Leases are contracted up to periods of 5 years, some with renewal options. Rental charges under these contracts escalate at fixed percentages of 5% to 10% per annum and include minimum monthly payments.

18.4 Legal proceedings defended

In the ordinary course of business, the Group and Company is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The Group is also the defendant in some legal cases for which the Group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the Group should not have a material adverse effect on the Group's financial position and the directors are satisfied that the Group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

19. Statements of cash flows information

19.1 Movement in income-earning and other assets

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Financial assets	**(1 108 432)**	(709 267)	**(1 108 432)**	(709 267)
Trading assets	**594 986**	68 685	**594 986**	68 685
Loans and advances	**(1 596 024)**	(1 748 142)	**(1 596 024)**	(1 748 142)
IFRS 9 transition adjustment	**-**	(110 733)	**-**	(110 733)
Net derivative assets/(liabilities)	**1 835**	30 470	**1 835**	30 470
Other assets	**(95 507)**	(14 556)	**(90 231)**	(14 629)
	(2 203 144)	(2 483 543)	**(2 197 866)**	(2 483 616)

19.2. Increase in deposits and other liabilities

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Customers' current, savings, other deposit accounts and deposits from banks	**1 815 384**	2 126 073	**1 815 778**	2 129 890
Other	**75 756**	8 766	**74 848**	9 064
	1 891 140	2 134 839	**1 890 626**	2 138 954

19.3 Direct taxation paid

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Current and deferred tax at beginning of the year	**(18 890)**	3 522	**(18 252)**	3 790
Add income statement charge	**37 142**	68 912	**35 559**	66 738
Deferred tax impact of IFRS 9 transition	**-**	(26 294)	**-**	(26 294)
Less tax paid for the year	**(88 334)**	(65 030)	**(87 143)**	(62 486)
Current and deferred tax at end of the year	**(71 611)**	(18 890)	**(70 182)**	(18 252)

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

20. Third party funds under management

The Group provides discretionary and non-discretionary investment management services to institutional investors. Commissions and fees earned in respect of trust management activities performed are included in profit or loss.

Assets managed on behalf of third parties include:

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Fund management				
- Unit trusts	**9 926 260**	9 709 730	**9 926 260**	9 709 730
Current and deferred tax at end of the year	**9 926 260**	9 709 730	**9 926 260**	9 709 730
Geographical area				
- Domestic	**9 097 514**	8 764 979	**9 097 514**	8 764 979
- Foreign	**828 746**	944 751	**828 746**	944 751
	9 926 260	9 709 730	**9 926 260**	9 709 730

21. Related party transactions

21.1. Parent

Stanbic Bank Botswana Limited is a wholly owned subsidiary Stanbic Africa Holdings Limited. The ultimate holding company is of Standard Bank Group Limited.

21.2. Fellow subsidiaries

Details of effective interest and investments in subsidiaries are disclosed in note 23.
In addition, the following are also subsidiaries and fellow subsidiaries of the holding company:

- Standard Bank South Africa
  - o Standard Lesotho Bank
  - o Standard Bank Namibia
  - o Standard Bank Swaziland
  - o Standard Bank Properties
- Stanbic Africa Holdings
  - o CFC Stanbic Holdings, Kenya
  - o Stanbic Bank Ghana
  - o Stanbic Bank Tanzania
  - o Stanbic Bank Uganda
  - o Stanbic Bank Zambia
  - o Stanbic Bank Zimbabwe
  - o Stanbic IBTC Bank, Nigeria
  - o Standard Bank Malawi
  - o Standard Bank Mauritius
  - o Standard Bank Mozambique
  - o Standard Bank RDC
- Standard International Holdings
  - o Standard Bank plc
- Standard Bank Group International
  - o Stanbic International Insurance, Isle of Man
- Standard Bank Offshore Group
  - o Standard Bank Isle of Man

21.3. Subsidiaries of Stanbic Bank Botswana

- Refer to note 23 for details of subsidiaries of Stanbic Bank Botswana Limited.

21.4. Entities under common control

The following entities are controlled by one or more directors of the Stanbic Bank Botswana Limited Group:

- Sesarona GWest Filling Station (Pty) Ltd
- Ditso Filling Station (Pty) Ltd

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

21. Related party transactions (continued)

21.5. Related party transactions

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Interest income				
- Image Ambassadors (Pty) Ltd	**-**	117	**-**	117
- Standard Bank Isle of Man	**60 430**	35 622	**60 430**	35 622
- Standard Bank South Africa	**37 682**	15 825	**37 682**	15 825
- Ditso Filling Station (Pty) Ltd	**-**	84	**-**	84
- Sesarona Gwest Filling Station (Pty) Ltd	**-**	92	**-**	92
Management fee income				
- Stanbic Insurance Services (Pty) Ltd	**-**	-	**3 058**	3 050
- Image Ambassadors (Pty) Ltd	**-**	-	**-**	1
- Stanlib Investment Management Services	**866**	788	**866**	788
Preference dividend income				
- Liberty Holdings Botswana	**9 929**	8 490	**9 929**	8 490
Interest expense				
- Standard Bank South Africa	**28 963**	30 850	**28 963**	30 850
IT charges				
- Standard Bank South Africa - Africa Division	**9 829**	37 892	**9 829**	37 892
IC expenses				
- Standard Bank South Africa	**2 526**	2 033	**2 526**	2 033
Travel and Training				
- Standard Bank South Africa	**499**	4	**499**	4
Regional charges				
- Standard Bank South Africa	**-**	1 474	**-**	1 474
Franchise fees				
- Standard Bank South Africa - Africa Division	**34 212**	29 126	**34 212**	29 126
Rental income				
- Image Ambassadors (Pty) Ltd	**-**	-	**-**	4 979
Fees and commission income				
- Stanbic Insurance Services (Pty) Ltd	**-**	-	**2**	2

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

21. Related party transactions (continued)

21.6. Related party balances

	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Derivative assets				
- Standard Bank South Africa	**13 523**	6 876	**13 523**	6 876
Trading assets				
- Standard Bank South Africa	**5**	493 943	**5**	493 943
- Standard Bank Isle of Man	**7**	138 851	**7**	138 851
Loans and advances				
- Standard Bank South Africa	**677 861**	69 224	**677 861**	69 224
- Standard Bank Isle of Man	**1 935 725**	1 102 830	**1 935 725**	1 102 830
- Stanbic Bank Kenya	**-**	239	**-**	239
- Stanbic Finance Zambia	**-**	219	**-**	219
- Stanbic Finance Zimbabwe	**2 592**	995	**2 592**	995
- Standard Bank Malawi	**390**	4 699	**390**	4 699
- Standard Bank Swaziland	**1**	10	**1**	10
- Standard Bank Namibia	**461**	657	**461**	657
- Standard Lesotho Bank	**-**	17	**-**	17
- Sesarona GWest Filling Station (Pty) Ltd	**-**	1 023	**-**	1 023
- Ditso Filling Station (Pty) Ltd	**-**	2 291	**-**	2 291
Deposits and current accounts				
- Stanbic Africa Holdings	**(247 925)**	52 585	**(247 925)**	52 585
- Stanbic Bank Zambia	**(4 674)**	(104)	**(4 674)**	(104)
- Stanbic Finance Zimbabwe	**(91)**	(92)	**(91)**	(92)
- Stanbic Bank Kenya	**(612)**	-	**(612)**	-
- Standard Lesotho Bank	**(23)**	-	**(23)**	-
- Standard Bank Namibia	**(26)**	(26)	**(26)**	(26)
- Stanbic Insurance Services (Pty) Ltd	**-**	-	**31 904**	31 510
Other receivables				
- Stanbic Insurance Services (Pty) Ltd	**-**	-	**822**	5 842
- Liberty Holdings Botswana	**8 610**	6 708	**8 610**	6 708
- Stanlib Investment Management Services	**1 134**	2 000	**1 134**	2 000
- Standard Bank Malawi	**6 490**	6 490	**6 490**	6 490
- Stanbic Bank Zambia	**1 174**	-	**1 174**	-
- Standard Bank Swaziland	**397**	58	**397**	58
- Stanbic Bank Ghana Ltd	**-**	3	**-**	3
- Standard Bank South Africa	**958**	1 525	**958**	1 525
Preference dividends receivable				
- Liberty Holdings Botswana	**8 610**	6 708	**8 610**	6 708
Other liabilities				
- Stanbic Bank Swaziland	**-**	-	**-**	-
- Standard Bank South Africa	**17 766**	34 283	**17 766**	34 283
- Stanbic Bank Ghana Limited	**30**	6	**30**	6
- Stanbic Bank Zambia	**932**	179	**932**	179
Derivative liabilities				
- Standard Bank South Africa	**4 939**	6 934	**4 939**	6 934
Subordinated liabilities				
- Standard Bank South Africa	**-**	300 000	**-**	300 000
Acquisition of subsidiary				
- Standard Bank Properties (Pty) Ltd	**-**	17 218	**-**	17 218

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

21. Related party transactions (continued)

21.7 Key management personnel

Key management personnel for the Group and Company of Stanbic Bank Botswana Limited have been defined as the Board of Directors and the executive committee of Stanbic Bank Botswana Limited active for 2019 and 2018. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercise control. Close members of family are those family members who may be expected to influence or be influenced by that individual in their dealings with Stanbic Bank Botswana Limited. They may include the individual's domestic partner and children, the children of the individual's domestic partner and dependents of the individual or the individual's domestic partner.

21.7 Key management personnel transactions and balances

	2019 P000's	2018 P000's
Short-term employee benefits	**31 290**	26 110
Post-employment benefits	**1 830**	2 071
Salaries and other short-term benefits	**33 120**	28 181
Mortgage loans		
- Loans outstanding at beginning of year	**21 077**	14 636
- Loans granted during the year	**3 870**	5 855
- Loan repayments during the year	**(1 993)**	(774)
- Interest earned	**1 190**	1 360
Loans outstanding at the end of the year	**24 144**	21 077
Interest rate range for the year		4.25%-4.75%
Mortgage loans are repayable monthly over a maximum of 20 years. These loans are secured by properties whose fair value is above the outstanding balances.		
Vehicle and asset finance		
- Loans outstanding at beginning of year	**3 688**	2 947
- Loans granted during the year	**1 977**	2 012
- Loan repayments during the year	**(1 801)**	(1 271)
- Interest earned	**205**	-
Loans outstanding at the end of the year	**4 069**	3 688
Interest rate range for the year		4.75%-8.25%
Other loans		
- Loans outstanding at beginning of year	**1 806**	2 443
- Loans granted during the year	**500**	87
- Loan repayments during the year	**(9)**	(824)
- Interest earned	**189**	100
Loans outstanding at the end of the year	**2 486**	1 806
Interest rate range for the year		4.75%-25.5%
Interest income earned	**3 450**	1 460

The loans disclosed in this note are for management in their capacity as employees. Exposures with companies under common control have been disclosed in note 21.6. No impairment has been recognised in respect of loans granted to key management (2018: Nil).

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management

22.1 Strategy in using financial instruments

By their nature, the Group and Company's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates of interest and for various periods and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

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

Risk management is carried out by a central treasury department under policies approved by the Board. The Treasury identifies, evaluates and hedges financial risk in close co-operation with the Group and Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Group and Company also seek to raise their interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Group and Company also enter into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group and Company also trade in financial instruments where they takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in equities and bonds and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

22.2 Capital management

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

- To comply with the capital requirements set by the regulators of the banking markets within which entities of the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group monitors the adequacy of its capital using ratios established by the Bank of Botswana, which ratios are broadly in line with those for the Bank for International Settlements (BIS). Risk-weighted assets (RWA) represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in a bank. The aggregation considers credit, market and operational risk. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0 percent, 20 percent, 50 percent and 100 percent) are applied; for example cash and Bank of Botswana Certificates have a zero risk weighting which means no capital is required to support the holding of these assets. Property, plant and equipment carries a 100 percent risk weighting, meaning that it must be supported by capital equal to 15 percent of the carrying amount. Certain asset categories have intermediate weightings.

The Group is required at all times to maintain a core capital (Tier I) of not less than 7.5 percent of the total risk adjusted assets plus risk adjusted off balance sheet items and a total capital (Tier I + Tier II) of not less than 15 percent of its total risk adjusted assets plus risk adjusted off balance sheet items. There were no breaches of this requirement during the current or previous year.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as the balance sheet assets.

Tier I capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets and investments in financial companies, not consolidated. Tier II capital includes the Bank's eligible long-term loans, mark-to-market adjustment on available for sale securities and general provisions. Subordinated term debt eligible for Tier II capital is limited to 50 percent of authorised core capital.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.2 Capital management (continued)

Capital adequacy

	Company	
	2019 P000's	2018 P000's
Capital base:		
- Shareholders' equity	**1 203 716**	1 072 266
- Statutory credit risk reserve add/(less)	**110 690**	111 497
- Intangibles	**(148 759)**	(124 655)
Tier I Capital	**1 165 647**	1 059 108
General provisions	**110 690**	111 497
Subordinated debt instrument	**500 000**	500 000
Tier II Capital	**610 690**	611 497
Sum of Tier I and Tier II capital (a)	**1 776 337**	1 670 605
Risk adjusted exposure:		
- Credit risk	**8 855 208**	8 919 730
- Operational risk	**919 535**	823 310
- Market risk	**261 384**	91 468
Total risk adjusted exposure (b)	**10 036 127**	9 834 508
Capital adequacy ratio (a/b x 100)	**17.70%**	16.99%
Bank of Botswana recommended ratio	**15.0%**	15.0%

22.3 Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The Group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. The management of credit risk is aligned to the Group's three lines of defence framework. The business functions own the credit risk assumed by the Group and, as the first line of defence, are primarily responsible for its management, control and optimisation in the course of business generation.

The Credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk, is undertaken with integrity. Further second-line oversight is provided by the Group risk function through independent credit risk assurance.

The third line of defence is provided by internal audit, under its mandate from the board audit committee.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk across the Group, from an individual facility level through to an aggregate portfolio level;
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions;
- monitoring the group's credit risk exposure relative to approved limits;
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the Group's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk (CCR) inherent in trading book exposures is measured on a potential future exposures (PFE) basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3. Credit risk (continued)

Credit risk mitigation

Wherever warranted, the group will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the Group has an unassailable legal title, the Group's policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including that it:

- is readily marketable and liquid;
- is legally perfected and enforceable;
- has a low valuation volatility;
- is readily realisable at minimum expense;
- has no material correlation to the obligor credit quality;
- has an active secondary market for resale.

The main types of collateral obtained by the Group for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties;
- cession of book debts;
- pledge and cession of financial assets;
- bonds over plant and equipment;
- the underlying movable assets financed under leases; and
- instalment sales.

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivatives transactions where collateral support is considered necessary, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the probability of default (PD) by a counterparty and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The Group has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the Group implements hedging and other strategies from time-to-time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3. Credit risk (continued)

Credit portfolio characteristics and metrics

Maximum exposure to credit risk

Debt financial assets at amortised cost and FVOCI as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the Group's master rating scale. Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of the group's master rating scale. The Group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PPB portfolios. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group did not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

22. Financial risk management (continued)

22.3. Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements 2019

IFRS:Maximum exposure to credit risk by credit quality

		SB 1-12		SB 13-20	
Group	Total P000's	Stage 1 P000's	Stage 2 P000's	Stage 1 P000's	Stage 2 P000's
Loans and advances at armotised cost					
Personal & Business Banking	**6 914 871**	**-**	**-**	**6 226 401**	**-**
Mortgage loans	1 905 010	-	-	1 598 411	-
Vehicle and asset finance	908 240	-	-	798 098	-
Card debtors	41 615	-	-	28 611	-
Other loans and advances	**4 060 006**	**-**	**-**	**3 801 281**	**-**
Personal unsecured lending	3 238 822	-	-	3 144 982	-
Business and other lending	821 184	-	-	656 299	-
Corporate & Investment Banking	**6 428 486**	**4 345 729**	**109 950**	**1 411 717**	**111 424**
Corporate	2 102 885	263 354	-	1 300 794	89 071
Sovereign	243 226	-	109 950	110 923	22 353
Banking	4 082 375	4 082 375	-	-	-
Other services					
Gross carrying amount of loans and advances at armotised cost	**13 343 357**	**4 345 729**	**109 950**	**7 638 118**	**111 424**
Less: Total expected credit loss for loans and advances	(655 616)				
Net carrying amount of loans and advances at armotised cost	**12 687 741**				

SB 21-25		Default						
Stage 1 P000's	Stage 2 P000's	Stage 3 P000's	Total gross carrying amount of default exposures P000's	Securities and expected recoveries on specifically impaired loans P000's	Interest in suspense P000's	Balance sheet expected credit loss P000's	Gross Default coverage % P000's	Non performing loans % P000's
-	**368 260**	**320 210**	**327 490**	**143 417**	**7 280**	**176 793**		
-	121 087	185 512	183 213	116 436	(2 299)	69 076	36%	10%
-	88 452	21 690	21 690	5 690	-	16 000	74%	2%
-	10 674	2 330	2 330	1 173	-	1 157	50%	6%
-	**148 047**	**110 678**	**120 257**	**20 118**	**9 579**	**90 560**	**83%**	**3%**
-	34 557	59 283	65 901	(1 376)	6 618	60 659	102%	2%
-	113 490	51 395	54 356	21 494	2 961	29 901	60%	7%
-	**190 273**	**259 393**	**259 393**	**(15 704)**	**-**	**275 097**	**106%**	**4%**
-	190 273	259 393	259 393	(15 704)	-	275 097	106%	12%
-	-	-	-	-	-	-	0%	0%
-	-	-	-	-	-	-	0%	0%
-	**558 533**	**579 603**	**586 883**	**127 713**	**7 280**	**451 890**		

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2018 (continued)

IFRS: Maximum exposure to credit risk by credit quality (continued)

		SB 1 - 12	
		Stage 1 P000's	Stage 2 P000's
Net carrying amount of loans and advances at amortised cost	**12 687 741**		
Financial assets at amortised cost			
Corporate	220 852	220 852	
Sovereign	2 329 529	2 329 529	
Gross carrying amount of financial assets	2 550 381		
Less:Total expected credit loss for financial assets	(44)		
Net carrying amount of financial assets	**2 550 337**		
Letters of credit and bankers'acceptances	**72 891**	72 891	
Guarantees	**1 173 048**	998 984	-
Irrevocable and revocable unutilised facilities	**805 887**	491 311	-
Total exposure to off-balance sheet credit risk	**2 051 826**	1 536 186	-
Expected credit loss for off-balance Sheet exposures	(2 867)		
Net carrying amount of off-balance sheet	**2 048 959**		
Total exposure to credit risk on financial assets subject to an expected credit loss	17 287 037		
Exposures not subject to ECL			
Cash and balances with central banks	480 509		
Derivative assets	29 142		
Trading assets	37 808		
Other financial assets	10 045		
Total exposure to credit risk	17 844 541		

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

	SB 13 - 20		SB 21- 25	
	Stage 1 P000's	Stage 2 P000's	Stage 1 P000's	Stage 2 P000's
	55 845	117 462	-	758
	241 118	73 458	-	-
	296 963	190 920	-	758

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2018 (continued)

IFRS: Maximum exposure to credit risk by credit quality (continued)

		SB 1 - 12		SB 13 - 20	
Group	Total P000's	Stage 1 P000's	Stage 2 P000's	Stage 1 P000's	Stage 2 P000's
Loans and advances at amortised cost					
Personal & Business Banking	**5 613 240**	**111 866**	**-**	**4 851 545**	**-**
Mortgage loans	1 816 011	-	-	1 468 020	-
Vehicle and asset finance	683 209	-	-	643 921	-
Card debtors	38 190	-	-	25 156	-
Other loans and advances	**3 075 830**	**111 866**	**-**	**2 714 447**	**-**
Personal unsecured lending	2 301 672	-	-	2 165 898	-
Business lending and other	774 158	111 866	-	548 549	-
Corporate & Investment Banking	**6 203 782**	**3 454 038**	**-**	**2 423 696**	**326 048**
Corporate	2 639 876	60 602	-	2 253 228	326 047
Sovereign	227 223	56 754	-	170 468	1
Banking	3 336 683	3 336 683	-	-	-
Other service	-	-	-	-	-
Gross carrying amount of loans and advances at amortised cost	**11 817 022**	**3 565 904**	**-**	**7 275 241**	**326 048**
Less: Total expected credit loss for loans and advances	(311 454)				
Net carrying amount of loans and advances at amortised cost	**11 505 568**				

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

SB 21- 25			Default				
Stage 1 P000's	Stage 2 P000's	Stage 3 P000's	Total gross carrying amount of default exposures P000's	Securities and expected recoveries on default exposures P000's	Balance sheet expected credit loss and interest in suspense on Stage 3 P000's	Gross default coverage (%) P000's	Non-performing exposures (%) P000's
-	**329 332**	**320 497**	**320 497**	**193 966**	**163 746**	**51%**	**6%**
-	157 256	190 735	190 735	138 456	59 199	31%	11%
-	21 385	17 903	17 903	4 987	12 914	72%	3%
-	11 057	1 976	1 976	1 528	906	46%	5%
-	**139 634**	**109 883**	**109 883**	**48 994**	**90 727**	**83%**	**4%**
-	86 659	49 115	49 115	2 389	48 979	100%	2%
-	52 975	60 768	60 768	46 606	41 748	69%	8%
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	**329 332**	**320 497**	**320 497**	**193 966**	**163 746**		

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2018 (continued)

IFRS: Maximum exposure to credit risk by credit quality (continued)

		SB 1 - 12	
Group	Total P000's	Stage 1 P000's	Stage 2 P000's
Net carrying amount of loans and advances at amortised cost	11 505 568		
Financial assets at amortised cost			
Corporate	220 927	220 927	-
Sovereign	1 221 031	1 221 031	-
Gross carrying amount of financial assets	**1 441 958**	1 441 958	-
Less: Total expected credit loss for financial assets	(9)		
Net carrying amount of financial assets	**1 441 949**		
Letters of credit	20 641	20 641	-
Guarantees	1 052 773	896 556	-
Irrevocable and revocable unutilised facilities	874 364	533 058	-
Total exposure to off-balance sheet credit risk	**1 947 778**	1 450 255	-
Expected credit loss for off-balance sheet exposures	(4 231)		
Net carrying amount of off-balance sheet	**1 943 547**		
Total exposure to credit risk on financial assets subject to an expected credit loss	**14 891 064**		
Exposures not subject to ECL			
Cash and balances with central banks	406 299		
Derivative assets	25 425		
Trading assets	632 794		
Other financial assets	10 045		
Total exposure to credit risk	**15 965 627**		

	SB 13 - 20		SB 21- 25	
	Stage 1 P000's	Stage 2 P000's	Stage 1 P000's	Stage 2 P000's
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	50 119	105 418	-	680
	261 606	79 700	-	-
	311 725	185 118	-	680

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

v) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

	Maximum exposure	
	2019 P000's	2018 P000's
Credit risk exposures relating to on-balance sheet assets excluding interest in suspense and Impairments are as follows:		
Loans and advances to banks	**4 082 374**	3 338 112
Financial investments		
- Other unlisted instruments	**2 196 687**	1 148 808
- Government bonds	**132 842**	72 216
- Corporate bond	**220 852**	220 925
Loans and advances to customers (gross)	**9 260 983**	8 478 910
Loans to individuals and SME's		
- Mortgage lending	**1 905 010**	1 474 914
- Instalment sale and finance leases	**784 351**	679 589
- Overdrafts and other demand lending	**208 505**	828 661
- Medium-term advances	**3 990 164**	2 577 208
- Revolving credit accounts and card debtors	**41 615**	38 190
Loans to corporate entities		
- Mortgage lending	**244 711**	162 098
- Instalment sale and finance leases	**123 888**	33 323
- Overdrafts and other demand lending	**539 902**	325 324
- Medium-term advances	**1 422 837**	2 359 603
Trading assets		
- Government bonds	**37 808**	-
- Due from related parties	**-**	632 794
Net derivative assets	**13 651**	15 486
Cash and balances with central banks	**608 600**	497 252
Other financial assets	**173 179**	70 794
Credit risk exposures relating to off-balance sheet assets are as follows:		
Financial guarantees	**1 173 048**	1 049 413
Letters of credit	**72 891**	19 770
Irrevocable unutilised facilities	**510 799**	587 352
Revocable unutilised facilities	**295 088**	287 012
As at 31 December	**18 778 802**	16 418 844

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019 and 2018, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 71 percent of the total maximum exposure is derived from loans and advances to banks and customers (2018: 72 percent); 12 percent represents investments in Bank of Botswana securities (2018: 7 percent).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- Mortgage loans, which are 16 percent (2018: 17 percent) of loans and advances to customers are backed by collateral;
- 91 percent of the loans and advances to customers portfolio are considered to be neither past due nor impaired (2018: 91 percent)

Description of collateral held as security and other credit enhancements, in respect of the exposure above is as follows:

	2019 P000's	2018 P000's
For loans and advances, the Group holds the following collateral:		
Loans and advances	**10 544**	8 998
	10 544	8 998

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

v) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Description of collateral held as security and other credit enhancements, in respect of the exposure to off balance sheet assets as per above table is as follows

	2019 P000's	2018 P000's
Cash cover	208 469	131 689
Sundry securities	879 806	690 433
	1 088 275	822 122

The Group holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables; and
- for retail lending, mortgages over residential properties.

Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 2.8.

The special mention category above incorporates all the past due but not impaired financial assets. The assets within this category fall within the 30-90 day overdue period.

a) Loans and advances individually impaired

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset for credit risk related items, based on the Group's credit rating system.

	2019 Impaired P000's	2019 Security against impaired loans P000's	2019 Impairments on impaired loans P000's	2018 Impaired P000's	2018 Security against impaired loans P000's	2018 Net impaired loans P000's
Credit quality						
Loans and advances to banks				-	-	-
Loans and advances to customers	327 490	143 417	176 793	342 578	193 966	163 746
Personal and Business Banking	327 490	143 417	176 793	342 578	193 966	163 746
- Mortgage lending	183 213	116 436	69 076	194 244	138 456	59 199
- Instalment sales and finance leases	21 690	5 690	16 000	17 903	4 987	12 914
- Card debtors	2 330	1 173	1 157	1 976	1 528	906
- Other loans and advances	120 257	20 118	90 560	128 455	48 995	90 727
Corporate and Investment Banking						
- Corporate lending	259 393	(15 704)	275 097	-	-	-
Total recognised financial instruments	586 883	127 713	451 890	342 578	193 966	163 746

b) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2019 was Nil (2018: Nil). No collateral is held by the Bank in respect of these balances.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

vi) Loans and advances (continued)

c) Concentrations of risk of financial assets with credit risk exposure

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties:

	Financial institutions P000's	Manufacturing and agriculture P000's	Transport energy and mining P000's	Trade and business services P000's	Individuals P000's	Others P000's	Total P000's
2019							
Loans and advances to banks	**4 078 666**	**-**	**-**	**-**	**-**	**-**	**4 078 666**
Financial assets							
- Bank of Botswana Certificates	**2 196 687**	**-**	**-**	**-**	**-**	**-**	**2 196 687**
- Corporate bond	**220 852**	**-**	**-**	**-**	**-**	**-**	**220 852**
- Government bonds	**132 842**	**-**	**-**	**-**	**-**	**-**	**132 842**
Loans and advances to customers (Gross)	**3 275 373**	**342 634**	**539 435**	**373 584**	**3 413 910**	**1 316 047**	**9 260 983**
Trading assets							
- Bank of Botswana Certificates	**37 808**	**-**	**-**	**-**	**-**	**-**	**37 808**
Derivative assets	**29 142**	**-**	**-**	**-**	**-**	**-**	**29 142**
As at 31 December 2019	**9 971 370**	**342 634**	**539 435**	**373 584**	**3 413 910**	**1 316 047**	**15 956 980**
As at 31 December 2018	**7 337 167**	**1 332 116**	**82 475**	**843 183**	**3 964 699**	**356 121**	**13 915 761**

	Financial institutions P000's	Manufacturing and agriculture P000's	Transport energy and mining P000's	Trade and business services P000's	Individuals P000's	Others P000's	Total P000's
2018							
Loans and advances to banks	3 336 683	-	-	-	-	-	2 973 562
Financial assets							
- Bank of Botswana Certificates	1 148 808	-	-	-	-	-	648 994
- Corporate bond	220 925	-	-	-	-	-	35 046
- Government bonds	72 216	-	-	-	-	-	51 880
Loans and advances to customers (Gross)	1 900 316	1 332 116	82 475	843 183	3 964 699	356 121	8 478 910
Trading assets							
- Government bonds	18 931	-	-	-	-	-	18 931
- Due from related parties	632 794	-	-	-	-	-	632 794
Derivative assets	25 425	-	-	-	-	-	25 425
As at 31 December 2018	7 337 167	1 332 116	82 475	843 183	3 964 699	356 121	13 915 761
As at 31 December 2017	6 048 911	894 926	81 929	898 230	3 537 031	128 013	11 589 040

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.3 Credit risk (continued)

vi) Loans and advances (continued)

c) Concentrations of risk of financial assets with credit risk exposure (continued)

Segmental analysis - industry net of impairments and interest in suspense (IIS):	Group		Company	
	2019 P000's	2018 P000's	**2019 P000's**	2018 P000's
Agriculture	**298 411**	316 093	**298 411**	316 093
Construction	**167 623**	227 042	**167 623**	227 042
Electricity	**22 506**	28 393	**22 506**	28 393
Finance, real estate and other business services	**6 702 132**	5 220 101	**6 702 132**	5 220 101
Individuals	**3 413 910**	3 770 798	**3 413 910**	3 770 798
Manufacturing	**44 223**	996 523	**44 223**	996 523
Mining	**409 619**	20 541	**409 619**	20 541
Other services	**1 148 423**	55 728	**1 148 423**	55 728
Transport	**107 310**	32 866	**107 310**	32 866
Wholesale	**373 584**	837 483	**373 584**	837 483
	12 687 741	11 505 568	**12 687 741**	11 505 568

22.4. Foreign exchange risk

The Group and Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group had the following significant foreign currency exposure positions (all amounts expressed in thousands of Botswana Pula):

	EUR P000's	**USD P000's**	**ZAR P000's**	**Other P000's**	**Total P000's**
As at 31 December 2019					
Assets					
Cash and balances with Central Bank	**3 483**	**19 999**	**4 918**	**1 173**	**29 573**
Loans and advances	**128 482**	**3 664 038**	**644 690**	**119 937**	**4 557 147**
Loans and advances to banks	**128 482**	**2 671 268**	**446 979**	**119 870**	**3 366 598**
Loans and advances to customers	**-**	**992 770**	**197 711**	**67**	**1 190 548**
Other assets	**7 599**	**266 968**	**59 619**	**3 701**	**337 887**
Total assets	**139 564**	**3 951 005**	**709 227**	**124 811**	**4 924 607**
Liabilities					
Deposit and current accounts	**136 960**	**3 050 910**	**474 899**	**117 075**	**3 779 844**
Deposits from customers	**130 748**	**2 657 129**	**318 269**	**110 305**	**3 216 451**
Other liabilities	**6 212**	**393 781**	**156 630**	**6 770**	**563 393**
Net off-balance sheet financial position	**(15 294)**	**(785 696)**	**(291 342)**	**(7 350)**	**(1 099 682)**
Net on-balance sheet position	**(34)**	**700 203**	**180 610**	**7 693**	**888 472**
Overall net position	**(15 328)**	**(85 493)**	**(110 732)**	**343**	**(211 210)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.4. Foreign exchange risk (continued)

	EUR P000's	USD P000's	ZAR P000's	Other P000's	Total P000's
As at 31 December 2018					
Assets					
Cash and balances with Central Bank	2 697	8 383	4 716	1 753	17 549
Loans and advances	209 205	2 699 031	700 693	153 350	3 762 279
Loans and advances to banks	209 205	2 668 928	700 691	153 350	3 732 174
Loans and advances to customers	-	30 103	2	-	30 105
Other assets	27	12 006	246 768	320	259 121
Total assets	211 929	2 719 420	952 177	155 423	4 038 949
Liabilities					
Deposit and current accounts	156 217	1 268 198	431 808	141 241	1 997 464
Deposits from customers	156 173	1 071 220	400 096	127 559	1 755 048
Other liabilities	44	196 978	31 712	13 682	242 416
Net off-balance sheet financial position	(21 732)	(1 428 938)	(349 670)	(9 759)	(1 810 099)
Net on-balance sheet position	55 687	1 439 311	363 175	14 181	1 872 354
Overall net position	33 955	10 373	13 505	4 422	62 255

22.5. Market risk

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

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not bear an interest rate risk on off balance sheet items.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.5. Market risk (continued)

	Group					
	Up to 1month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Non-interest bearing P000's	Total P000's
As at 31 December 2019						
Assets						
Cash and balances with Central Bank	-	-	-	-	608 600	608 600
Derivative assets	-	-	-	-	29 142	29 142
Trading assets	37 808	-	-	-	-	37 808
Financial investments	1 598 365	598 322	12 076	341 618	-	2 550 381
Loans and advances to banks	4 078 666	-	-	-	-	4 078 666
Loans and advances to customers	8 609 075	-	-	-	-	8 609 075
Other assets	-	-	-	-	173 179	173 179
Total assets	14 323 914	598 322	12 076	341 618	810 921	16 086 851
Liabilities and shareholders' equity						
Derivative liabilities	-	-	-	-	15 491	15 491
Deposits from banks	1 484 980	-	-	-	-	1 484 980
Deposits from customers	10 566 083	1 123 419	89 886	502 802	-	12 282 190
Other liabilities	-	-	-	-	321 679	321 679
Subordinated debt	-	-	-	989 500	-	989 500
Shareholders' equity	-	-	-	-	1 310 279	1 310 279
Total equity and liabilities	12 051 063	1 123 419	89 886	1 492 302	1 647 449	16 404 119
Total interest repricing gap	2 272 851	(525 097)	(77 810)	(1 150 684)	(836 528)	

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.5. Market risk (continued)

	Group					
	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Non-interest bearing P000's	Total P000's
As at 31 December 2018						
Assets						
Cash and balances with Central Bank	-	-	-	-	497 252	497 252
Derivative assets	-	-	-	-	25 425	25 425
Trading assets	520 495	83 531	28 768	-	-	632 794
Financial assets	949 255	199 545	-	293 149	-	1 441 949
Loans and advances to banks	3 336 683	-	-	-	-	3 336 683
Loans and advances to customers	8 168 885	-	-	-	-	8 168 885
Other assets	-	-	-	-	70 794	70 794
Total assets	12 975 318	283 076	28 768	293 149	593 471	14 173 782
Liabilities and shareholders' equity						
Derivative liabilities	-	-	-	-	9 939	9 939
Deposits from banks	534 368	-	-	-	-	534 368
Deposits from customers	9 899 613	1 493 970	21 859	1 976	-	11 417 418
Other liabilities	-	-	-	-	253 865	253 865
Subordinated debt	-	-	-	1 088 100	-	1 088 100
Shareholders' equity	-	-	-	-	1 173 905	1 173 905
Total equity and liabilities	10 433 981	1 493 970	21 859	1 090 076	1 437 709	14 477 595
Total interest repricing gap	2 541 337	(1 210 894)	6 909	(796 927)	(844 238)	

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2019 and 31 December 2018 were in the following ranges:

	EUR	USD	GBP	ZAR	BWP
2019					
Assets					
Bank of Botswana Certificates	-	-	-	-	**1.53**
Financial investments – Corporate	-	-	-	-	**4.00**
Loans and advances to banks	-	**2.07**	-	**6.41**	**1.01**
Loans and advances to customers	-	**5.78**	-	**9.136**	**16.26**
Liabilities					
Deposits from banks	-	**0.6**	-	-	**1.63**
Deposits from customers	-	**0.07**	-	**2.50**	**1.03**
Subordinated unsecured capital notes	-	-	-	-	**8.43**
NCDs	-	-	-	-	**7.99**
2018					
Assets					
Bank of Botswana Certificates	-	-	-	-	1.53
Financial investments – Corporate	-	-	-	-	6.41
Loans and advances to banks	-	2.28	-	7.36	1.25
Loans and advances to customers	-	5.86	-	9.136	11.53
Liabilities					
Deposits from banks	-	0.86	-	-	1.24
Deposits from customers	0.10	0.20	0.18	2.22	1.03
Subordinated unsecured capital notes	-	-	-	-	9.07
NCDs	-	-	-	-	7.79

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.5. Market risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Asset and Liability Committee (ALCO) sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.
- The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.5. Market risk (continued)

Liquidity risk (continued)

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

Group	Up to 1month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Iliquid P000's	Total P000's
As at 31 December 2019						
Assets						
Cash and balances with Central Bank	608 600	-	-	-	-	608 600
Derivative assets	29 142	-	-	-	-	29 142
Trading assets	37 808	-	-	-	-	37 808
Financial assets	1 598 365	598 322	12 076	341 618	-	2 550 381
Loans and advances to banks	4 078 666	-	-	-	-	4 078 666
Loans and advances to customers	877 969	1 634 771	293 475	7 558 798	-	8 609 075
Other assets	-	-	-	-	101 568	101 568
Deferred and current tax asset	-	-	-	-	71 611	71 611
Intangible assets	-	-	-	-	165 004	165 004
Property and equipment	-	-	-	-	152 264	152 264
Total assets	7 230 570	2 233 093	305 551	7 900 416	490 447	16 404 119
Liabilities						
Derivative liabilities	15 491	-	-	-	-	15 491
Deposits from banks	1 484 980	-	-	-	-	1 484 980
Deposits from customers	10 566 083	1 123 419	89 886	502 802	-	12 282 190
Deferred and current tax liability	-	-	-	-	-	-
Debt securities in issue	-	-	-	989 500	-	989 500
Other liabilities	-	-	277 548	44 131	-	321 679
Total liabilities	12 066 554	1 123 419	367 434	1 536 433	-	15 093 840
Net liquidity gap	(4 883 330)	1 109 674	(61 883)	6 363 983	490 447	1 310 279

Managing liquidity risk

The Bank manages liqudity in accordance with applicable regulations and within the Bank's risk appetite framework. The liqudity risk management governance framework supports the measurement of liqudity across both the corporate and retail sectors to ensure that the payment obligations can be met at all times under both normal and stressed conditions. Further, liqudity risk management ensures that the Bank has appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Financial risk management (continued)

22.5. Market risk (continued)

Liquidity risk (continued)

Group	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Iliquid P000's	Total P000's
As at 31 December 2018						
Assets						
Cash and balances with Central Bank	497 252	-	-	-	-	492 252
Derivative assets	25 425	-	-	-	-	25 425
Trading assets	520 495	83 531	28 768	-	-	632 794
Financial assets	949 255	199 545	-	293 149	-	1 441 949
Loans and advances to banks	3 336 683	-	-	-	-	3 336 683
Loans and advances to customers	285 671	1 189 159	218 786	6 475 269	-	8 168 885
Other assets	-	-	-	-	41 151	41 151
Deferred and current tax asset	-	-	-	-	29 643	29 643
Intangible assets	-	-	-	-	185 949	185 949
Property and equipment	-	-	-	-	117 864	117 864
Total assets	5 614 781	1 472 235	247 554	6 768 418	374 607	14 477 595
Liabilities						
Derivative liabilities	9 939	-	-	-	-	9 939
Deposits from banks	534 368	-	-	-	-	534 368
Deposits from customers	9 301 747	1 503 736	120 459	491 476	-	11 417 418
Deferred and current tax liability	-	-	-	-	10 753	10 753
Debt securities in issue	-	-	-	1 088 100	-	1 088 100
Other liabilities	-	-	230 234	12 878	-	243 112
Total liabilities	9 846 054	1 503 736	350 693	1 592 454	10 753	13 303 690
Net liquidity gap	(4 231 273)	(31 501)	(103 139)	5 175 964	363 854	1 173 905

Managing liquidity risk

The Group manages liquidity in accordance with applicable regulations and within the Group's risk appetite framework. The Group's liquidity risk management governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the Group's legal entitites, under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The group manages liquidity risk as three interrelated pillars, which are aligned to the Basel II liquidity requirements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

23. Subsidiaries

	Nature of operation	Stated capital P000's	**Effective holding 2019 %**	Effective holding 2018 %	**Book value of shares 2019 P000's**	Book value of shares 2018 P000's
Subsidiary						
Stanbic Insurance Services (Proprietary) Limited	Insurance agency	30	**100**	100	**30**	30
Registered Office	Plot 50672 Fairgrounds Office Park Gaborone					
Business Address	Plot 50672 Fairgrounds Office Park Gaborone					
Stanbic Nominees Botswana (Proprietary) Limited	Custodial services	3	**100**	100	**3**	3
Registered office	Plot 50672 Fairgrounds Office Park Gaborone					
Business Address	Plot 50371 Fairgrounds Office Park Gaborone					

24. Segment reporting

The segmentation has been prepared in accordance with the Group business units explained below.The divisions offer different products and services and are managed separately because thay require different expertise. The segments are presented to the Group chief executive officer and shared with all business heads.

The principal business units for the Group are as follows:

Business units	Scope of operations
Corporate & Investment Banking	Commercial and investment banking services to larger corporate, financial institutions and international counterparties. Global markets – includes foreign exchange, commodities, debt securities and equities trading. Transactional products and services – includes transactional banking and investor services. Investment banking – includes equity investment, advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, acquisition and black economic empowerment finance, property finance and the asset and wealth management units.
Personal & Business Banking	Banking and other financial services to individual customers, commercial and small-to-medium-sized enterprises. Mortgage lending – provides residential and commercial loans to individual and business customers. Instalment sale and finance leases – comprises two main areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business and agricultural markets. Card and Acquiring products – provides debit and credit card facilities to individuals and businesses. Also provide point of sale and merchant acquiring solutions. Transactional accounts and other lending products – enable local and foreign payments and collection of transactions in products associated with the various points of contact channels such as ATMs, Internet, telephone banking, mobile banking and branches. This includes deposit taking activities, savings and investments, electronic banking, cheque accounts and other lending products such as personal unsecured loans and business working capital facilities. Bancassurance – provides short-term and long-term insurance products, mainly through third parties, and provides financial planning services to clients.
Corporate functions	Support functions to business units and advisory services whose costs have been allocated to Personal and Business Banking and Corporate and Investment Banking on a consistent basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

24. Segment reporting (continued)

	Group			
	Corporate & Investment Banking P000's	**Personal & Business Banking P000's**	**Corporate functions P000's**	**Total P000's**
2019				
Net interest income	**278 069**	**413 425**	**(9 826)**	**681 668**
Non-interest income	**223 727**	**236 823**	**(203)**	**460 347**
Net fee and commission income	**(4 866)**	**221 515**	**(90)**	**216 559**
Net trading income	**222 048**	**-**	**-**	**222 048**
Other income	**6 545**	**15 308**	**(113)**	**21 740**
Total income	**501 796**	**650 248**	**(10 029)**	**1 142 015**
Credit impairment charges	**(301 943)**	**(87 103)**	**-**	**(389 046)**
Income after credit impairment charges	**199 853**	**563 145**	**(10 029)**	**752 969**
Total operating expenses	**(172 958)**	**(398 834)**	**18 281**	**(553 511)**
Staff costs	**(42 006)**	**(108 361)**	**(141 484)**	**(291 851)**
Other operating expenses	**(130 952)**	**(290 473)**	**159 765**	**(261 660)**
Net income before indirect tax	**26 895**	**164 311**	**8 252**	**199 458**
Indirect tax	**(3 195)**	**(9 531)**	**(9 864)**	**(22 590)**
Profit / (loss) before direct tax	**23 700**	**(154 780)**	**(1 612)**	**176 868**
Direct tax	**(3 624)**	**(33 860)**	**342**	**(37 142)**
Profit / (loss) after tax	**20 076**	**120 920**	**(1 270)**	**139 726**
Operating information				
Total assets	**9 177 807**	**6 919 879**	**306 433**	**16 404 119**
Total liabilities	**8 588 235**	**6 139 525**	**366 080**	**15 093 840**
Other information				
Depreciation and amortisation	**327**	**22 358**	**28 423**	**51 135**

	Group			
	Corporate & Investment Banking P000's	Personal & Business Banking P000's	Corporate functions P000's	Total P000's
2018				
Net interest income	169 388	367 430	(11 798)	525 020
Non-interest income	247 298	211 649	(5)	458 942
Net fee and commission income	(4 910)	202 444	(9)	197 525
Net trading income	251 296	-	-	251 296
Other income	912	9 205	4	10 121
Total income	416 686	579 079	(11 803)	983 962
Credit impairment charges	(4 887)	(88 666)	4	(93 549)
Income after credit impairment charges	411 799	490 413	(11 799)	890 413
Total operating expenses	(155 897)	(413 487)	17 182	(552 202)
Staff costs	(37 676)	(106 233)	(129 652)	(273 561)
Other operating expenses	(118 221)	(307 254)	146 834	(278 641)
Net income before indirect tax	255 902	76 926	5 383	338 211
Indirect tax	(1 461)	(6 354)	(9 933)	(17 748)
Profit / (loss) before direct tax	254 441	70 572	(4 550)	320 463
Direct tax	(53 201)	(16 015)	304	(68 912)
Profit / (loss) after tax	201 240	54 557	(4 246)	251 551
Operating information				
Total assets	8 722 475	5 522 801	232 319	14 478 595
Total liabilities	7 932 862	4 892 991	477 837	13 303 690
Other information				
Depreciation and amortisation	273	9 612	33 176	43 061

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Subsequent events

On March 11, 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. The President of the Republic of Botswana declared a national lockdown for the whole of Botswana with effect from 02 April 2020 at midnight until 30 April 2020, for purposes of preventing, controlling and suppressing the spread of Coronavirus COVID-19. The pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of finalization of the financial statements, its effects are subject to significant levels of uncertainty.

The Coronavirus COVID-19 outbreak is a significant non-adjusting post reporting date event, as the outbreak occurred post year-end 31 December 2019. However, due to the current level of uncertainties it is difficult to estimate the financial effect. Most economic indices have become very volatile and it is difficult to predict how long this situation is going to last. It is difficult to forecast any economic index at the moment, be it inflation rate, unemployment rate, interest rates, economic growth rates etc. The Coronavirus COVID-19 outbreak and the measures implemented to manage it, such as the national lockdown, is likely to impact the ability of borrowers, whether corporate or individuals, to meet their loan obligations with the Bank, which will impact credit loss provisioning. There could also potentially be adverse effects on such areas as valuation of some financial instruments mainly due to the volatility in the market, which could significantly lead to unrealised losses. However, the Bank has been proactive and continues to monitor all potential effects of the pandemic and have reviewed its entire value chain and subjected the business to stress tests under various impact scenarios. Based on the re-assessments performed, management has concluded that the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The Bank is currently well capitalised and liquid to sustain the effects of the pandemic in the foreseeable future.