Annual Report

FOR THE YEAR ENDED
31 DECEMBER 2019

AFRICAN BANKING CORPORATION
OF BOTSWANA LIMITED

BancABC
part of
atlasmara

CHANGING FOR YOU

Much has changed in the last 10 years since we entered the Commercial Banking market and BancABC is proud of its pioneering efforts in reshaping the Botswana banking landscape thus far.

We have maintained a fundamental perspective that change is the only constant in business. Hence, our focus over the last year has been on making the necessary investments to best cater to our clients' changing needs.

"Changing for You" embodied the Bank's commitment to solving for the shifting ways that our clients interact with our services and the quality of service provided from the Bank's various access points. Most significantly was our need to improve our digital and transactional banking platforms, while also increasing our physical presence points.

The Bank kicked-off the year with the introduction of Sales and Service Centres in 4 brand new locations to reduce customer effort to reach the Bank's physical presence points. The limited services compared to the existing traditional branches would be augmented by the Bank's digital transformation efforts.

We successfully developed and launched two new Transactional Banking platforms – BancOnline for Business clients and SaruMoney for the Retail customers. These platforms have put capabilities that were only accessible through the branch and now at the clients' fingertips. More importantly, these platforms have laid a firm foundation for the Bank to transition to digital delivery as a primary engagement channel for our clients.

The culmination of the efforts and investments made in support of Changing for You have strengthened the Bank's transactional banking offering and overall market perception as a bonafide challenger brand.

We take pride in knowing that the past year has improved the ease of doing business with the Bank and we are confident that these changes will greatly assist our Top 3 Bank ambition.

2010
BancABC **opened** the first branch at **The Square (New CBD)**

2011
The first bank to launch the full suite of **Debit, Prepaid and Credit Chip & PIN cards** in Botswana

2012
Launched the **first 100% mortgage** finance offering

2013
Launched the first (outside South Africa) **Visa card partnership** between a bank and insurer with Botswana Life Insurance Limited

2014
Launched the first mobile wallet **Visa companion card** with Orange Money Botswana

2014
Voted **Best Retail & SME Bank** in Botswana by the Global Banking & Finance Review

2016
Launched Mobile banking

2018
Best Visa Brand Awareness

2018
Launched the unique **Clan Cover Funeral Policy** covering up to 20 extended family members

2018
Visa Co-Brand **Champions**

2019
Launched BancOnline

GROUP REVIEW

PERFORMANCE SUMMARY

Financial

Revenue
P554.7m
F2018: P569.9 million

Expenses
P402.4m
F2018: P404.5 million

Profit After tax
P121.8m
F2018: P128.2 million

Gross Loans
P6,739.0m
F2018: P6,123.7 million

Customer Deposits
P6,973.9m
F2018: P7,192.5 million

Total Equity
P1,076.4m
F2018: P972.8 million

Total Cost/Total Revene
74.3%
F2018: 73.4%

Profit for the year/Equity
12%
F2018: 12.6%

Strategy

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

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

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

People

Number of employees

418

F2018: 425

Gender management (all managers) ratio

51% Female

49% Male

Senior management citizenship at

100% in 2019

85% F2018:

Chairperson's Report

LORATO MOSETLHANYANE

CHAIRPERSON

A YEAR OF POSITIVE STRIDES TO A SUCCESSFUL STRATEGIC IMPLEMENTATION

The year 2019 marked the first full year of strategic execution as a listed company under the Botswana Stock Exchange listing. It has been a very important year for the Bank in which meaningful progress was made towards the realisation of being a digital and innovative bank, as well as beginning to make inroads on providing acceptable returns to our shareholders. This included addressing key governance, accountability, risk and remediation issues while focusing on maintaining operational and capital performance in a more challenging economic environment.

During the review period, the Bank made substantial progress with its digital capability and this has provided a good base from which to accelerate the Banks' overall performance in the years to come. The Bank also began to show pleasing momentum in both asset and revenue growth in the second half of the year.

BOARD AND EXECUTIVE TEAM APPOINTMENTS

During the year, the Bank's new Finance Director, Ms Ratang Icho-Molebatsi joined the Board of Directors. She was one of three new appointments to the Bank's executive team.

It is with sadness that the Board will bid farewell to Mr Adams Dambe Chilisa on 31 March 2020 who has served on the Board with distinction for over seven years.

The Bank continues to make investments in hiring the right people across the various levels in order to continue to inject talent into the organisation.

FINANCIAL PERFORMANCE

The Bank's financial performance continues to show growth despite a busy programme of transformation aimed at improving its customer value proposition. Whilst this year's overall financial performance is marginally below that of prior year, there has been satisfying growth in many areas and with the capacity and potential for more.

Most of the Bank's growth was realised in the second half of the year providing great momentum for growth in 2020 and beyond. The second half performance was about 40% higher than that of the first half. Some positive reduction in the interest expense in terms of a slight cost of funds reduction were realised in the year and more savings are anticipated as the Bank continues to grow.

The Bank's growing efficiency was demonstrated by maintaining the operating costs at almost the same levels as before.

While the balance sheet is flat year-on-year, it is a more efficient balance sheet as the available funding has been utilised to write higher earning assets. This is evidenced by the improvement in the return on assets. Overall, the Bank's performance shows that the business is continuing to build acceptable returns.

The Bank's capital position remains very strong with a Capital Adequacy Ratio of

18.6%

CAPITAL AND DIVIDEND PAYMENT

The Bank's capital position remains very strong with a capital adequacy ratio of 18.6%. This is above both the regulatory limit and the Bank's internal risk tolerance level. At the half-year reporting on 25 September 2019, a dividend of 2.8 thebe per share for the period ended 30 June 2019 was declared. This was paid on the 22 November to those shareholders registered at close of business on 12 November 2019 with an ex-dividend date of 8 November 2019. The dividend represented 40% of profit-after-tax for the period. No dividend was declared and paid at full year. The dividend paid in 2019 is the first dividend paid by BancABC under the ownership of Atlasmara Group.

GRATITUDE

Thank you for continuing to put your trust in BancABC. We will continue to work towards becoming Botswana's preferred banking partner and ensuring that we continuously deliver quality service to our clients.

Lorato Mosetlhanyane
Chairperson

Managing Director's Report

KGOTSO BANNALOTLHE

MANAGING DIRECTOR

OUR BUSINESS ENVIRONMENT AND OVERVIEW OF PERFORMANCE

Botswana's economy continued to indicate some growth as real GDP for the third quarter of 2019 grew at 3.7% year-on-year. However, it is worth noting that this was lower than the 5% recorded in the corresponding prior year, mainly as a result of sluggish output in the mining sector which grew by only 1.6% against 4.1% in 2018.

The 2019 year was an eventful one for BancABC, starting with our repositioning as a publicly listed company and the implementation of our business strategy. The latter is aimed at ensuring that the right building blocks are in place to propel the Bank forward.

A number of key initiatives were rolled out in 2019: a successful overhaul of the Bank's critical infrastructure for Cards and ATMs following the revamp of the Core Banking Platform in the year prior; and the opening of new Service Centres in Molepolole, Kanye, Letlhakane and Gantsi. In addition we launched improvements to our product complement with introduction of credit cards and retail overdraft facilities. Our improved customer value proposition of stable platforms, good distribution footprint and broader product offerings began to bear fruit immediately thanks to our maintaining key partnerships and signing on new schemes. This led to strong retail growth in the second half of the year.

We will continue to focus on our strategic transformation journey in order to build and maintain a strong foundation of underlying revenue and operating income. This will be achieved by providing customer-centric financial solutions and building profitable, lifelong customer relationships through a wide range of innovative financial products and services, and strategic partnerships.

In line with global trends, BancABC prioritised the development of its digital capabilities in 2019 with the introduction of the BancOnline digital banking platform for Commercial Banking clients. This new platform will enable the Bank to not only provide better services to our clients but will also position BancABC at the forefront of digital banking in Botswana.

BancABC's relatively stable performance in the past financial year is a testament to our ability to prevail in a challenging banking operating environment.

STRATEGY 2019-2021 – EXECUTION UPDATE

Right funding

- New BancOnline platform launched. This is a key tool to attract the corporate current accounts and improve the liability mix between term deposits and current accounts to ensure more funds are raised on lower-earning current accounts.

Right people

- Continued recruitment for key positions within the senior management team. During the year the Bank's team was strengthened with the appointments of Ms Pauline Motswagae as Head of Commercial Banking; Mr John Kimani as Chief Operations Officer; and Ms Ratang Icho-Molebatsi as Finance Director. They each bring many years of expertise in their respective fields and experience in the financial services sector to BancABC.

Technological refresh to ensure better service to our customers

- Implementation of the revamped ATMs and Cards infrastructure.
- Early 2020 implemented the SARUMoney retail banking application to assist customers with a platform that ensures, safe, accessible, reliable and universal movement of funds.

Win new key schemes

- The Bank successfully signed with key large corporates, several new schemes with an aim to increase loans and grow the asset book.

Strengthen distribution and extend geographical footprint

- Four sales and service centres outside of Gaborone were successfully opened in Letlhakane, Gantsi, Kanye and Molepolole.

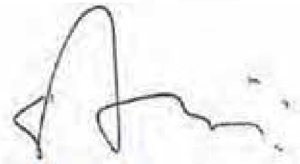
FINANCIAL PERFORMANCE

BancABC Botswana's full year results show a rebound from the much slower first-half performance for 2019 to end the year with a Profit After Tax (PAT) of P122 million. The Bank had far stronger growth across most income lines in the second half of the year. PAT is a modest 5% lower than in the previous financial year, while net interest income remained flat (1% movement in comparison to 2018) despite declining yields exacerbated by a reduction in policy rates of 25 basis points in the second half of the year. Interest Expense also remained flat, although slightly elevated based on historic trends. Significant growth was achieved in customer assets and deposit growth was adequate considering buffer liquidity taken at prior year end.

This performance validates the Bank's success in navigating the challenging operating environment. We remained committed to building sustainable underlying revenue growth and operating income with the aim of maximizing medium term value for our shareholders. To achieve this, we have continued to invest in our transformation journey, with amendments only required to ensure we continue to deliver acceptable returns to our shareholders. Return on equity remained flat at 12%, as a lot of effort was expended on talent acquisition, improving governance structures and processes, and strengthening the enterprise risk framework. Our control environment is consequently stronger.

ACKNOWLEDGEMENT

I would like to extend my sincere gratitude to our customers, the Board, management and the entire BancABC team for all their support throughout the review period. I trust this will continue into the year ahead.



Kgotso Bannalotlhe
Managing Director

Return on equity remained flat at

12%

FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2019

INCOME STATEMENT

Profit After Tax	P121.8m	↓	5%
Non-Interest Income	P127.1m	↓	5%
Interest Income	P744.3m	↓	1%
Changes in Expected Credit losses Net Release	P15.6m	↓	17%
Total Expenses	P402.4m	↓	1%

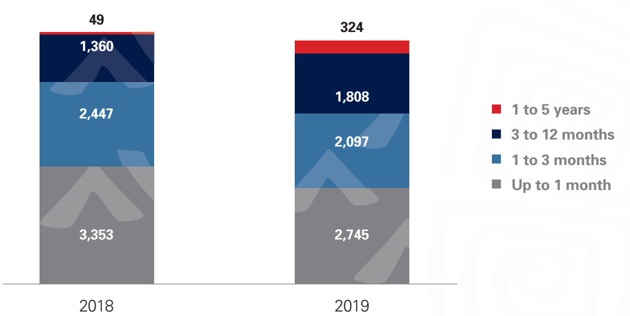
BALANCE SHEET

Assets	P9,104.5m	↓	0.3%
Gross Loans	P6,739.0m	↑	10%
Customer Deposits	P6,973.9m	↓	3%

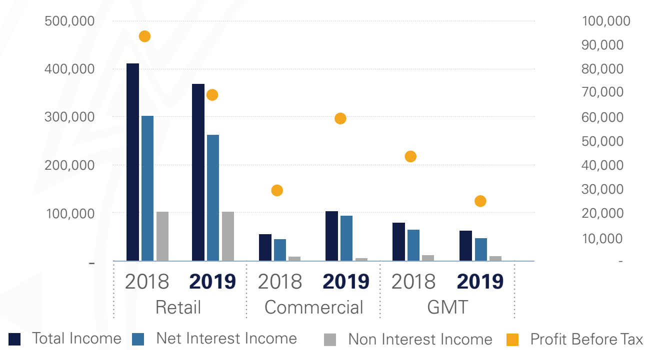
KEY RATIOS

CTI	74%	↑	1%
LDR	92%	↑	11%
ROE	12%	↓	0%

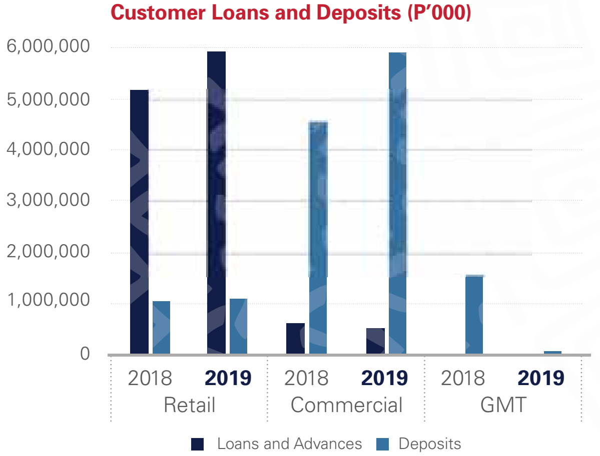
Deposits by Tenor (P'000)



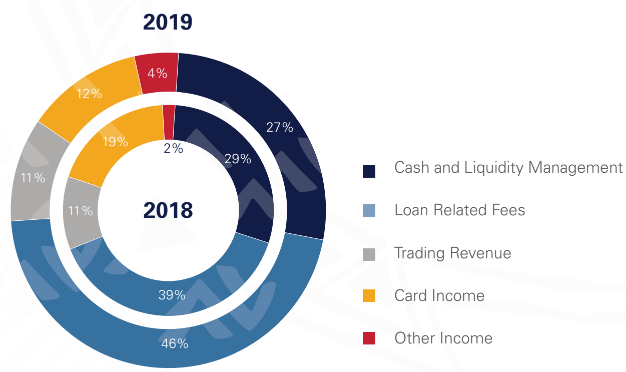
Income Profitability (P'000)



Customer Loans and Deposits (P'000)



Non interest Income Breakdown



Finance Director's Report

RATANG ICHO-MOLEBATSI

FINANCE DIRECTOR

ECONOMIC DEVELOPMENTS

Botswana showed a subdued economic growth in 2019 due to the decline in the diamond sector. A modest 4% year-on-year growth was achieved in the non-mining sector compared to 5.1% in the corresponding period the prior year.

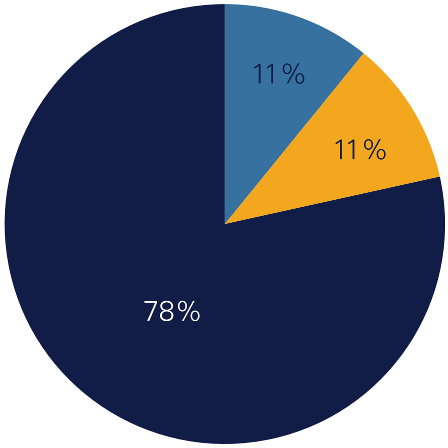
The regression in growth of the non mining sector was a result of slower expansion in the trade and hospitality sectors which were adversely affected by the decline in performance of the diamond industry.

Domestic credit growth remained strong driven by annual salary increments ranging between 6% - 10% by the Botswana Government which is the highest employment contributor in the country. Nevertheless, household credit, which has held a 60% - 65% share in overall credit since 2017, continued to be driven largely by personal unsecured lending.

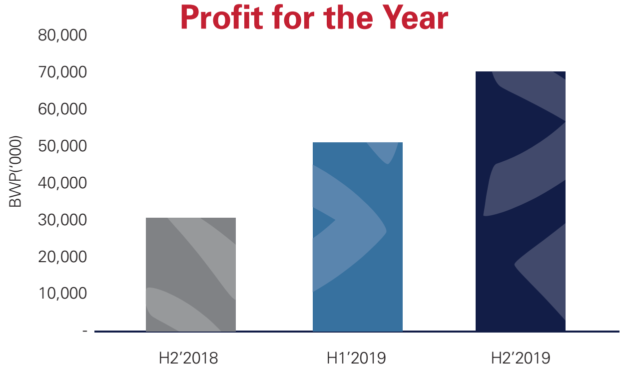
Business lending, however, did not fare as well and there was a marked deceleration in growth of lending to businesses in comparison to 2018.

Deposit by Type (P'm)

2019 Deposits



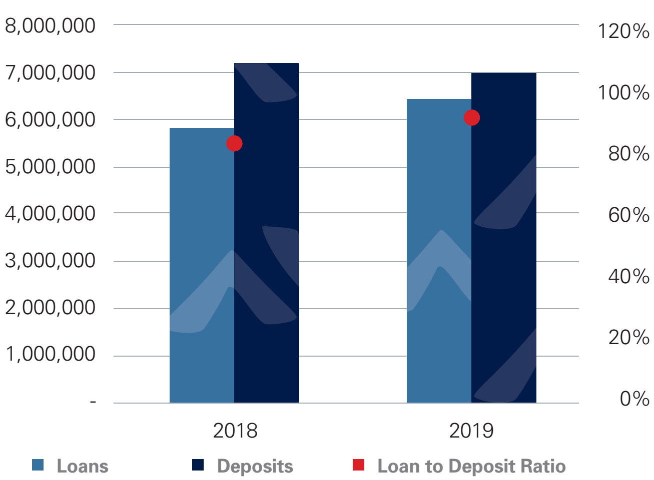
Profit for the Year



FINANCIAL PERFORMANCE

While the Bank has shown a modest decline in overall profit after tax in comparison to the previous year, revenue increased on a half-on-half basis in the latter half of the year. The decline in performance can thus be attributed a slow start in the first half due to low economic activity, a reduction in the markets business, and high cost of funds. This was reversed through a strong second half with pleasing growth of the asset book.

Loans Deposit Ratio (LDR)

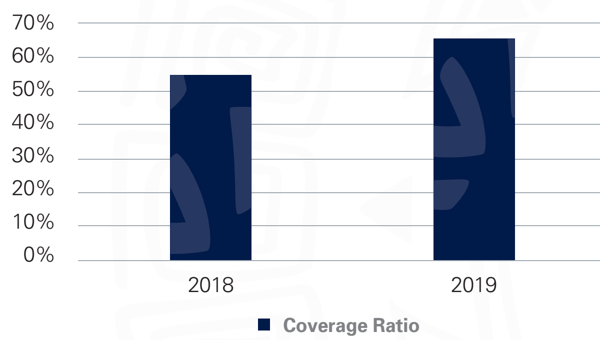


FINANCIAL INDICATOR (P'M) DESCRIPTION (P'M)	2019	2018	% Variance
Profit before tax	122	128	-5%
Loans and advances	6,444	5,809	11%
Customer deposits	6,974	7,192	-3%
Total assets	9,105	9,130	0%

TOTAL INCOME

Net interest income closed the year at P412 million which was 1% shy of the prior year's performance. This was despite an 11% growth in loans and advances. The Bank of Botswana reduced the Bank Rate by 25 basis points in August 2019 yet the year-on-year interest expense remained largely unchanged with a slight 0.4% movement against 2018, despite the loan book growth being fully funded by the Bank's deposits. Non-interest revenue (NIR) of P127 million was marginally lower on the back of weaker trading income. This was supported by a strong growth in fees and commissions linked to lending activities. Transactional fees, which comprise over a quarter of overall NIR, declined by P4 million year-on-year as a result of the introduction of more restrictive account dormancy rules in order to ensure inactive accounts are closed faster.

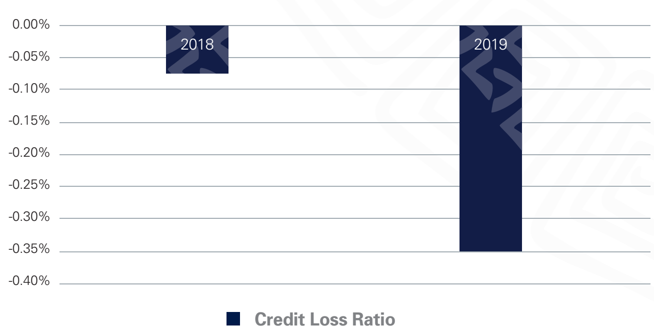
Stage 3 Coverage Ratio



IMPAIRMENTS

Impairment in loans and advances resulted in an impairment release of P15 million during the year, emanating from the improvement in expected credit loss coverage ratios which declined by 0.52% in comparison to the prior year. This reflected an improved quality of the overall lending book. A better quality of inputs has allowed the business to continue to refine its IFRS9 model towards a less punitive methodology over time.

Credit Loss Ratio



OPERATING EXPENSES

Total operating expenses of P402 million were 1% below prior year. Operational costs declined by P13 million due to a stronger management focus on cost containment. This was offset by a P11 million increase in human capital costs driven by exits and new appointments, as well as employee upskilling initiatives.

Information technology costs registered a significant increase in line with investments made in technology infrastructure coupled with a reduction in shared service costs.

OPERATING EXPENSES DESCRIPTION (P'M)	2019	2018	% Variance
Staff costs	156	145	8%
Shared service costs	12	52	-77%
Other operating costs	125	140	-11%
Marketing	10	10	0%
Information technology	61	31	97%
Depreciation and amortisation	38	26	46%

BALANCE SHEET

Deposits from customers for the year totalled P6.7 billion against the prior year's P6.6 billion. The Bank's deposit mix continues to be skewed towards term deposits. However there was an improvement in the mix relative to 2018 as transactional deposits increased. Progress towards a more even deposit mix is expected following the introduction of the BancOnline digital banking platform that will mainly focus on Commercial Banking.

The Bank's loan book closed the year at P6.4 billion, a P630million increase on the prior year. This growth was predominantly from the retail banking segment which experienced 15% growth in its loan book. However, commercial banking recorded a loan book decline of 14% year-on-year. Investments in securities declined significantly year-on-year by 45%, highlighting a more efficient use of available liquidity into earning assets.

CAPITAL ADEQUACY

The Bank's unimpaired capital and risk weighted assets stood at P1.3 billion and P 7.1 billion respectively resulting in a capital adequacy ratio of 18.6%. The current capital base and forecast profits are sufficient to meet the Bank's 2020 growth prospects.

OUTLOOK

The Bank's performance in 2019 was slightly lower than that of the previous financial year, albeit with a significant improvement in performance in the second half of the year. The project roll out for key transactional platforms has already started in earnest, and this will be a key driver in transforming the Bank's balance sheet and future growth capacity. We will focus on accelerating momentum in order to continue to deliver returns to our investors.

GROUP REVIEW

GROUP STRUCTURE

1 RETAIL & DIGITAL BANKING

2 COMMERCIAL BANKING

3 GLOBAL MARKETS

RETAIL BANKING & DIGITAL BUSINESS

OVERVIEW

2019 was a year of consolidation and growth, and bringing our "Changing for You" strategy to life through the launch and implementation of several new initiatives.

CUSTOMER SEGMENTS

The business focused on expanding its proposition to cater for segments that had not traditionally been served. During the year Workplace Banking (WPB) successfully on-boarded Corporate and quasi-government scheme relationships and these are expected to bear fruit well into the next financial year.

The Private Banking business focused on refining its proposition to cater for a market that has largely been neglected. Good progress has been made.

Customer Segments

- Private Clients
- Workplace Banking

Products

- Bancassurance
- Cards and Partnerships
- Home Loans
- Vehicle and Asset Finance

Distribution

- Physical Branches
- **Digital**
  Mobile Banking
  Internet Banking
  ATMs

PRODUCT DEVELOPMENT

We implemented a consolidation strategy that focused on revamping existing solutions and products in order to better respond to customer needs. In instances where products could not be refined, new products were brought to market to complement our suite of offerings. This included the introduction of Gold and Platinum Credit Cards. We also created a flexible high-yield savings product for the dedicated saver which is scheduled to be launched in Q1 2020. A new partner was introduced to the Cards business, demonstrating our willingness and openness to collaborate across industries where we see synergies and opportunities to meet customer payment needs.

As part of our Bancassurance offering, we focused on providing a salary protector solution to safeguard earnings in times of distress.

BANCASSURANCE

The distribution of Bancassurance products through branch and workplace banking, drove the overall performance of the insurance portfolio which has been a key driver towards income diversification. Bancassurance is a major contributor to the segment's Non Interest Revenue. There was significant growth on each insurance product line. Notably, the flagship product, Monamodi has grown its contribution to income significantly, placing the Insurance Agency in a solid position financially.

CARDS

The Card space experienced massive transformation. In addition to our efforts to provide our customers with high value products, we successfully launched the Gold and Platinum Credit Card products for higher income individuals.

We also broadened our partnerships portfolio by launching the Mascom My Zaka card. We will continue to seek new strategic partnerships and grow existing ones in order to extend our reach in this market. We also began the process of enhancing our existing Travel Card which will result in a new card being launched in 2020.

ASSET FINANCE

We continue to promote asset acquisition for our portfolio of clients through our competitive Homeloan and Vehicle Asset Finance. Furthermore, we have extended the availability of the product from any of our points of presence so as to promote access to the products.

DISTRIBUTION

The opening of four new service centres as part of the Bank's "Changing for You" strategy not only increased our points of presence but enabled accelerated growth for the Retail division by making our services accessible to new customers. This had a positive impact on the business.

With respect to our digital channels we enhanced our mobile platform by adding new functionalities for customers to enable control and 24hour access of their banking accounts.

COMMERCIAL BANKING

Commercial Banking comprises **Corporate Banking and Business Banking.** Corporate Banking services business clients with an annual turnover greater than P50 million, while Business Banking provides services to clients with annual turnover under P50 million, across major sectors of the economy.

This segment of the Bank serves a diverse clientele, ranging from small and medium enterprises to large corporations by offering a diversified product range and risk management solutions to meet client needs. It is the centrepiece of the Bank's relationship management, ensuring synergies and product linkages are achieved.

The segment is supported by the e-Channels division which ensures that the Bank's transactional platforms are up-to-date and relevant to business clients' evolving and sophisticated requirements

Commercial Banking has an imperative role in the Bank's 360 Strategy. The segment deploys exceptional professional skills and service to attract transactional banking; foreign exchange; funding and investment opportunities, amongst others, from the market. The segment's balance sheet is skewed towards deposits which predominantly supports the Retail Banking segment's lending activities.

PERFORMANCE REVIEW

Commercial Banking collectively reported a 30% increase in profit before tax to P59 081 000. This was mainly attributable the Bank's reduced cost of funding as a result of lower interest expenses.

Net interest income rose by 92.39% year-on-year largely as a result of deposit repricing efforts which lowered the Bank's cost of funds. However, during the first quarter of the year, the Bank experienced a liquidity squeeze due to Government deferrals on national budget disbursements and subventions. This mainly affected the Local Government and State Owned Entities sectors which collectively account for a significant portion of the Commercial term deposits. Market liquidity improved in the second half of the year and more focus was placed on growing transactional banking offering. This led to growth in transactional deposits and a related reduction in the overall cost of funds.

Liquidity constraints compelled the business to strategically focus on raising deposits for funding the aggressive Retail lending activity which attracts higher interest margins. Overall the Commercial Banking loans declined by 17.24% year on year. The major division causing this decline is the Corporate Banking which constitutes 80% of the commercial loan book. Business Banking asset base declined marginally (8%) from prior year due to some loan settlements and the cautious market approach adopted during the clean-up period Bank of Botswana cut the Central Bank rate by 25 basis points in September resulting in lower yields on the assets.

Commercial Banking (continued)

Notwithstanding the challenges Commercial Banking encountered in 2019, the Bank successfully implemented BancOnline, a state-of-the-art digital platform, tailor-designed for improving the online banking experience for Commercial Banking customers. An integral part of the Bank's "Changing for You" strategy, this platform enhances the client value proposition and facilitates growth in transactional volumes for the Bank. The solution also allows for increased straight through processing of transactions, thereby improving service to clients. The Bank is well positioned to be able to become a primary banker for most Corporate and Business Banking clients, including SMEs.

A concerted effort was made during the review period to improve the enterprise risk-framework of the segment by establishing a departmental risk management office. The business conducted an overall review of processes and strengthened the frontline team in preparation for the next phase of growth and transformation.

LOOKING AHEAD

Cost of Funding

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

Digitalisation

The BancOnline solution was successfully rolled out in 2019. This is expected to lead to new lines of business such as a compelling Trade Finance solution and more convenient Foreign Exchange services, anchored by strong transactional capability. The second phase of the BancOnline platform is expected go live during the 2020 financial year. The bank will be well positioned to drive initiatives that would result in wider coverage across the country , including areas where the Bank does not have physical presence.

Asset Growth

With robust initiatives in place to achieve sustainable liquidity positions, and with more appetite for lending, significant growth in the Commercial Banking loan book is anticipated.

There is huge potential to increase the Department's overall profitability in the coming year. The Team has identified key high impact initiatives that will assist in achieving an even better financial performance during 2020.

STRATEGIC OVERVIEW

Commercial Banking's strategic focus is to achieve the stabilization of our liquidity position, continue to bring down the cost of funding, leverage ecosystem banking through maximization of cross-selling to capture as much of the client value chain as possible, grow our market penetration on the back of the optimization of the BancOnline digital platform, and embed a high-performance culture through the upskilling of human capital. The segment will continue to innovate for clients and focus on tailor-making solutions that address clients' individual needs.

GLOBAL MARKETS AND TREASURY

The Global Markets and Treasury (GMT) business is made up of two distinct focus areas: Global Markets and Treasury. Global Markets comprises the Sales and Trading divisions, with the former providing foreign exchange (forex) solutions to corporate, Business Banking and Retail clients.

The Trading function takes care of the overall management of the Bank's foreign exchange (FX) exposure and handles back-to-back cover for FX transactions done with clients. The Treasury division plays an important role in managing the Bank's funding and liquidity, and assists with sourcing interbank lines and with the support of complex transactions.

Global Markets and Treasury (continued)

PERFORMANCE REVIEW

GMT recorded profit before tax (PBT) of P24.26 million, a year-on-year decline of 44%, This was mainly attributable to the interest expense on a borrowing issued to the Bank in the first quarter of the year. The borrowing has not yet delivered positive revenue as growth in assets has been slower than anticipated. Trading profits were muted but on par with the prior year.

GMT's overall performance was impacted by a combination of factors. The first half of the year was affected by operational issues and high staff turnover. There was considerable focus on few key clients which affected the Sales volumes and ultimately resulted in reduced margins and revenue.

We also encountered a market liquidity squeeze coupled with limited availability of excess deposits which, adversely impacted the Bank's investments in securities, leading to a decline of 45%.

LOOKING AHEAD

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

The Markets business is expected to benefit from the launch of the Bank's transactional banking platform. As more clients switch their transactional business to the Bank, this will result increased transactions made directly from the platform. The added convenience is anticipated to improve our competitiveness, increase our volumes and result in more positive pricing levels. We are also embarking on new Trade Finance solutions, which should yield increased Forex volumes at improved margins.

SUSTAINABILITY

HUMAN CAPITAL REVIEW

OUR PEOPLE

BancABC is a fast-growing entrepreneural Bank with

418 employees.

Of these, over 60% are millennials which demands that we continually search for opportunities for their growth, either through specialised projects or lateral secondments in different departments. More than 70% of our employees have an average of around five years with the Bank.

Human Capital Review (continued)

TALENT ACQUISITION AND MANAGEMENT

We are always looking for high performers to join our vibrant team. New recruits go through a rigorous selection assessment to ensure that we appoint the best of the best. We look for aspirational individuals with high engagement levels, great potential for growth and excellence. We do our utmost to ensure that they are assigned to the right roles at the right time. This ensures they remain focused and engaged with the tenacity to help the organisation achieve its strategic objectives.

PERFOMANCE MANAGEMENT

The Bank greatly values its employees. During 2019, the performance management process was revamped to enable the development of a value-driven performance culture in which every employee is accountable for their performance. There is little tolerance for non-performers and high performers are recognised appropriately.

LEARNING AND DEVELOPMENT

The Bank's strategic growth journey has to be supported by employees who are able to excel and reach greater heights. This can only be achieved in an environment that enables and promotes self-development. In line with this, the Bank partnered with LinkedIn Learning to provide employees with the technical skills needed to help them with their work. In addition, they also received access to other programmes designed to prepare them for the volatile, uncertain, complex and ambiguous (VUCA) world in which we operate. Training will continue to be focused on operational efficiencies and process reengineering.

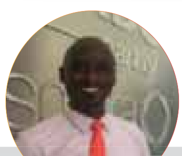
We are pleased to announce the best performers for the Financial Year ended 2019. **Top Achievers,** recognizes and celebrates employees who received a rating of one (1), They showcase exceptional performance and exceed all objectives. Below are some of their highlights, incredible accomplishments, great efforts on projects, along with the willingness to add value by taking up additional job roles outside their scope of operations.

Julia Moses
Banking Operations - Treasury Back Office

- Successfully contributed to the development and growth of new team members by sharing her knowledge and experience
- Adapted and performed effectively the extra tasks assigned to her during challenging situations and was able to hold fort while delivering exceptionally on her duties as an Operations Officer
- Successfully engaged Treasury Back Office management in identifying a potential risk within its operations and championed the monitoring of processes and policies to avoid future occurrences

Faith Makabi
Banking Operations - Loan Processing

- Through team work and collaboration, successfully managed to engage all insurance brokers to embark on a project to ensure that all loans booked under different schemes were covered in respect of Credit Life Insurance
- Project was successfully completed and managed to cover a potential risk exposure
- Successfully closed audit findings and exceptions which were identified within the Loans Processing unit by implementing an action plan that engaged various stakeholders
- Dedicated and committed team leader enhancing her leadership skills by imparting knowledge to inspire continuous improvement and innovation



Oganne Obolokile
Finance - Procurement, Facilities & Administration

- Communicated in a cooperative and professional manner with co-workers, encouraging and promoting teamwork
- Timely and effectively collected and delivered mail and other materials as required from the bank to various offices and institutions
- Ensured cleanliness and upkeep of the company vehicle to ensure that patrons are transported to their various destinations in a courteous and timely manner
- Successfully completed stretch assignments and duties on a secondment as a Switchboard Operator by providing excellent Customer service and experience
- Interacts well with diverse cultures as a Switchboard Operator by communicating effectively, willingness to learn and adaptation to different requirements

Rebaone Tlale
Banking Operations - Item Processing

- Transformed Archives by executing solutions that resulted in an effective Records Management environment – incorporated changes brought about by FIA in the company policy to ensure the Bank is complaint
- Effectively adopted the Archiving system used for indexing and retrieving documents for the Bank and improved its response time
- Outlined remedial indexing solutions by ensuring accuracy on KYC and transactional documents and a major role in the BOB inspection as an Archives custodian
- Successfully introduced a Clean Desk initiative for stakeholders which helped to improve security and confidentiality of information
- Frequently engaged vendors to understand their needs and build trust while providing necessary support to ensure that accountability, transparency and regulatory requirements of the Bank are met

We would like to congratulate them for their outstanding performance and wish them more success in the future. The contribution and dedication they showcased should model and provide inspiration for employees to follow the pathways to success.

TEAM WORK

The Bank subscribes to the Setswana proverb, ‘o o esi ga o ele’ which simply translates to ‘there is value in doing things as a team’. We continue to strive to work as a team to be able to reach our organisational goals.

ORGANISATIONAL CULTURE

The priority for the year ahead will be refining the Bank’s organisational value. This will involve a Culture Journey that requires the involvement of everyone in the organisation in the identification of an improved understanding of who we are, how we work, and our future organisational aspirations. The goal is to identify behaviours that ignite and enable an exciting work environment to ensure we not only enjoy working for the Bank but aspire to make the Bank an employer of choice.

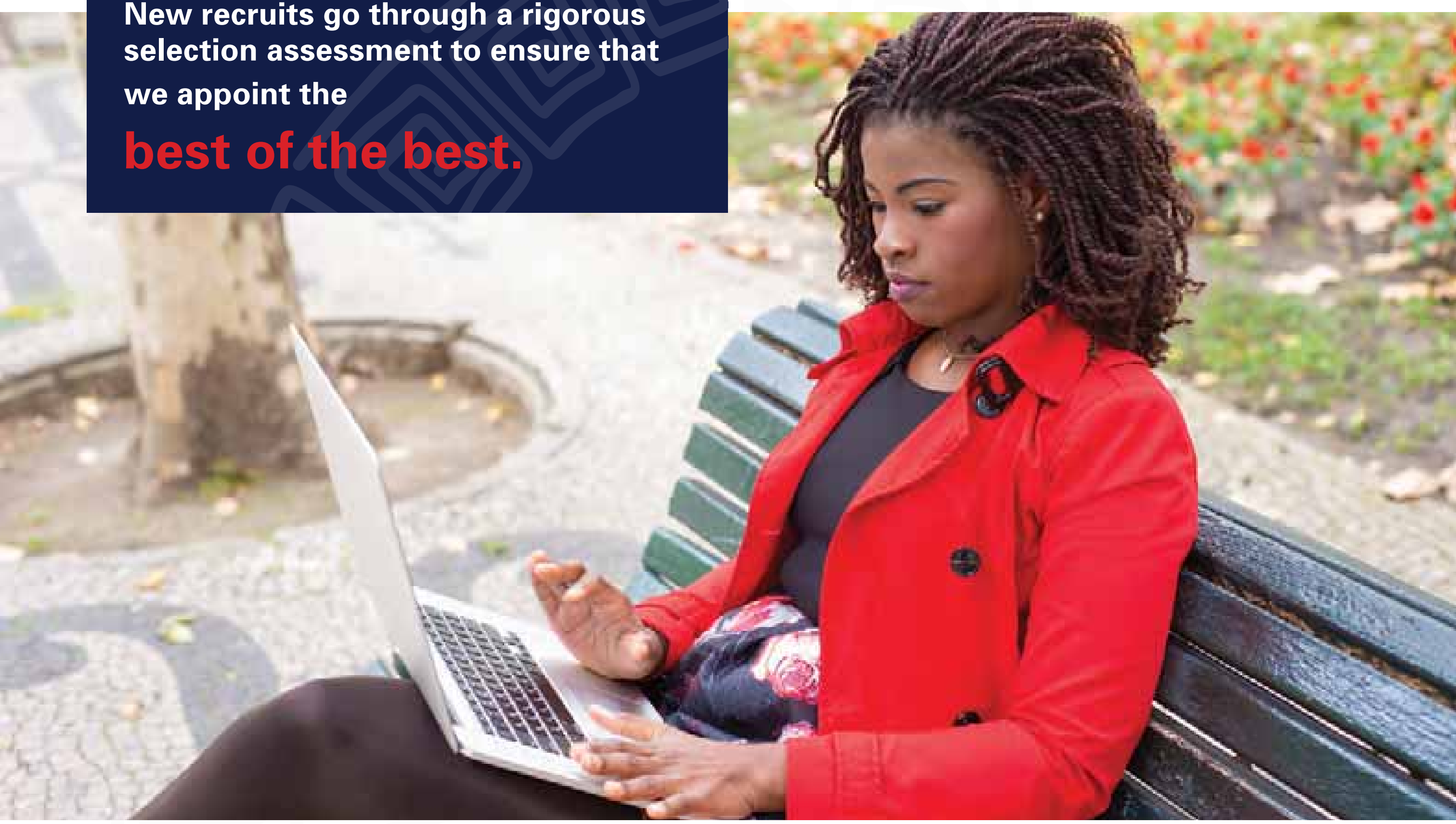
OUR NEW LOOK

Staff uniforms can play an important role in the success of an organisation.

Leading organisations ensure that all elements associated with the brand are a clear representation of the values and culture of the company and that the look of their environment, team, marketing and messaging is consistent. There’s also a correlation between employee performance and dress. Employees who take pride in their dress sense take pride in their work.

In line with this and as part of the Bank’s Culture Journey, new uniforms for our frontline staff and those working in the branch network were introduced in 2019. The uniforms speak to who we are, what we are about and where we are heading. It is the finishing touch that brings it all together and ensures our image is complete. It also creates an immediate point of difference for our brand and serves as a marketing tool and an employee morale booster in one package.

We are always looking for high performers to join our vibrant team. New recruits go through a rigorous selection assessment to ensure that we appoint the best of the best.



CORPORATE SOCIAL RESPONSIBILITY

BancABC Botswana's Corporate Social Responsibility (CSR) is premised on sustainablity with a long-term view to make a lasting impact on the communities in which we operate. We strive to ensure that we do not just maintain relevance but deliver a meaningful benefit for those affected. The use of international benchmarks on Environmental, Social and Governance (ESG) criteria plays an integral role in the CSR initiatives we undertake. This approach and the standards adopted are grounded on our wish to be progressively socially inclusive.

CSR ACTIVITIES

Our investments in CSR are aimed at making meaningful and sustainable contributions that will enable communities to gain skills, experience and tools that will change and improve their lives not just in the short-term but in the future as well.

The CSR programme therefore focuses on societal influence and sustainability, rather than just on the donation of funds to select activities and organisations. In addition, our employees take an active role in identifying and targeting initiatives that will enhance our CSR agenda. This collaborative approach allows us to ensure maximum impact and meaningful engagement.

In 2019, the Bank set aside P610,000 for CSR initiatives in the following categories:

Women and Children: Because these groups are the most vulnerable on the African continent, the Bank is focused on assisting with their economic upliftment.

Education: Initiatives that improve the quality of education are a core focus for the Bank, education plays a vital role in the upliftment of our communities.

Health and Disability: HIV and Aids, malaria, disabilities and maintaining a consistent supply of blood for the blood bank are all areas of concern in our communities, and therefore the Bank's as well.

In this review period, BancABC initiated and supported the following major projects:

National Blood Transfusion (Pledge 25)

Every year, the Ministry of Health and Wellness calls on the public to donate more blood due to depleting national blood reserves. We therefore partnered with National Blood Transfusion Services through their youth run division, Pledge 25. In 2019, P145,000 went to support these initiatives and will continue into 2020.

#LoveMyTeacherBW

#LoveMyTeacherBW is a teacher appreciation campaign that encourages all Batswana, regardless of age, to take a moment to show their appreciation for teachers, past and present as education and skills development are absolutely essential for the development of a strong economy.

The campaign will be an annual initiative, culminating in a book drive that will go beyond appreciation into support. In 2019, the Bank invested a total of P160,000 into this initiative which continued into 2020.

GOVERNANCE

CORPORATE GOVERNANCE REPORT STRUCTURE

THIS REPORT IS DIVIDED INTO 2 SECTIONS:

i. Ethical and Effective Leadership

ii. Board Of Directors

ETHICAL AND EFFECTIVE LEADERSHIP

The role and responsibility of the Board is to set the strategic direction and guide the implementation of the Bank's strategy. This is done in a manner that is compliant with the laws, rules, codes and standards in terms of King IV.

Management developed the strategy as well as the policies and procedures which have been approved by the Board. The implementation and execution of this strategy has been overseen by the Board to ensure that there is accountability for the Bank's performance through effective reporting and disclosure. This Board recognises that good Corporate Governance is essential to the running of the Bank in a manner that creates a good ethical culture as well as value for the shareholders under effective controls.

“A good objective of leadership is to help those who are doing poorly to do well and to help those who are doing well to do even better."
Jim Rohn

BOARD COMPOSITION AND STRUCTURE

The Board of Directors must incorporate the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibility objectively and effectively. The number of Board members was increased to nine with the appointment of the Finance Director. The effect of this is that the Board now has more than one point of direct interaction with management. The composition of the Board of Directors is compliant with the laws, rules and codes in that two thirds (2/3) of the directors are independent non- executive while a third, which includes the Managing Director and the Finance Director, are executives. Both the Chairperson and the Senior Director are independent non–executive Directors.

The Board of Directors is required to meet at least four times per annum. This year they met nine times to discuss a number of issues. They also met to receive training on their roles as directors of a listed company, and refresher training on compliance, AML and CFT. The Board Credit Committee members also received refresher training on the Credit Policy and Processes.

KING IV CHECKLIST

Principle	Code Principles	Status
Principles 1	The Board should lead ethically and effectively.	
Principles 2	The Board should govern the ethics of the organization in a way that supports the establishment of an ethical culture.	
Principles 3	The Board should ensure that the organization is and is seen to be a responsible corporate citizen.	
Principles 4	The Board should appreciate that the organization's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation.	
Principles 5	The Board should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organization's performance, and its short, medium and long-term prospects.	
Principles 6	The Board should serve as the focal point and custodian of corporate governance in the organization.	
Principles 7	The Board should comprise appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	*Note 1
Principles 8	The Board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power in the effective discharge of its duties.	
Principles 9	The Board should ensure that the evaluation of its own performance and that of its committees, its share and its individual members, support continued improvement in its performance and effectiveness.	
Principles 10	The Board should ensure that the appointment of, and delegation to, management contributes to overall clarity in the effective exercise of authority and responsibilities.	
Principles 11	The Board should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	
Principles 12	The Board should govern technology and information in a way that supports the organization setting and achieving its strategic objectives.	*Note 2
Principles 13	The Board should govern compliance with applicable laws and adopted, non-binding, codes and standards in a way that supports the organization being ethical and a good corporate citizen.	
Principles 14	The Board should ensure that the organization remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.	
Principles 15	The Board should ensure that assurance services and functions enable an effective control environment, and that they support the integrity of information for internal decision-making and of the organization's external reports.	
Principles 16	In the execution of its governance role and responsibilities, the Board should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time.	
Principles 17	The Board of an **institutional investor organization** should ensure that responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invests.	

***Note 1.** The Board has identified the need to appoint a Director with an Information Technology (IT) background to assist with the Digitization strategy.
***Note 2.** The Information Technology (IT) Governance structure has been put in place. There are ongoing reviews of Information Technology (IT) systems architecture and systems resilience, including business continuity planning and identification of areas for improvement.

SHAREHOLDER'S UPDATE

MAJOR SHAREHOLDERS ABOVE 5%

ABC HOLDINGS LIMITED

Country of Incorporation	Botswana
Nature of Business	ABC Holdings Limited ("the Company" or "ABCH") is the holding company of the African Banking Corporation group of companies (trading under the brand name BancABC or Atlas Mara), which comprise diverse financial services activities in the areas of corporate banking, treasury services, retail & Small to Medium Enterprises ("SME") banking, asset management and stock broking among other financial services.
Directors	Livingstone Takudzwa Gwata Jacob Jones Sikazwe Naran Maharajh Dr. Sharron Laverne McPherson Sanjeev Anand
Registered Office and place of business	Plot 62433, Fairgrounds office Park, Gaborone
Postal Address	Private Bag 00303
Date of Incorporation	1st December 1999
Auditors	KPMG
Bankers	BancABC Botswana
Company Secretary	Dorothy Tafadzwa Matiza
Functional Currency	US Dollars

FNB BOTSWANA NOMINEES (PTY) LTD RE: AG BPOPF EQUITY

Country of Incorporation	Botswana
Nature of Business	Pension Fund
Directors	S Mantswe (Chairman), A Gabana. N Joel, L Molodu, R Moses, T Rari
Registered Office	Plot 61920, Fairgrounds Office Park, Gaborone
Postal Address	Pvt Bag 00195, Gaborone
Date of Incorporation	08 April 2002
Auditors	Ernest & Young
Bankers	FNBB Nominee
Company Secretary	N/A
Functional Currency	BWP

Shareholder's Update (continued)

ANALYSIS OF SHAREHOLDERS

The following summarises the unitholders:

	Dec-19	Dec-19	Dec-19
Category	**Number of Shareholders**	**Number of shares held**	**% of shares held**
Public	461	114,240,207	15.76%
Non-public			
Directors' interest	-	-	-
African Banking Corporation Limited (Holding Company)	1	610,759,793	84.24%
Total	**462**	**725,000,000**	**100.00%**

	Dec-19	Dec-19	Dec-19
Shareholders Holding More Than 5%	**Number Of Shareholders**	**Number Of Shares Held**	**% Of Shares Held**
African Banking Corporation Limited	1	562,784,793	77.63%
Fnb Botswana Nominees (Pty) Ltd Re:AG BPOPF Equity	1	47,975,000	6.62%
Total	**2**	**610,759,793**	**84.24%**

SHAREHOLDER SPREAD BY NUMBER OF SHARES

	Dec-19	Dec-19	Dec-19	Dec-19
Range	**Number of Shareholders**	**% of Shareholders**	**Total Shares**	**% Holding**
<2000	206	0.02%	151,267	0.02%
2001-5000	106	0.05%	395,004	0.05%
5001-10000	42	0.05%	337,306	0.05%
10001-50000	58	0.22%	1,592,063	0.22%
500001-100000	8	0.09%	668,668	0.09%
100001-500000	15	0.54%	3,913,297	0.54%
>500000	27	99.03%	717,942,395	99.03%
	462	**100.00%**	**725,000,000**	**100.00%**

BOARD OF DIRECTORS

LORATO NTHANDO MOSETLHANYANE

Having worked as an accountant in different industries for over 17 years, rising to the position of Chief Finance Officer at a leading life Insurance company in Botswana before leaving the corporate world to pursue a career in leadership training and coaching. Mrs Mosetlhanyane brings a wealth of experience to the BancABC Board. She completed the Professional Coaching Course (PCC) through the Centre for Coaching, which is in partnership with the University of Cape Town's Graduate School of Business and New Ventures West (NVW) in San Francisco, to become a Certified Professional Integral Coach. She then set up PinnaLead which coaches and trains young and mature leaders, locally and internationally.

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

Board of Directors (continued)

JACOB MOOKETSI MOTLHABANE

Mr. Motlhabane is the Head of Private Equity at African Alliance in Botswana and was previously the Chief Executive Officer of Turnstar Holdings, a property company listed on the Botswana Stock Exchange. He has also served time as group strategic business development manager for Letshego Holdings Limited, a microfinance company with operations in 9 countries. He has excelled at various senior management positions as a member of executive management team charged with various responsibilities including, driving strategic directions, preparing business plans, including scope and budget and also driving new business opportunities throughout Africa as well as facilitating mergers and acquisitions.

Mr Motlhabane holds a Bachelor of Commence in Accounting from the University of Botswana and is currently pursuing a Masters of Business Administration at Mancosa in Botswana and Certificate in Management Accounting from the Chartered Institute of Management Accounting.

ADAMS DAMBE CHILISA

Mr. Chilisa is the Chief Executive Director of Gradam Holdings, a tourism company in Botswana and a Director of Chobe Holdings Limited, a company listed on the Botswana Stock Exchange that owns and operates eco-tourism lodges in Botswana and Namibia. Mr Chilisa has Bachelor of Science (BSc)degree and a Master of Arts in Business Administration (MBA) from Kensington University in California, USA. He also has a diploma in Hotel Management from Kenya Utalli College and an advanced Diploma in Labour Relations from UNISA Business School of Leadership. In addition, Mr Chilisa has completed an Industrial Relations Development Programme at Stellenbosch University, South Africa; and an Anglo-American Management Programme at UNISA School of Business.

Board of Directors (continued)

JOSHUA BENJAMIN GALEFOROLWE

Mr. Galeforolwe is a Managing Consultant for West Cliff Capital (Pty) Ltd., a corporate advisory and management consultancy company in Botswana, which led negotiations for the sale of a portion of shares held by Batswana citizen shareholders in Orange Botswana to France Telecom, with the support of other transaction advisors.

He has over 35 years experience in large scale performance and process improvement, leadership and strategic management, policy formulation, and the development of privatisation implementation strategies. Mr Galeforolwe is the former Chief Executive of the Public Enterprises Evaluation and Privatisation Agency (PEEPA). During his tenure, Mr. Galeforolwe oversaw the preparation and adoption of the Botswana government's first privatization master plan and the formulation and approval of the Public Private Partnership Policy Implementation Framework and PPP regulations. He was also involved in the development of the privatisation and transaction strategies for the Botswana Telecommunications Corporation and the National Development Bank (NDB)

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

BEATRICE HAMZA BASSEY

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

BOIKI MATEMA WABO TEMA

Mr. Tema has 24 years experience in banking and other financial services having worked in different capacities within the FirstRand Group and more recently as Coverage Director at Rand Merchant Bank Botswana (RMBB). He started his career as an Executive Trainee at First National Bank of Botswana Limited (FNBB) in 1994, rising through the ranks to hold numerous senior positions in the property finance, new business development, wholesale segment, and commercial banking divisions before being appointed Director, Property Finance Division.

He has a Bachelor of Arts (BA) in Economics from the University of Botswana, and a Master of Science (MSc) in Strategic Management from the University of Derby in the United Kingdom. He has completed Part 1 of a Diploma in Banking (Botswana Institute of Bankers) and a Diploma in Financial Management with Allenby College in South Africa. Mr Tema has served on the Boards of various executive management committees of FNBB, and on the Boards of subsidiary and associate entities such as FNBB Insurance Agency and FNBB Pension Fund. He has also been a member of the Botswana Post Board.

NTOTI MOSETLHE

Mrs. Ntoti Mosetlhe headed Debswana's Human Resources Department from 2008 to September 2018. During this time she led two restructuring processes to optimize the Head Office and improve cost efficiency at the mines, embedded a talent management and performance management system and implemented a workforce planning method aligned to Debswana's long term resource plan. Prior to her tenure at Debswana, she held the position of Deputy Chief Executive Officer at Botswana Housing Corporation where she led the Corporate Strategy and Corporate Performance Monitoring team. There she successfully led negotiations between all key stakeholders in rationalization and retrenchment process of the Corporation on two occasions.

Mrs Mosetlhe has a Bachelor of Administration degree from the University of Botswana and a certificate in Manpower Planning from the University of Sussex.

Board of Directors (continued)

KGOTSO ELVIS BANNALOTLHE

Mr. Bannalotlhe was appointed as BancABC's Managing Director on 7 August 2017. As such, he serves on the Board of Directors of BancABC and is a member of all the Board's Committees.

Mr. Bannalotlhe is a seasoned banker with over 15 years experience in regional and international financial institutions. Prior to joining BancABC, he was with Head, Corporate Investment Banking at Barclays Bank Botswana, Prior to that, he had held several positions senior positions at Barclays, including Country Treasurer and Head of Markets, having previously worked at First National Bank and at Standard Chartered Bank for seven years where his last role was Head of Global Markets and Co-Head of Wholesale Banking in Tanzania.

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

RATANG ICHO-MOLEBATSI

Ms. Ratang Icho-Molebatsi, is an experienced financial services executive with expertise in financial reporting, strategy, business planning and overall finance discipline and a strong track record as a trusted advisor to Boards of Directors, CEOs and Executive Management teams. Over the past 14 years she worked for financial services industry leaders including Deloitte and Touché and Stanbic Bank of Botswana before joining Old Mutual Botswana, as Group Chief Finance Officer from 2017 to 2019.

She holds a Bachelor of Social Sciences in Economics and Accounting (BA) from the University of Botswana; and an Association of Chartered Certified Accountants (ACCA), and Masters in Science - Strategic Management (MSc), both from Botswana Accountancy College (BAC)

SENIOR MANAGEMENT

Senior Management (continued)

KGOTSO BANNALOTHE

Managing Director

Refer to page 47 for Kgotso Bannalothe's profile.

RATANG ICHO-MOLEBATSI

Finance Director

Refer to page 47 for Ratang Icho-Molebatsi's profile.

THATO MMILE

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

Mrs. Thato Mmile is the Group Head of Legal for ABC Holdings Limited and Group Company Secretary. She is a Legal and Compliance Specialist with over 10 years international experience in the banking sector. Prior to her appointment with ABC Holdings Limited, she was the Head of Legal and Compliance of Standard Chartered Bank Mauritius Limited having also held several key executive positions at Standard Chartered Bank Botswana including Head of Legal, Company Secretary and Head of Legal and Compliance.

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

Mrs. Mmile holds a Bachelor of Laws from the University of Botswana.

NEO NDWAPI

Head of Human Capital

Mrs. Neo Ndwapi is responsible for Human Resources at BancABC. She joined African Banking Corporation in 2008 from Standard Chartered Bank where she had been Human Resources Manager.

Prior to joining the banking sector, Mrs Ndwapi worked for the United Nations Development Programme.

She has a Bachelor's Degree in Social Work from University of Botswana, a Diploma in Human Resources Management Damelin College and a Master's Degree in Business Administration De Montfort University. She has also attended the Gordon Institute of Business Science Management Leadership Development Programme.

Senior Management (continued)

GRACE SETLHARE-MANKANKU

Head, Retail Banking

Mrs. Grace Setlhare-Mankanku has held the position of Head of Retail at BancABC since 2017. She has joined the Bank as the Regional Head, Corporate and Investment Banking in 2015.

She started her career in the banking industry as an Executive Trainee at First National Bank Botswana (FNBB) before being appointed as a Corporate Analyst. She rose through the ranks, holding several positions including Manager Customer Service; Relationship Executive; Deputy Head, Corporate Banking; Director Wholesale Corporate Banking Segment and ultimately Director, FNBB Business Segment.

Mrs. Setlhare-Mankanku has a Bachelor of Commerce (Accounting) from the University of Botswana; and has completed a Management Development Programme from the University of Cape Town and a Senior Management Programme from the University of Pretoria Graduate School of Business. She also holds a Masters in Business Administration from Duke University, USA.

ITUMELENG MOREMONG

Country Head, Strategic Relationships

Mrs. Itumeleng Moremong joined BancABC as the Senior Relationship Manager, Corporate in 2010 and was subsequently appointed to the position of Country Manager – Schemes and Liabilities before taking up her present position as Country Head, Strategic Relationships.

She began her career in the financial industry in 2002 as a Dealer (Money Market Desk) at African Banking Corporation. In 2006 she moved to First National Bank Botswana (FNBB) as a Treasury Sales Executive, and later joined Standard Chartered Bank Botswana (SCBB) as Head, Financial Institutions.

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

Senior Management (continued)

POLELO KILNER

Head of Marketing and Communications

Mrs. Kilner has over 13 years experience in marketing, advertising and communications and joined BancABC in 2014 as the Country Marketing Manager. Prior to joining BancABC, she was employed by First National Bank Botswana (FNBB) as the Consumer Segment Marketing Manager. Still with FNBB, she held the position of a Marketing Executive responsible for marketing Product Houses.
Before joining FNBB, Polelo worked for OP Advertising as an Account Executive where she managed special projects for FNBB and Botswana Accountancy College.

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

MOLEFE PETROS

Head of IT

Mr. Molefe Petros has over 10 years experience in the IT industry involving a wide range of areas including software development; Business Analysis; System Documentation; and Project Delivery and Management.

Prior to joining BancABC, he was Chief Information Officer/Head Innovation Department at Bayport Financial Services Botswana. He has also worked for Barclays Bank of Botswana where he held various positions within the IT Department including IT Manager (Windows Platform – Distributed Engineering) and IT Applications Analyst. Prior to that he had held the position of IT System Analyst at the National AIDS Coordinating Agency; and as Lead Systems Developer at Data Generale in Australia.

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

Senior Management (continued)

SEGAMETSI SETHANTSHO

Head of Credit

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

She holds a Master's Degree in Leadership and Change Management Leeds Metropolitan University - UK and a BA Honors in Economics and Environmental Science the University of Botswana.

ONTIBILE BAAKILE

Acting Head of Risk

Ms. Ontibile Baakile is a Chartered Accountant with 17 years' accounting, audit and risk experience in the banking and insurance industries. She started her career with Grant Thornton Acumen as an Audit Trainee from 2001. In 2006 she moved to Metropolitan as a Financial Accountant and rose to the position of Finance Manager & Company Secretary. Before moving to Standard Chartered Bank Botswana where she held different roles including, Finance Business Partnering, Head of Risk and Controls and Senior Operational Risk Officer.

She joined BancABC Botswana in September 2019 as Operational Risk Manager and was appointed as Acting Head of Risk from 1 Dec.

With a qualification from Botswana Accountancy College, Ms. Baakile is fellow of both the Association of Chartered Certified Accountants ACCA and the Botswana Institute of Chartered Accountants. She also holds a Higher National Diploma in Accounting and Business Studies from Botswana Institute of Administration and Commerce. She is currently pursuing the Senior Manager Development Programme from University of Stellenbosch Business School.

Senior Management (continued)

RODWELL HABANA
Head of Internal Audit

Mr. Rodwell Habana is a Chartered Accountant with over 10 years experience in audit and finance. He started his career at KPMG as an Audit Trainee, rising to the position of Audit Supervisor. He then joined BancABC Botswana in 2014 as an Accountant, later becoming the Finance Manager before taking up his present role as Head of Internal Audit. He has also acted as BancABC's Head of Finance.

Mr. Habana serves as a Director at Kaleu (Pty) Ltd, a BancABC Botswana subsidiary providing insurance solutions. He has also served as a council member of ACCA Botswana.

He holds a BCom: Accounting Science from the University of Pretoria and is a fellow member of both the Association of Chartered Certified Accountants (ACCA) and the Botswana Institute of Chartered Accountants (BICA).

MR. JOHN M. KIMANI
Chief Operations Officer (COO)

Mr. John Kimani is a seasoned banker with over 29 years leadership experience in Corporate and Retail Banking, Global Payments, Technology, Business Development, Governance & Risk and Marketing in Botswana, South Africa and Kenya. He joined BancABC Botswana in 2019 from Standard Chartered Bank Botswana where he had held various senior positions, most recently as Chief Operations and Technology Officer.

Mr. Kimani holds a Post Graduate Diploma in Management Studies from MANCOSA (RSA) and a Management Development Programme Certificate (MDP) from University of Stellenbosch Business School. He is pursuing a Master of Business Administration (MBA) and an Executive Development Programme from University of Stellenbosch Business School.

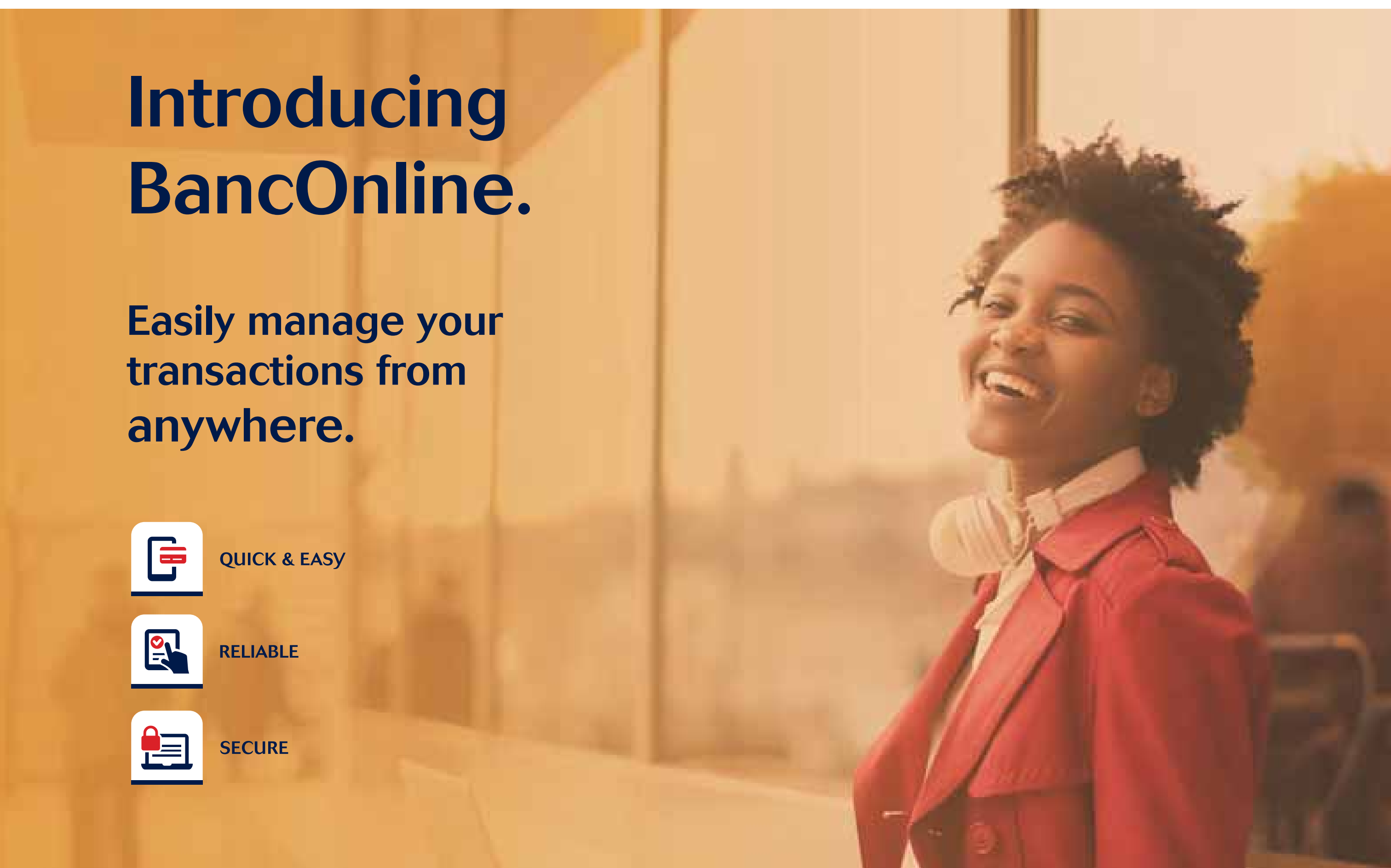
Senior Management (continued)

PAULINE MOTSWAGAE

Head of Commercial Banking

Ms Motswagae is an experienced financial services exertive with over 20 years banking experience in several organisations including Rand Merchant Bank (RMB) Botswana and Nigeria, FNB and Bank of Botswana. She has also worked for Debswana Diamond Company. Her extensive banking sector experience has ranged from Commercial Banking and Treasury to Cash Management and Trade Finance.

She has an MBA from the University of Stellenbosch; Bachelor of Economics and Accounting from the University of Botswana; Senior Development Programme from the University of Pretoria; and an Associate Diploma in Banking from the Botswana Institute of Banking and Finance (formerly known as Botswana Institute of Bankers).



Corporate Governance Structure (continued)

BOARD AND COMMITTEE ATTENDANCE

Director	Main Board	Remuneration and Nomination	Audit	Risk and Compliance	Loans Review	Credit
Lorato Nthando Mosetlhanyane	9/9	4/4	-	4/4	-	7/8
Adams Dambe Chilisa	9/9	4/4	-	-	4/4	-
Jacob Mooketsi Motlhabane	9/9	-	4/4	-	-	8/8
***Joshua Benjamin Galeforolwe**	9/9	3/4	4/4	-	-	-
Boiki Matema Wabo Tema	9/9	-	4/4	-	-	8/8
Ntoti Mosetlhe	9/9	-	-	4/4	3/4	-
Beatrice Hamza Bassey	9/9	4/4	-	4/4	4/4	-
Kgotso Elvis Bannalotlhe	9/9	-	-	-	-	-
***Ratang Icho-Molebatsi**	2/3	-	-	-	-	-

** Mr. Galeforolwe only joined the Remuneration & Nomination Committee in Q2*
** Ms. Ratang Icho-Molebatsi took up office effectively on September 2, 2019 and only missed 1 meeting after her appointment*

BOARD EVALUATION

The Board of Directors conducts an annual evaluation through an external facilitator to assess its own performance, that of the committees, the chairperson and the other members in order to assess the areas requiring improvement in its performance and effectiveness. An evaluation of the results has been done and remedial actions where required have been put in place.

BOARD AND BOARD COMMITTEES

COMMITTEES

The Board of Directors has delegated some of its powers to the Committees listed below to promote independent judgement, assist with the balance of power and to effectively discharge its duties.

Each Committee has formal terms of references which are reviewed on an annual basis to ensure compliance with laws, rules and codes. Each Committee has three members, the majority of whom are required to be independent non–executive members. The Managing Director and the Finance Director are not members of any of the Committees. They do however attend some of the meetings by invitation from the respective committee chairs.

LOANS REVIEW COMMITTEE

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

RISK AND COMPLIANCE COMMITTEE

The Risk and Compliance Committee meets four times per year. It assists the Board in overseeing the compliance policies and procedures across the Company and provides oversight and advice to the Board in respect of the Bank's risk appetite, risk monitoring, capital management and compliance requirements as well as current risk exposures and future risk strategy. It also assists the Board in monitoring and reviewing the effectiveness of the credit and risk functions in the context of the Company's overall risk management framework and in maintaining appropriate compliance policies and procedures to ensure compliance with all applicable legal and regulatory requirements.

The Committee is chaired by
Ms Beatrice Hamza-Bassey

Audit Committee

The Audit Committee meets four times per year to monitor the integrity of the financial statements of the Bank, including its annual and half-yearly reports, prospectuses, trading updates, interim management statements, and any other formal announcement relating to its financial performance. It reviews and reports to the Board on significant financial reporting issues and judgements with regard to matters communicated to it by the Bank's auditors. In particular, the Committee ensures the Company follows appropriate accounting standards and has made appropriate estimates and judgements, taking account of the views of the external auditor, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made and all material information presented with the financial statements.

The Committee is chaired by
Mr Jacob Motlhabane.

REMUNERATIONS AND NOMINATIONS COMMITTEE

This Committee meets four times per year to discuss and make recommendations on the appointment of new executive and non-executive directors. It also reviews and makes recommendations regarding the composition of the Board generally and the balance between executive and non-executive directors, regularly reviewing the Board structure, size and composition.

The Committee is chaired by
Mr Joshua Benjamin Galeforolwe.

Credit Committee

The Credit Committee meets every week to consider and approve applications for loans of between US$500,000 and US$1million.

The Committee is chaired by
Mr Boiki Tema.

RISK

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

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

RISK PRIORITIES

Risk Culture

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

Enhance Control Environment

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

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

Financial Crime Risk

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

Information Technology and cyber security risks

The increasing threat and focus by regulators on information technology and cyber security risk has led to enhanced focus in the Bank, especially in light of increased digitisation. Significant progress has been made. With the evolving nature of this risk, continuous monitoring, assessment and investment is necessary.

Risk (continued)

PRINCIPAL RISKS

RISKS	MITIGATION ACTIONS
Liquidity and Funding Risk We have a strong capital and liquidity position to support the business on a sustainable basis. We also continuously enhance and align our risk management frameworks to reflect the changes in the industry, thus ensuring that we can proactively anticipate and respond to any liquidity threats.	• Ongoing assessment of liquidity risk frameworks and adoption of updated practices. • Proactive management and forecasting of liquidity positions. • Transformation of the structure of the balance sheet.
Operational Risk Operational Risk changes rapidly with changes in customer needs and the banking landscape. It is therefore imperative that BancABC continuously evolves and employs risk management practices that allow us to stay relevant. We have several initiatives to improve risk culture, enhancement of processes to reduce the level of inherent risk largely through automation, and improve risk identification to enable a more proactive management of risk.	• Appropriate skills training and elevation of employee awareness across the Bank of fraud, controls and self-assessments. • Ongoing review of IT systems architecture and systems resilience, including with respect to business continuity planning and identification of areas for improvement. • Active focus from senior management on the execution of integration and performance enhancement programmes. • Enhancements to operational risk policies and processes to ensure compliance with safe practices and a secure controls environment.
Credit Risk Credit Risk arises from lending and other financing activities comprising the Bank's core business. The Bank may be adversely impacted by an increase in its credit exposure related to lending, trading and other business activities. Credit risk also stems from the possibility of losses arising from the failure of customers or counterparties to meet their financial obligations timeously.	• Well-considered credit policies incorporating prudent lending criteria. • Well-defined authority and governance structures with appropriate separation between origination and sanctioning. • Improvements to credit processes and controls, including proactive portfolio monitoring especially with the preNPL portfolio and effective remedial management. • Stress testing and scenario planning.
Market Risk BancABC may be adversely impacted by both global and local markets and economic conditions that can lead to fluctuations in interest and exchange rates, as well as equity and commodity prices. It may also be adversely impacted by significant holdings of financial assets, significant loans, or commitments to extend loans.	• Vigilant monitoring of macroeconomic and geopolitical conditions. • Establishment and regular monitoring of trading limits and positions. • Rates hedging programmes, both with respect to interest rates and foreign exchange. • Stress testing and scenario planning.
Compliance Risk It is imperative that the business is positioned to respond appropriately to evolving and increasing regulatory and legislative requirements.	• Frequent interactions with regulators. • Active dialogues with relevant government officials and monitoring of events potentially impacting our business. • Improving compliance systems and controls.
Reputational Risk Damage to the BancABC brand arising from any association, action or inaction which is perceived by customers, regulators, shareholders or other stakeholders as inappropriate or unethical would impact the company's ability to achieve its strategic goals.	• Continuous emphasis on a culture of excellence and integrity to preserve and enhance our reputation. • Sustaining a robust internal audit function to ensure compliance with standards, policies and procedures. • Continuous proactive engagement with relevant stakeholders.

FINANCIAL STATEMENTS

Directorate, management and administration

Board of Directors

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

Company Secretary

Mrs Thato Mmile

Management

Mr Kgotso Bannalotlhe	Managing Director
Mrs Pauline Motswagae	Head of Commercial Banking
Mrs Ratang Icho-Molebatsi	Finance Director
Mr John Kimani	Chief Operating Officer
Mrs Neo Ndwapi	Head of Human Capital
Ms Ontibile Baakile	Head of Risk (Acting)
Mrs Itumeleng Moremong	Head of Strategic Relationships
Mrs Segametsi Sethantsho	Head of Credit
Mr Molefe Petros	Head of Information Technology
Mrs Thato Mmile	Head of Legal,Compliance & Company Secretary
Mrs Kagiso Grace Setlhare-Mankanku	Head of Retail Banking
Mrs Polelo Kilner	Head of Marketing and Communications
Mr Rodwell Habana	Head of Internal Audit

Administration

Registered Office:

ABC Botswana
ABC House
Plot 62433
Fairgrounds Office Park
Gaborone
Botswana

Telephone: 3674300
Fax: 3902131

Auditors

KPMG
Plot 67977
Fairgrounds Office Park
P O Box 1519
Gaborone

Bankers

Standard Bank of South Africa Limited
Standard Chartered Bank New York
Citibank New York
Commerz Bank
First Rand

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of African Banking Corporation of Botswana Limited for the year ended 31 December 2019.

Activities

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

Stated capital

The issued share capital of the bank comprised of 725 000 000 ordinary shares at the end of the year.

Dividend

P20.5 million interim dividend was declared and paid during the current financial year.

Directorate

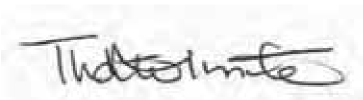
In September 2019, BancABC welcomed Mrs. Ratang Icho - Molebatsi as Finance Director from Old Mutual Botswana. Mrs. Icho - Molebatsi adds to the Board, a wealth of experience, with her expertise in financial reporting, strategy, business planning and overall finance discipline. BancABC will bid farewell to Mr. Adams Dambe Chilisa on 31st March 2020 who will resign from his service as a Board Member after over 7 years on the BancABC Board.

The members will be asked to approve the directors' emoluments for the year ended 31 December 2019 amounting to P3,696,947 (2018: P3,349,000).

Events after the reporting date

On the 11 March 2020 the World Health Organisation declared the Coronavirus COVID 19 outbreak to be a pandemic due to its rapid spread across the globe. The Botswana Government has taken stringent measures ahead of any confirmed cases to help contain the virus such as controlling entrants into the country at the borders, implementing social distancing measures and requiring self- isolation quarantine by those potentially affected. These measures are similar, though at early stage, to those adopted by other countries which has led to weaker economic outlook globally. As a result, the bank will likely experience a decrease in profitability especially by the second quarter of the year due to decline in revenue, possible increase in cost of funding or increased impairments as customers and businesses potentially become affected by the pandemic.

As at date of this report there is no sufficient data to quantify the effects of the pandemic however based on the preliminary assessments the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the banks' ability to continue as a going concern.



Mrs Thato Mmile
Company Secretary

Directors' statement of responsibility and approval

To the Shareholders of African Banking Corporation of Botswana Limited.

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

The directors consider that, in preparing the financial statements for the year ended 31 December 2019 on pages 67 - 143, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

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

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

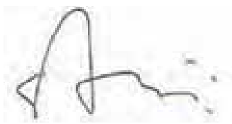
The auditors’ responsibilities are stated in their report to the shareholders on page 63.

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

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

The board of directors have reviewed and approved the accompanying financial statements, set out on pages 67 - 143 for issue.

Mrs. Lorato Nthando Mosetlhanyane
Chairperson



Mr Kgotso Bannalotlhe
Managing Director

Independent Auditor's Report

To the Shareholders of African Banking Corporation of Botswana Limited.

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

Opinion

We have audited the consolidated and separate financial statements of African Banking Corporation of Botswana Limited (the Group and Company), set out on pages 67 to 143, which comprise the statements of financial position as at 31 December 2019, the statements of 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 our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of African Banking Corporation of Botswana Limited as at 31 December 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.

Other matter

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

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

As disclosed in note 36 to the financial statements, Covid-19 affects the Group and the Company and results in certain uncertainties for 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 consolidated and separate 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 in the consolidated and separate 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. 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 levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Covid-19.
Note 20 - Loans and advances to customers.

Key audit matters

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

Impairment of loans and advances to customers

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

Refer to the following notes in the consolidated and separate financial statements:
Note 2.1 - Significant accounting judgements, estimates and assumptions – measurement of expected credit loss allowance
Note 2.21 - Financial instruments
Note 3.1 - Credit risk
Note 4.1 - Significant estimates and judgements - measurement of expected credit loss
Note 6 - Changes in expected credit losses
Note 20 - Loans and advances to customers

The key audit matter	How the matter was addressed in our audit
The Group's and the Company's core business involves providing loans and advances to retail and corporate customers. In the consolidated and separate financial statements, gross loans and advances to customers amount to BWP 6.72 billion and BWP 6.2 million respectively as at 31 December 2019 and the change in expected credit losses for the year amounts to BWP 278 million and BWP 302 million as at 31 December 2019. The expected credit loss (ECL) model applied to measure impairment requires management to exercise significant judgement in the determination of expected credit losses. Management calculates the ECL using statistical models. In the current year management changed the methodology used to determine ECL from a single default methodology to a technical default methodology. The following inputs to these models require significant management judgement: • Determination of significant increase in credit risk (SICR); • Determination of macroeconomic inputs and forward looking information into the SICR assessment and ECL measurement; and • Estimation of the probability of default, the exposure at default and the loss given default. In addition to the above, judgement is also applied to determine whether any post model overlays are required for credit risk elements which are not captured by the models. Due to the significance of the loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL, the impairment of loans and advances to customers was considered to be a key audit matter.	Our procedures included the following: - We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan impairment process, focusing on the identification of 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 Group's and the Company's loan origination process and credit reviews. - Where expected credit losses were calculated on a modelled basis, we performed the following procedures, in conjunction with our credit risk specialists: • We critically assessed the ECL models developed by management by using a challenger model and applying independent inputs to evaluate the appropriateness of the ECL model and output; • We assessed the completeness, accuracy and validity of data and inputs used during the development and application of the ECL models; • We challenged the parameters and significant assumptions applied in the calculation models which included SICR, estimated macroeconomic inputs and forward looking information, the estimated probability of default, exposure at default and loss given default by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions. • We inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral; and • We assessed the collateral valuation techniques applied against the credit policy and industry standards. - We evaluated the appropriateness of management's additional post model overlays by independently assessing the reasonability of the assumptions and judgements made by management. - We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 9: Financial Instruments and IFRS 7: Financial Instruments Disclosures.

Other Information

The directors are responsible for the other information. The other information comprises the Directorate, management and administration, Directors' report and the Directors' statement of responsibility and approval, which we obtained prior to the date of this auditor's report, and the "Annual report for the year ended 31 December 2019", which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements which give a true and fair view in accordance with International Financial Reporting Standards and 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.

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

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

KPMG

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

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

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

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

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

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

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

KPMG
Certified Auditors
Practicing member: AG Devlin 19960060
31 March 2020
Gaborone

Statement of comprehensive income

for the year ended 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Effective interest and similar income		744,306	748,923	744,306	748,923
Effective interest expense and similar charges		(332,381)	(330,931)	(337,737)	(334,969)
Net interest income	5	**411,925**	**417,992**	**406,569**	**413,954**
Expected Credit Losses	6	15,658	18,906	15,658	18,906
Net interest income after expected credit losses		**427,583**	**436,898**	**422,227**	**432,860**
Net trading income	7	12,860	14,865	12,860	14,865
Net fee and commission income	8	114,214	118,138	83,638	89,183
Total net revenue		**554,657**	**569,901**	**518,725**	**536,908**
Personnel expenses	9	(156,351)	(144,979)	(155,281)	(144,203)
General and administrative expenses	10	(128,202)	(159,391)	(126,561)	(156,160)
Depreciation and amortisation expenses	11	(38,116)	(26,422)	(38,116)	(26,422)
Other operating expenses	12	(79,692)	(73,693)	(79,692)	(73,693)
Total operating expenses		**(402,361)**	**(404,485)**	**(399,650)**	**(400,478)**
Profit before tax		**152,296**	**165,416**	**119,075**	**136,430**
Income taxation expense	13	(30,499)	(37,234)	(23,188)	(30,845)
Profit for the year		**121,797**	**128,182**	**95,887**	**105,585**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Gain on revaluation of land and buildings		1,090	4,440	1,090	4,440
Deferred tax on revaluation of land and buildings	13.3	(240)	(977)	(240)	(977)
Other comprehensive income for the year		**850**	**3,463**	**850**	**3,463**
Total comprehensive income for the year		**122,647**	**131,645**	**96,737**	**109,048**
Earnings per share					
Basic and diluted earnings per share (thebe)	14	17	204	13	168
Headline Earnings per share					
Basic and diluted earnings per share (thebe)	14	17	204	13	168

The notes on pages 122 to 143 are an integral part of these financial statements.

Statement of financial position

as at 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Assets					
Cash and balances with the Central Bank	**16**	77,138	424,734	77,138	424,734
Balances with other banks	**18**	904,537	845,788	904,537	845,788
Balances due from related parties	**17.1**	633,118	528,780	633,118	528,780
Derivative financial assets	**34**	60,487	62,755	60,487	62,755
Debt instruments	**19**	642,818	1,162,700	642,818	1,162,700
Loans and advances to customers	**20**	6,443,556	5,809,123	6,443,556	5,809,123
Other assets	**21**	62,359	53,100	51,323	49,680
Current tax assets	**27.1**	18,124	12,544	19,583	12,733
Deferred tax asset	**27.2**	28,220	50,553	28,220	50,553
Intangible assets	**28**	104,347	110,833	104,347	110,833
Property and equipment	**29**	129,860	69,705	129,860	69,705
Total assets		**9,104,564**	**9,130,615**	**9,094,987**	**9,127,384**
Liabilities					
Deposits from banks	**22**	66,844	16,321	66,844	16,321
Deposits from customers	**22**	6,973,892	7,192,452	6,973,892	7,321,048
Derivative financial liabilities	**34**	59,618	59,173	59,618	59,173
Balances due to related parties	**17.2**	17,662	54,201	165,228	54,201
Other liabilities	**26**	147,014	92,787	132,191	77,370
Borrowed funds	**23**	763,172	742,880	763,172	742,880
Total liabilities		**8,028,202**	**8,157,814**	**8,160,945**	**8,270,993**
Equity					
Stated capital	**24**	222,479	222,479	222,479	222,479
Retained earnings	**25.3**	838,497	735,786	696,177	619,376
Revaluation reserve	**25.2**	9,295	8,445	9,295	8,445
Other reserves	**25.1**	6,091	6,091	6,091	6,091
Total equity		**1,076,362**	**972,801**	**934,042**	**856,391**
Total equity and liabilities		**9,104,564**	**9,130,615**	**9,094,987**	**9,127,384**

The notes on pages 122 to 143 are an integral part of these financial statements.

Statement of changes in equity

as at 31 December 2019

Consolidated

	Notes	Stated capital P'000	Other reserves P'000	Revaluation reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2018		**222,479**	**6,091**	**4,982**	**607,604**	**841,156**
Profit for the year		-	-	-	**128,182**	**128,182**
Revaluation of land and buildings	**25.2**	-	-	4,440	-	4,440
Deferred tax on revaluation of land and buildings	**25.2**	-	-	(977)	-	(977)
Total comprehensive income		**-**	**-**	**3,463**	**128,182**	**131,645**
At 31 December 2018		**222,479**	**6,091**	**8,445**	**735,786**	**972,801**
At 1 January 2019		**222,479**	**6,091**	**8,445**	**735,786**	**972,801**
Adjusted balance 1 January 2019		**222,479**	**6,091**	**8,445**	**735,786**	**972,801**
Profit for the year		-	-	-	121,797	121,797
Dividend declared and paid	**25.3**	-	-	-	(20,526)	(20,526)
Adjustment on initial application of IFRS 16, net of tax	**25.3**	-	-	-	1,440	1,440
Revaluation of land and buildings	**25.2**	-	-	1,090	-	1,090
Deferred tax on revaluation of land and buildings	**25.2**	-	-	(240)	-	(240)
Total comprehensive income		**-**	**-**	**850**	**102,711**	**103,561**
At 31 December 2019		**222,479**	**6,091**	**9,295**	**838,497**	**1,076,362**

Statement of changes in equity (continued)

as at 31 December 2019

Company

	Notes	Stated capital P'000	Other reserves P'000	Revaluation reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2018		**222,479**	**6,091**	**4,982**	**513,791**	**747,343**
Profit for the year		-	-	-	105,585	105,585
Revaluation of land and buildings	**25.2**	-	-	4,440	-	4,440
Deferred tax on revaluation of land and buildings	**25.2**	-	-	(977)	-	(977)
Total comprehensive income		**-**	**-**	**3,463**	**105,585**	**109,048**
At 31 December 2018		**222,479**	**6,091**	**8,445**	**619,376**	**856,391**
At 1 January 2019		**222,479**	**6,091**	**8,445**	**619,376**	**856,391**
Adjusted balance 1 January 2019		**222,479**	**6,091**	**8,445**	**619,376**	**856,391**
Profit for the year		-	-	-	95,887	95,887
Dividend declared and paid		-	-	-	(20,526)	(20,526)
Adjustment on initial application of IFRS 16, net of tax		-	-	-	1,440	1,440
Revaluation of land and buildings	**25.2**	-	-	1,090	-	1,090
Deferred tax on revaluation of land and buildings	**25.2**	-	-	(240)	-	(240)
Total comprehensive income		**-**	**-**	**850**	**76,801**	**77,651**
At 31 December 2019		**222,479**	**6,091**	**9,295**	**696,177**	**934,042**

The notes on pages 122 to 143 are an integral part of these financial statements.

*The adoption of IFRS 16 resulted in the derecognition of P1.4mio of deferred operating lease liability relating to IAS 17_Lease accounting standard.

Statement of cash flows

for the year ended 31 December 2019

	Notes	Consolidated 2019 P'000	Consolidated 2018 P'000	Company 2019 P'000	Company 2018 P'000
Cash flows from operating activities					
Profit before tax		152,296	165,416	119,075	136,430
Adjusted for:					
Depreciation	**29**	19,079	12,216	19,079	12,216
Amortisation of intangible assets	**28**	19,037	14,206	19,037	14,206
Expected credit losses	**6**	(15,658)	(18,906)	(15,658)	(18,906)
Fair value adjustment on derivatives		2,712	(1,192)	2,712	(1,192)
Prior year over/under provision		3,013	-	3,013	-
Movement in deferred lease liability		-	451	-	451
Taxation Paid	**27.1**	(13,986)	(34,715)	(7,945)	(27,866)
Cash flows from operating activities before changes in operating assets and liabilities		**166,493**	**137,476**	**139,313**	**115,339**
Movement in operating assets/liabilities:					
Loans and advances to customers		(618,774)	(276,093)	(618,774)	(276,093)
Balances due from related parties		(104,338)	99,508	(104,338)	99,508
Other assets		397,108	(118,481)	405,602	(117,168)
Deposits from customers and banks		(168,037)	1,018,135	(347,156)	1,046,136
Other liabilities		(6,575)	7,894	43,661	717
Balances due to related parties		(36,539)	21,515	111,027	21,515
Net cash from operating activities		**(370,662)**	**889,954**	**(370,665)**	**889,954**
Cash flows from investing activities					
Purchase of property and equipment	**29**	(11,242)	(9,448)	(11,239)	(9,448)
Purchase of intangibles assets	**28**	(11,167)	(34,698)	(11,167)	(34,698)
Work in progress	**28**	(1,384)	-	(1,384)	-
Net cash used in investing activities		**(23,793)**	**(44,146)**	**(23,790)**	**(44,146)**
Cash flows from financing activities					
Dividend paid		(20,526)	-	(20,526)	-
Proceeds from borrowed funds		99,922	150,000	99,922	150,000
Repayments on borrowed funds		(79,630)	(91,026)	(79,630)	(91,026)
Payment of lease liabilities		(3,783)	-	(3,783)	-
Net cash from financing activities		**(4,017)**	**58,974**	**(4,017)**	**58,974**
Net (decrease) increase in cash and cash equivalents		(398,472)	904,782	(398,472)	904,782
Cash and cash equivalents at beginning of year		1,778,817	874,035	1,778,817	874,035
Cash and cash equivalents at end of year		**1,380,345**	**1,778,817**	**1,380,345**	**1,778,817**
Cash and cash equivalents comprised of:					
Balances with other banks	**18**	904,537	845,788	904,537	845,788
Debt instruments	**19.1**	398,813	815,440	398,813	815,440
Cash and balances with the Central Bank	**16**	76,995	117,589	76,995	117,589
		1,380,345	**1,778,817**	**1,380,345**	**1,778,817**

The notes on pages 122 to 143 are an integral part of these financial statements.

Significant accounting policies

for the year ended 31 December 2019

General information

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

1 Basis of preparation

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

The annual financial statements of the group for the year ended 31 December 2019 were authorised for issue by the board of directors on 30 March 2020.

This is the first set of the Group's annual financial statements in which IFRS 16: Leases has been applied (Accounting policy note 1.3). Changes to significant accounting policies are described in the notes below:

Comparatives

The financial statements comprise the statement of profit or loss and comprehensive income showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumption and estimates are significant to the financial statement are disclosed.

Basis of consolidation

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

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

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

1.1 Standards and Interpretations in issue but not yet effective:

The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Amendments of References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

1 Basis of preparation (continued)

1.1 Standards and Interpretations in issue but not yet effective (continued):
Amendments of References to Conceptual Framework in IFRS Standards (continued)

The IASB also updated 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.

Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply new guidance retrospectively as at 1 January 2020, unless the new guidance contains specific scope outs.

This standard is not expected to have any material impact on the Group's financials.

Definition of a Business (Amendments to IFRS 3)
Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute to a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this ammendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

- Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.
- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

This standard is not expected to have any material impact on the Group’s financials.

Definition of Material (Amendments to IAS 1 and IAS 8)
The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of ‘material’ which is quoted below from the final amendments

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

Insurance Contracts (IFRS 17)
FRS 17 is effective for annual reporting periods beginning on or after 1 January 2021 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied.

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income

IFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts.

This standard is not expected to have any material impact on the Group’s financials.

1 Basis of preparation (continued)

1.2 Early adoption of standards

The Group did not early-adopt new or amended standards in 2019.

1.3 Changes in accounting policies

The accounting policies disclosed for the consolidated financial statements apply equally to the Company's separate financial statements unless otherwise specified. In preparing these financial statements, the Group adopted the following new and revised amendments and interpretations effective in 2019 that are relevant to the Group:

Applicable standards, interpretations and amendments issued and effective:

The Group has adopted IFRS16 Leases from 1 January 2019. A number of other interpretations and amendments are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

Due to the modified retrospective approach chosen by the Group in applying IFRS 16 Leases, comparative information throughout these financial statements have not been restated to reflect its requirements.

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

IFRS 16 – Leases

A lease contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

The lease term is defined as the non-cancellable period of a lease. The group has elected to apply the recognition exemption for leases for which the underlying asset is of low value.

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Right of use assets have been included with property and equipment. Refer to note 29

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments.

Lease liability is disclosed as part of other liabilities refer to note 26

The Group leases properties that are primarily used to house the branch network. These are leased at varies tenors and terms.

Remeasurement of lease liabilities

IFRS 16 requires lessees to remeasure lease liabilities when there is a lease modification (i.e., a change in the scope of a lease, or the consideration for a lease that was not part of the original terms and conditions of the lease) that is not accounted for as a separate contract. Lessees are also required to remeasure lease payments upon a change in any of the following:

- The lease term
- The assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset
- The amounts expected to be payable under residual value guarantees
- Future lease payments resulting from a change in an index or rate
- In-substance fixed lease payments

1 Basis of preparation (continued)

1.3 Changes in accounting policies (contimued)

Remeasurement of lease liabilities (continued)

Lessees use a revised discount rate when lease payments are updated for a change in the lease term or a revised assessment of a purchase option. The revised discount rate is based on the interest rate implicit in the lease for the remainder of the lease term. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lessees use the original discount rate when lease payments are updated for a change in expected amounts for residual value guarantees and payments dependent on an index or rate, unless the rate is a floating interest rate

Lease modifications

A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

If a lease is modified (i.e., a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease), the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, lease modification can result in:

- A separate lease.
- A change in the accounting for the existing lease (i.e., not a separate lease)

The exercise of an existing purchase or renewal option or a change in the assessment of whether such options are reasonably certain to be exercised are not lease modifications but can result in the remeasurement of lease liabilities and right-of-use assets.

Adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

The Group has applied the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability.
- The remaining term from the date of transition is not more than 12 months
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has 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 relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

1 Basis of preparation (continued)

1.3 Changes in accounting policies (contimued)

IFRS 16 – Leases (continued)

Adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of prime+2% as of 1 January 2019.

As at 1st January 2019

	Consolidated		Company	
	2019 P'000	**2018 P'000**	**2019 P'000**	**2018 P'000**
Operating lease commitments disclosed as at 31 December 2018	27,437	-	27,437	-
Discounted using the incremental borrowing rate at 1 January 2019	-	66,902	-	66,902
Lease liability recognised as at 1 January 2019	**-**	**66,902**	**-**	**66,902**
				-
Analysed into:				
Current lease liabilities	-	10,357	-	10,357
Non-current lease liabilities	-	56,545	-	56,545
Total	**-**	**66,902**	**-**	**66,902**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability. The recognised right-of-use assets relate to the following types of assets:

As at 1st January 2019

	Consolidated		Company	
	2019 P'000	**2018 P'000**	**2019 P'000**	**2018 P'000**
Land and buildings	58,942	66,902	58,942	66,902
Total right-of-use assets	**58,942**	**66,902**	**58,942**	**66,902**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment – Nil
- right-of-use assets – increase BWP 66,902
- lease liabilities – increase BWP 66,902

The net impact on retained earnings on 1 January 2019 was BWP 1,440

2 Significant accounting policies

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

2.1 Significant accounting judgements, estimates and assumptions

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

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

- Determination of the fair value of financial instruments with significant unobservable inputs (note 3.4)
- Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used (note 27.2)
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows (note 3.1)

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

Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses. Explanations of the inputs assumptions and estimation techniques used in measuring ECL is further detailed on IFRS 9 note 2.21, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

2.2 Functional currency and presentation currency

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

2.3 Foreign currency transactions

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

Net trading income comprises gains less losses on day to day forex trading.

2 Significant accounting policies (continued)

2.4 Financial instruments

2.4.1 Fair value

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

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

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

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

2.5 Interest income and expense

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

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

2.6 Fee and commission income

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

2 Significant accounting policies (continued)

2.6 Fee and commission income (continued)

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

2.7 Income tax

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

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2.8 Deferred tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The recognition of deferred tax assets is based on profit forecasts made by management of the particular Group Company where the asset has arisen. These forecasts take into account the Group’s re-capitalisation plans of the subsidiary and market conditions prevailing in the economy in which the Company operates.

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

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

2 Significant accounting policies (continued)
2.9 Property and equipment

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

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

- Commercial Buildings	40 Years
- Motor vehicles	5-6 Years
- Furniture	10 Years
- Office equipment	5 Years

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

Gains and losses on disposal of plant and equipment, which arise in the normal course of business are determined by reference to the asset carrying amounts compared to the proceeds received and are recognised in profit or loss. Any gain arising on the remeasurement is recognised in profit or loss to the extent that it reverses previous impairment loss on the specific property, with any remaining gain is recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss. However to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

An impairment loss on a non-revalued asset is recognized in profit or loss. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets. The Group transfers the revaluation reserve to retained earnings upon disposal.

2.10 Intangible assets
Software

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

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. The policy below relates to software and related software development costs

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

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

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

This relates to software and the Group incurs costs on software development.

2 Significant accounting policies (continued)

2.11 Impairment of non-financial assets (Intangible assets)

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

2.12 Repossessed property

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

2.13 Provisions

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

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

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

2.14 Financial guarantee contracts and loan commitments

2.14.1 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

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

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

2.14.2 Loan commitments

Loan commitments are firm commitments to provide credit under pre-specifiedterms and conditions.

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

Subsequent measurement of loan commitments are measured at higher of:
- the amount of the loss allowance determined
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

2.15 Employee benefits

(a)DefinedContribution plans

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

2.15 Employee benefits (continued)

(b) Other short term employee benefits

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

The Group assists officers and employees in respect of housing, motor vehicles and personal loans at subsidised rates as part of their remuneration package. The loans to employees are fair valued at the prevailing market interest rate at the time of origination. The loans are held as financial assets at amortised cost. Difference between fair vale and amortised cost is calucluated and expense through profit and loss over the tenure of the loan.

2.16 Stated capital

Share issue costs

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

Dividends on ordinary shares

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

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

2.17 Lease agreements

The 2019 leases disclosures are disclosed in note 1.3.

Operating leases

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

Lessees will be required to recognise both:

- A lease liability, measured at the present value of remaining cash flows on the lease, and

- A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Rights of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. When a right-of-use asset meets the definition of investment property, it is presented in investment property. No depreciation is recognised for right-of-use assets that meet the definition of investment property.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments.

2.18 Related parties

Parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other, in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business. These transactions are summarised in the notes to the financial statements.

2 Significant accounting policies (continued)

2.19 Borrowings

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

2.20 Other liabilities

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

2.21 Financial Instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Other comprehensive income (OCI) is defined as comprising 'items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other International Financial Reporting Standards (IFRS). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

Classification of Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL. The classification and subsequent measurement of financial assets depends on:
- The business model within which the financial assets are managed
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of interest and principal)

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:
- the contractual terms of the financial asset give rise on specific dates to cash flows that are Solely Payments of Principal and Interest ("SPPI").

All other financial assets are classified as measured at FVTPL.

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

Type of Financial Instrument	Business Model	Accounting Classification	Accounting Treatment
Derivative financial assets	Realize changes in value	Fair value through profit or loss (FVPL)	Fair value, changes recorded through net income
Debt instruments Loans and advances Balances with other Banks Balances due from related parties	Collect contractual cash flows	Amortized cost	Amortized cost method

Fair Value through Profit or Loss

The FVPL accounting treatment is used for all financial instruments that are intended to be held for sale and NOT to maintain ownership. When these assets are being held, they are always recorded at fair value on the balance sheet, and any changes in the fair value are recorded through the income statement, eventually affecting net income and not other comprehensive income (OCI). All transaction costs associated with the investment are expensed immediately.

2 Significant accounting policies (continued)

2.21 Financial Instruments (continued)

Classification of Financial assets (continued)

Amortized Cost Method

Finally, the amortized cost method is used to account for debt instruments. These financial assets are intended for collecting contractual cash flows until maturity. Debt instruments are different from FVPL investments because FVPL is intended to be held for a certain period and then sold. The debt instrument is recorded at its acquisition cost; any premium or discount is amortized over the life of the investment using the effective interest method, and transaction costs, if any, are capitalized.

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and

To determine the expected credit loss (ECL), these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the beginning of the period x EAD at the beginning of the period) and discounted to the balance sheet date using the effective interest rate as the discount rate.

Reclassifications

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

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

i) Reclassified from amortised cost

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

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

ii) Reclassified from fair value through other comprehensive income

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

iii) Reclassified from fair value through other comprehensive income (continued)

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

2 Significant accounting policies (continued)

2.21 Financial Instruments (continued)

Classification of Financial assets (continued)

iv) Reclassified from fair value through profit or loss

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

Financial liabilities, derivative financial instruments, offsetting financial instrument

Financial liabilities

Financial liabilities other than trading liabilities are initially recognised at fair value and subsequently carried at amortised cost using effective interest method. Financial liabilities are derecognised when they are extinguished. Trading liabilities are measure at fair value with gain or losses recorded in profit or loss.

Derivative financial assets and liabilities

A derivative is a financial instrument with the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable;
- It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

Derivatives are recognised and subsequently measured at fair value. The resulting gain or loss os recognised in profit or loss.

Key Credit Definitions
Policy applicable from 1 January 2018

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

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

2 Significant accounting policies (continued)

2.21 2.21 Financial Instruments(continued)

Expected credit losses

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
·financial assets that are debt instruments;
· lease receivables
· loan commitments issued.
No impairment loss is recognised on equity investments and on financial assets measured at fair value through profit or loss.'

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

Measurement

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

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

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios.

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

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

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

Recognition of Credit losses and Impairment methodology

12 months expected credit losses (stage 1)

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

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

2 Significant accounting policies (continued)

2.21 Financial Instruments(continued)

Recognition of Credit losses and Impairment methodology (continued)

Significant increase in credit risk (stage 2)

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

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

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

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

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

Collateral valuation

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

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

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

·Significant financial difficulty of the issuer or borrower;

·Breach of contract such as default or a past due event;

·For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions.

·Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligations;

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

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

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

2 Significant accounting policies (continued)

2.21 Financial Instruments(continued)

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

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

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

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

Expert credit judgement

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

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use. Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.The group uses a technical default definition in conjunction with a single default definition to reduce the conservativeness of the single default definition. The technical default definition is applied after the worst stage client level consideration and is applied on an individual account level basis. The single default definition is then applied after the technical default definition.

The IFRS 9 results are currently produced on both a 1-month technical default ("non-technical default") and a 3-month technical default basis. The 1-month technical default basis ("non-technical default") means that after the Worst Stage Client Level consideration, if an account displays at least 1 instance of Stage 3 throughout its time series, it will be classified as Stage 3 and remain in Stage 3 for its remaining term. Conversely for the 3-month technical default basis, an account must display at least 3 consecutive instances of Stage 3 throughout its time series in order to be classified as a Stage 3, where it will thereafter remain, following application of the single default definition. This consideration is after the worst stage client level consideration.

If the first instance in the time series of an account is Stage 3, after the Worst Stage Client Level consideration, then the specific account will remain in Stage 3 throughout its remaining term, following application of the single default definition. This assumption is also applied to accounts that are in Stage 3 at the start of the dataset being January 2016. In the instance where an account enters Stage 3 in the reporting month then that account will remain in Stage 3 under both a 1-month technical default basis ("non-technical default") and a 3-month technical default basis.

Technical default definition applied to an account starting off in Stage 3- In the instance where an account enters Stage 3 in the reporting month then that account will remain in Stage 3 under both a 1-month technical default basis ("non-technical default") and a 3-month technical default basis. This assumption would be applied after the Worst Stage Client Level consideration. The reason for this is because the account needs to be observed for a longer period of time in order to determine whether its default status can be reversed under the technical default definition or not.

2 Significant accounting policies (continued)

2.21 Financial Instruments(continued)

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

Technical default definition applied to an account ending off in Stage 3 - is applied when an account ends off in Stage 3 after which the account is closed or settled at any point throughout its time series- Looking at the scenario in which an account displays less than three consecutive instances of Stage 3 throughout its time series, after the Worst Stage Client Level consideration, yields different outcomes for a 1-month ("non-technical default") and 3-month technical default basis. The 3-month technical default basis reverses these accounts to Stage 2 as they are likely to be in default due to operational reasons. Conversely, the 1-month technical default basis results in the account being in Stage 3 regardless.The 3-month technical default basis looks at reducing the conservativeness of the single default definition that may produce over-provisioning on accounts that may have triggered default due to operational reasons or if accounts display a high cure rate and subsequently remain performing.

Technical default definition applied to an account that has defaulted & cured within 3 consecutive periods - If an account displays three or more consecutive instances of Stage 3 then the account will remain in Stage 3 under both a 1-month ("non-technical default") and 3-month technical default basis as it is more likely to be a default due to credit risk.

Classification and measurement- Modifications financial instruments

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

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

Forborne loans

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

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

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

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

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

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12-month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

Subsequent to the criteria above, a further two-year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

2 Significant accounting policies (continued)

2.21 Financial Instruments(continued)

Forward Looking Information

The group uses a technical default definition in conjunction with a single default definition to reduce the conservativeness of the single default definition. The technical default definition is applied after the worst stage client level consideration and is applied on an individual account level basis. The single default definition is then applied after the technical default definition.

Derecognition of financial assets

The basic premise for the derecognition model in IFRS 9 is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety or
- specifically identified cash flows from an asset (or a group of similar financial assets) or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets)

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the entity has transferred the contractual rights to receive the cash flows, or the entity has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the entity has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the entity is prohibited from selling or pledging the original asset (other than as security to the eventual recipient),
- the entity has an obligation to remit those cash flows without material delay

Once an entity has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.
If the entity has neither retained nor transferred substantially all of the risks and rewards of the asset, then the entity must assess whether it has relinquished control of the asset or not. If the entity does not control the asset then derecognition is appropriate; however if the entity has retained control of the asset, then the entity continues to recognise the asset to the extent to which it has a continuing involvement in the asset.

The treatment of the difference in carrying amount and consideration of the derecognition of financial assets is as follows:
- For equity instruments measured to OCI, the gain is not recycled to P/L
- For FVOCI debt instruments, the gain is recycled through P/L

Expired rights to the cash flows from the asset

The most obvious examples of situations when the contractual rights to the cash flows from the financial asset expire are repayment of a financial asset or expiry of an option. Other less obvious instances are discussed below:

Renegotiation and modification of a financial asset

Some modifications of contractual cash flows will result in derecognition of a financial instrument and the recognition of a new financial instrument in accordance with IFRS 9. If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Write-offs

Write-offs can relate to a financial asset in its entirety or to a portion of it. For example, an entity plans to enforce a collateral on a financial asset and expects to recover no more than 30% of the financial asset through the collateral. If the entity has no reasonable prospects of recovering any further cash flows from the financial asset, it should write off the remaining 70% of the financial asset.

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:

2 Significant accounting policies (continued)

2.21 Write-offs (continued)

· 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.

Transfers

The next steps in the derecognition decision tree concern transfers of financial assets. Financial assets should be derecognised if they are transferred and this transfer qualifies for derecognition. An entity transfers a financial asset if, and only if, it either;

a. transfers the contractual rights to receive the cash flows of the financial asset, or

b. retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients (‘pass through’ transfers).

Derecognition of financial liabilities

A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised in profit or loss.

2.22 Cash and cash equivalents

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

2.23 Other assets

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

2.24 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.25 Offsetting Income and expense

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as the Group's trading activities.

3 Financial risk management

Objectives on risk management

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

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

3 Financial risk management (continued)

Financial Risk Governance

Audit Committee

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

Risk and Compliance Committee

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

Assets and Liabilities Committee (ALCO)

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

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

(a) a sudden change in regulations;

(b) material loss of deposits without notice, and ahead of maturity;

(c)failure to honour commitments and approved facilities; or

(d) unanticipated movement in exchange rates.

Credit Committee

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

3.1 Credit risk

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

A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Balances with other banks was regarded as insignificant and volatile, therefore no ECL assessement was regarded as necessary.

Risk limit control and mitigation policies

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

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

3 Financial risk management (continued)

3.1 Risk limit control and mitigation policies (continued)

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

-Cash collateral;
-Charges over assets financed;
-Charges over cash proceeds from trading transactions financed;
-Mortgages over residential and commercial properties;
-Charges over business assets such as premises, inventory and accounts receivable; and
-Charges over financial instruments such as debt securities, and equities.

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

(b) Credit related commitments

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

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

	Consolidated and Company		
		2019	
	P'000	P'000	P'000
	Maximum exposure to credit risk	Fair value of collateral	Net Exposure
Balances with other banks	904,537	-	904,537
Financial assets	642,818	-	642,818
Balances with Central Bank	77,138	-	77,138
Amounts due from related parties	633,118	-	633,118
Other assets	62,359	-	62,359
Loans and advances to customers	**6,738,974**	**2,378,478**	**4,360,496**
Mortgage lending	718,479	1,077,951	(359,472)
Instalment finance	29,159	28,884	275
Corporate lending	610,445	1,204,263	(593,818)
Commercial and property finance	17,919	20,775	(2,856)
Retail and SME lending	5,362,972	46,605	5,316,367
Maximum exposure	**9,058,944**	**2,378,478**	**6,680,466**
Credit exposures relating to off-balance sheet items are as follows:			
Financial guarantees	57,826	56,809	1,017
Loan commitments and other credit related liabilities	180,588	-	180,588
	238,414	**56,809**	**181,605**

3 Financial risk management (continued)

3.1 Credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)	**Consolidated and Company**		
	2018		
	P'000	**P'000**	**P'000**
	Maximum exposure to credit risk	**Fair value of collateral**	**Net Exposure**
Balances with other banks	845,788	-	845,788
Financial assets	1,162,700	-	1,162,700
Balances with Central Bank	424,734	-	424,734
Amounts due from related parties	528,780	-	528,780
Other assets	53,100	-	528,780
Loans and advances to customers	**6,123,729**	**2,158,612**	**3,965,117**
Mortgage lending	675,091	968,216	(293,125)
Instalment finance	21,244	22,191	(947)
Corporate lending	678,914	919,436	(240,522)
Commercial and property finance	4,136	494	3,642
Retail and SME lending	4,744,344	248,275	4,496,069
Maximum exposure	**9,138,832**	**2,158,612**	**7,455,899**
Credit exposures relating to off-balance sheet items are as follows:			
Financial guarantees	109,331	96,876	12,455
Loan commitments and other credit related liabilities	530,519	-	530,519
	639,850	**96,876**	**542,974**

3 Financial risk management (continued)

3.1 Credit risk

3.1.1 Repossessed collateral

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

Nature of assets	Consolidated and Company 2019 P'000	2018 P'000
Property	1,703	15,589
Motor Vehicles	-	130
	1,703	15,719

3.1.2 Loans and advances by industry sectors

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

	Consolidated and Company 2019 P'000	2018 P'000
Agriculture	-	7
Construction	23,780	58,331
Wholesale, retail and trade	212,713	277,555
Manufacturing	2,950	7,404
Mining and Energy	619	733
Financial services	144,334	330,478
Transport	510	1,385
Real Estate	743,166	54,059
Individuals	5,542,057	5,334,085
Tourism	1	6,762
Other	52,168	52,930
Total	**6,722,298**	**6,123,729**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.3 Loans and advances at amortised cost by stage

The table below presents an analysis of financial instruments amortised cost by gross exposure, impairment allowance and coverage ratio by stage
with other banks is not significant

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

	31 December 2019 Balance			
In thousands of Pula	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Mortgage lending	593,312	53,030	72,136	718,478
Instalment finance	21,122	760	7,277	29,159
Corporate lending	552,835	4,158	53,452	610,445
Commercial and property finance	11,853	-	6,066	17,919
Retail and SME lending	4,892,698	241,865	211,734	5,346,297
Total Loans And Advances	**6,071,820**	**299,813**	**350,665**	**6,722,298**
Balances Due From Related Parties	633,358	-	-	633,358
Contingent liabilities and loan commitments	238,414	-	-	238,414
Financial assets	642,831	-	-	642,831
Total	**7,586,423**	**299,813**	**350,665**	**8,236,901**

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

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

allocation and products as at 31 December 2019. Also included are off-balance sheet items and financial guarantee contracts. ECL on balances

for Corporate and Retail customers.

	31 December 2019 ECL				Net exposure				31 December 2019 ECL Coverage Ratio*
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	(1,868)	(162)	(9,891)	(11,921)	591,444	52,868	62,245	706,557	1.66%
	(296)	(22)	(3,768)	(4,086)	20,826	738	3,509	25,073	14.01%
	(11,486)	-	(8,747)	(20,233)	541,349	4,158	44,705	590,212	3.31%
	(27)	-	(2,682)	(2,709)	11,826	-	3,384	15,210	15.13%
	(54,218)	(10,053)	(175,522)	(239,793)	4,838,480	231,812	36,212	5,106,504	4.49%
	(67,895)	**(10,237)**	**(200,610)**	**(278,742)**	**6,003,925**	**289,576**	**150,055**	**6,443,556**	**4.15%**
	(240)	-	-	(240)	633,118	-	-	633,118	0.10%
	(1,880)	-	-	(1,880)	236,534	-	-	236,534	0.79%
	(13)	-	-	(13)	642,818	-	-	642,818	0.00%
	(70,028)	**(10,237)**	**(200,610)**	**(280,875)**	**7,516,395**	**289,576**	**150,055**	**7,956,026**	**3.41%**

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

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Renegotiated loans

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

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

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

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

Renegotiated loans as at 31 December 2019

In thousands of Pula	Stage 1	Stage 3	Total
Gross carrying amount			
Retail and SME lending	856	479	1,335
At 31 Dec 2019	**856**	**479**	**1,335**
Allowance for ECL			
Retail and SME lending	(3)	(321)	(324)
At 31 Dec 2019	**(3)**	**(321)**	**(324)**
Net renegotiated loans	**853**	**158**	**1,011**

Renegotiated loans as at 31 December 2018

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

3 Financial risk management (continued)
3.1 Credi risk (continued)
3.1.5 Loans and advances by credit classification

The table below shows the differences between IFRS 9 staging and loan book classification for regulatory purposes as at 31 December 2019.

Loan book Classification for regulatory purposes

	Consolidated and Company			
	1	2	3	Grand Total
Performing	6,088,029	10	39,701	**6,127,740**
Special Mention	-	297,176	15,184	**312,360**
Sub Standard	-	1,888	58,116	**60,004**
Doubtful	-	-	77,381	**77,381**
Loss	-	24,744	120,069	**144,813**
Total	**6,088,029**	**323,818**	**310,451**	**6,722,298**

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

Loan book Classification for regulatory purposes

	1	2	3	Grand Total
Peforming	5,639,191	-	66,326	**5,705,517**
Special Mention	-	135,552	33,317	**168,869**
Sub Standard	-	-	43,666	**43,666**
Doubtful	-	-	75,436	**75,436**
Loss	-	-	118,386	**118,386**
Total	**5,639,191**	**135,552**	**337,131**	**6,111,874**

Substandard - The loan is past due for more than 90 days but less than 180 days and the debtor is potentially Bankrupt. The business or obligor is in financial distress and there is considerable uncertainty with respect to payment of principal and interest. In addition, the primary source of repayment is insufficient to service the debt and the obligor has had to resort to secondary sources of payment such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment. The loan has been renegotiated or restructured and requires attention and intensive management.

Doubtful - The obligor is not legally or formally Bankrupt. Nonetheless, the business is effectively or virtually Bankrupt and is encountering severe liquidity and solvency challenges. The loan is past due for more than 180 days but less than 360 days and the debtor has failed to pay scheduled principal and interest payments.

Loss - The debtor has defaulted on the debt obligation and is legally and formally Bankrupt. The asset is past due for more than 360 days and the obligor has been unable to meet scheduled principal and interest payments. The loan is uncollectible or of such little value that its continuance as an asset is not warranted.

Performing - A loan that is not in or near default. Performing loan is any loan in which: interest and principal payments are less than 90 days overdue; less than 90 days' worth of interest has been refinanced, capitalized, or delayed by agreement; and continued payment is anticipated. All conditions must be present for a loan to be performing.

Special mention assets - when the lender fails to supervise a loan properly or maintain sufficient documentation, or otherwise has deviated from acceptable and prudent lending practices.

3 Financial risk management (continued)

3.1 Credi risk (continued)

3.1.6 Movement in expected credit losses

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

The following table shows movement in expected credit losses from 1 January 2019 to 31 December 2019:

In thousands of Pula	Expected credit losses			
Loans and Advances	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening Balance	**(96,862)**	**(22,947)**	**(182,942)**	**(302,751)**
New loans	(31,046)	(3,371)	(19,945)	(54,362)
Liquidated loans	114	11,511	(4,126)	7,499
Transfer to stage 1	8,131	-	(8,131)	-
Transfer to stage 2	-	7,176	(7,176)	-
Transfer to stage 3/ Estimation change	51,768	(2,606)	21,710	70,872
Closing Balance	**(67,895)**	**(10,237)**	**(200,610)**	**(278,742)**
Changes in expected credit losses (ECL) during the year	28,967	12,710	(17,668)	24,009
Write-offs	-	-	(15,205)	(15,205)
ECL recovery/(charge) for the period	**28,967**	**12,710**	**(32,873)**	**8,804**
Off balance sheet and debt instruments				
Opening Balance	**(3,881)**	**-**	**-**	**(3,881)**
New off balance sheet items	-	-	-	-
Liquidated off balance sheet items	1,748	-	-	1,748
Transfer to stage 1	-	-	-	-
Closing Balance	**(2,133)**	**-**	**-**	**(2,133)**
Changes in expected credit loss	**1,748**	**-**	**-**	**1,748**
Recoveries				5,106
Total ECL for the period (Income statement) (Refer to Note 6)				**15,658**

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

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

3 Financial risk management (continued)

3.1 Credi risk (continued)

3.1.7 Management Overlays

The inputs and assumptions into the IFRS 9 model are carefully considered by management for completeness and relevance. The inputs and assumptions are reviewed on an annual basis and adjusted accordingly to reflect changing macro-economic environment and vintages in the loan book. ECL calculations are reviewed for accuracy and consistency and reasonableness on a regular basis. The results for the year have been consistent with management expectations. Management overlays are only instituted in cases where the model results are not reflective of underlying customer behaviour and economic conditions. For December 2019 management performed an out of model adjustment on a significant customer whose expected credit loss (ECL) was out of line with the normal and market expectation of the credit risk profile of the customer. The group's loan book include significant exposure to government related institutions. The institutions are treated as normal corporates in the model which skews the ECL calculations for this particular segment. Management performed an out of model adjustment to reflect the government of Botswana's credit rating which is the ultimate owner of the institution. Moody's last rated Government of Botswana in 2019 as A2 with a stable outlook. Group has loans that have been secured by corporate guarantees but the model only considers those with tangible security. Group accessed these guarantees to determine the level of recoverability against them. For the corporate guarantee that are deemed to have high recoverability, management adjusted the ECL in the form of management overlays. Other management overlays were based on the premise that the model had assumed a higher hair cut on extendable security than what management believes can be reasonable recovered (Based on current market conditions). Management also adjusted loans that had been in technical arrears, technical arrears in that the payment was made later than expected and the delay was due to internal processes.

The exposure as at 31 December 2019 relating to this government related institutions was P13 959 500 with an ECL of P4 885 825 which is an ECL coverage ratio of 35%.
The impact of management overlay on an exposure of P14 million with an ECL of P4.9 million and a coverage ratio of 35% was to reduce the coverage ratio to 15%.
The exposures secured by a corporate guarantees was P133 million as at 31 December with a ECL coverage ratio of 8.43%. The coverage ratio was adjusted downwards to 1.69%.
Exposures with extendable security were a hair cut was applied was P6.3 million at reporting date with the ECL at P6.3mio. Management adjusted the ECL to zero as the security was deemed sufficient to cover for any potential credit losses.

3.2 Liquidity risk

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

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

Liquidity risk management process

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

-Day-to-Day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen.

-Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.

-Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

-Managing single counterparty and sector depositor's concentration and profile of debt maturities to minimize liquidity shocks. The bank has put in place single counterparty and sector concentration as a means of managing liquidity risk.

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

The Group manages large depositor and sectorial concentrations through limits on the amounts to be accepted from an individual depositors and exposures to various sectors. The limits are reviewed at ALCO on a regular basis.

ALCO also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

Maturity analysis based on contractually undiscounted amounts

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

Consolidated

Non-derivative cash flows 31 December 2019 Assets	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Cash and balances with the Central Bank	77,138	-	-	-	77,138	-	77,138
Balances due from related parties (receivables)	192,128	440,990	-	-	633,118	-	633,118
Balances with other banks	904,537	-	-	-	904,537	-	904,537
Debt instruments	299,644	199,333	103,350	40,688	643,015	(197)	642,818
Loans and advances to customers	90,057	198,544	880,954	9,181,972	10,351,527	(3,907,971)	6,443,556
Total	**1,563,504**	**838,867**	**984,304**	**9,222,660**	**12,609,335**	**(3,908,168)**	**8,701,167**
Liabilities							
Deposits from banks	66,844	-	-	-	66,844	-	66,844
Deposits from customers	2,747,028	2,112,068	1,854,788	347,064	7,060,948	(87,056)	6,973,892
Borrowed funds	194	583	19,375	793,138	813,290	(50,118)	763,172
Balances due to related parties	9,841	-	-	8,333	18,174	(512)	17,662
Other liabilities	147,014	-	-	-	147,014	-	147,014
Total	**2,970,921**	**2,112,651**	**1,874,163**	**1,148,535**	**8,106,270**	**(137,686)**	**7,968,584**

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

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

Company

Non-derivative cash flows 31 December 2019 Assets	Up to 1 month P'000	1 to 3 months P'000	3 to 12 months P'000	Greater than 1 year P'000	Total P'000	Effect of discounting/ Financial rates P'000	Total P'000
Cash and balances with the Central Bank	77,138	-	-	-	77,138	-	77,138
Balances due from related parties (receivables)	192,128	440,990	-	-	633,118	-	633,118
Balances with other banks	904,537	-	-	-	904,537	-	904,537
Debt instruments	299,644	199,333	103,350	40,688	643,015	(197)	642,818
Loans and advances to customers	90,057	198,544	880,954	9,181,972	10,351,527	(3,907,971)	6,443,556
Total	**1,563,504**	**838,867**	**984,304**	**9,222,660**	**12,609,335**	**(3,908,168)**	**8,701,167**
Liabilities							
Deposits from banks	66,844	-	-	-	66,844	-	66,844
Deposits from customers	2,747,028	2,112,068	1,854,788	347,064	7,060,948	(87,056)	6,973,893
Borrowed funds	194	583	19,375	793,138	813,290	(50,118)	763,172
Balances due to related parties	18,845	562	138,000	8,333	165,740	(512)	165,228
Other liabilities	132,191	-	-	-	132,191	-	132,191
Total	**2,965,102**	**2,113,213**	**2,012,163**	**1,148,535**	**8,239,013**	**(137,686)**	**8,101,328**

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

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

Liquidity risk on financial guarantee contracts and commitments

(a) Loan commitments

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

(b) Financial guarantees and other financial facilities

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

(c) Operating lease commitments

Where the group is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in note 33, are summarised in the table below. These relate to low value/short term lease commitments only.

(d) Capital commitments

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

31 December 2019	Total P'000	Not later than 1 year P'000	1-5 years P'000	Over 5 years P'000
Financial guarantees, acceptances and other financial facilities	57,826	57,826	-	-
Operating lease commitments	-	-	-	-
Capital commitments	12,551	12,551	-	-
Loan commitments and other credit related liabilities	180,588	159,004	21,584	-
Total	**250,965**	**229,381**	**21,584**	**-**

31 December 2018	Total P'000	Not later than 1 year P'000	1-5 years P'000	Over 5 years P'000
Financial guarantees, acceptances and other financial facilities	109,330	109,330	-	-
Operating lease commitments	28,655	1,343	22,793	4,519
Capital commitments	12,174	12,174	-	-
Loan commitments and other credit related liabilities	530,519	250,252	280,267	-
Total	**680,678**	**373,099**	**303,060**	**4,519**

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

3.2.1 Maturity profile

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

Consolidated

As at 31 December 2019	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	77,138	-	-	-	77,138
Balances with other banks	904,537	-	-	-	904,537
Balances due from related parties	192,128	440,990	-	-	633,118
Derivative financial assets	1,154	-	-	59,333	60,487
Debt instruments	299,644	199,333	103,350	40,491	642,818
Loans and advances to customers	90,046	198,132	875,836	5,279,542	6,443,556
Other assets	62,359	-	-	-	62,359
Total assets	**1,627,006**	**838,455**	**979,186**	**5,379,366**	**8,824,013**
Deposits from banks	66,844	-	-	-	66,844
Derivative financial liabilities	1,065	-	-	58,553	59,618
Deposits from customers	2,745,148	2,097,250	1,807,919	323,575	6,973,892
Balances due to related parties	9,329	-	-	8,333	17,662
Borrowed funds	207	622	21,452	740,891	763,172
Other liabilities	147,014	-	-	-	147,014
Total liabilities	**2,969,607**	**2,097,872**	**1,829,371**	**1,131,351**	**8,028,202**
Net maturity gap 31 December 2019	**(1,342,601)**	**(1,259,417)**	**(850,185)**	**4,248,014**	**795,811**

Consolidated

As at 31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	424,734	-	-	-	424,734
Balances with other banks	845,788	-	-	-	845,788
Balances due from related parties	453,724	75,056	-	-	528,780
Derivative financial assets	2,322	-	-	60,433	62,755
Debt instruments	299,878	517,358	297,567	47,897	1,162,700
Loans and advances to customers	346,314	170,032	250,637	5,042,140	5,809,123
Other assets	53,100	-	-	-	53,100
Total assets	**2,425,860**	**762,446**	**548,204**	**5,150,470**	**8,886,980**
Deposits from banks	5,590	10,731	-	-	16,321
Derivative financial liabilities	765	-	-	58,408	59,173
Deposits from customers	3,336,500	2,446,814	1,360,062	49,076	7,192,452
Balances due to related parties	46,638	-	-	7,563	54,201
Borrowed funds	4,786	7,698	30,105	700,291	742,880
Other liabilities	92,787	-	-	-	92,787
Total liabilities	**3,487,066**	**2,465,243**	**1,390,167**	**815,338**	**8,157,814**
Net maturity gap 31 December 2018	**(1,061,206)**	**(1,702,797)**	**(841,964)**	**4,335,132**	**729,166**

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

3.2.1 Maturity profile (continued)

Company

As at 31 December 2019	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	77,138	-	-	-	77,138
Balances with other banks	904,537	-	-	-	904,537
Balances due from related parties	293,720	21,460	317,938	-	633,118
Derivative financial assets	1,154	-	-	59,333	60,487
Debt instruments	299,644	199,333	103,350	40,491	642,818
Loans and advances to customers	90,046	198,132	875,836	5,279,542	6,443,556
Other assets	51,323	-	-	-	51,323
Total assets	**1,717,562**	**418,925**	**1,297,124**	**5,379,366**	**8,812,977**
Deposits from banks	66,844	-	-	-	66,844
Deposits from customers	2,745,148	2,097,250	1,807,919	323,575	6,973,892
Balances due to related parties	18,333	562	138,000	8,333	165,228
Borrowed funds	207	622	21,452	740,891	763,172
Other liabilities	132,191	-	-	-	132,191
Derivative financial liabilities	1,065	-	-	58,553	59,618
Total liabilities	**2,963,788**	**2,098,434**	**1,967,371**	**1,131,352**	**8,160,946**
Net maturity gap 31 December 2019	**(1,246,226)**	**(1,679,509)**	**(670,248)**	**4,248,013**	**652,031**

Company

As at 31 December 2018	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	Greater than 1 year P'000	Total P'000
Cash and balances with the Central Bank	424,734	-	-	-	424,734
Balances with other banks	845,788	-	-	-	845,788
Balances due from related parties	453,724	75,056	-	-	528,780
Derivative financial assets	2,322	-	-	60,433	62,755
Debt instruments	299,878	517,358	297,567	47,897	1,162,700
Loans and advances to customers	346,314	170,032	250,637	5,042,140	5,809,123
Other assets	49,680	-	-	-	49,680
Total assets	**2,422,440**	**762,446**	**548,204**	**5,150,470**	**8,883,560**
Deposits from banks	5,590	10,731	-	-	16,321
Deposits from customers	3,336,500	2,446,814	1,488,658	49,076	7,321,048
Balances due to related parties	46,638	-	-	7,563	54,201
Borrowed funds	4,786	7,698	30,105	700,291	742,880
Other liabilities	77,370	-	-	-	77,370
Derivative financial liabilities	765	-	-	58,408	59,173
Total liabilities	**3,471,649**	**2,465,243**	**1,518,763**	**815,338**	**8,270,993**
Net maturity gap 31 December 2018	**(1,049,209)**	**(1,702,797)**	**(970,559)**	**4,335,132**	**612,567**

3 Financial risk management (continued)

3.3 Market risk

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

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

3.3.1 Interest rate risk

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

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

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

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

3 Financial risk management (continued)
3.3 Market risk (continued)
3.3.1 Interest rate risk (continued)

Consolidated

31 December 2019	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	76,995	-	-	-	143	77,138
Balances with other banks	904,537	-	-	-	-	904,537
Balances due from related parties	293,720	21,460	317,938	-	-	633,118
Derivative financial assets	1,154	-	-	59,333	-	60,487
Debt instruments	299,644	199,333	103,350	40,491	-	642,818
Loans and advances to customers	6,443,556	-	-	-	-	6,443,556
Other assets	-	-	-	-	62,359	62,359
Current tax asset	-	-	-	-	18,124	18,124
Deferred tax asset	-	-	-	-	28,220	28,220
Property and equipment	-	-	-	-	129,860	129,860
Intangible assets	-	-	-	-	104,347	104,347
Total assets	**8,019,606**	**220,793**	**421,288**	**99,824**	**343,053**	**9,104,564**
Liabilities						
Deposits from banks	66,844	-	-	-	-	66,844
Deposits from customers	2,745,148	2,097,250	1,807,919	323,575	-	6,973,892
Balances due to related parties	9,329	-	-	8,333	-	17,662
Other liabilities	-	-	-	-	147,014	147,014
Borrowed funds	207	622	21,452	740,891	-	763,172
Derivative financial liabilities	1,065	-	-	58,553	-	59,618
Total liabilities	**2,822,593**	**2,097,872**	**1,829,371**	**1,131,352**	**147,014**	**8,028,202**
Total interest repricing gap	**5,197,013**	**(1,877,079)**	**(1,408,083)**	**(1,031,528)**	**196,039**	**1,076,362**

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

3 Financial risk management (continued)
3.3 Market risk (continued)
3.3.1 Interest rate risk (continued)

Company

31 December 2019	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with the Central Bank	76,995	-	-	-	143	77,138
Balances with other banks	904,537	-	-	-	-	904,537
Balances due from related parties	293,720	21,460	317,938	-	-	633,118
Derivative financial assets	1,154	-	-	59,333	-	60,487
Debt instruments	299,644	199,333	103,350	40,491	-	642,818
Loans and advances to customers	6,443,556	-	-	-	-	6,443,556
Other assets	-	-	-	-	51,323	51,323
Current tax asset	-	-	-	-	19,583	19,583
Deferred tax asset	-	-	-	-	28,220	28,220
Property and equipment	-	-	-	-	129,860	129,860
Intangible assets	-	-	-	-	104,347	104,347
Total assets	**8,019,606**	**220,793**	**421,288**	**99,824**	**333,476**	**9,094,987**
Liabilities						
Deposits from banks	66,844	-	-	-	-	66,844
Deposits from customers	2,745,148	2,097,250	1,807,919	323,575	-	6,973,892
Balances due to related parties	18,333	562	138,000	8,333	-	165,228
Other liabilities	-	-	-	-	132,191	132,191
Borrowed funds	207	622	21,452	740,891	-	763,172
Derivative financial liabilities	1,065	-	-	58,553	-	59,618
Total liabilities	**2,831,597**	**2,098,434**	**1,967,371**	**1,131,352**	**132,191**	**8,160,945**
Total interest repricing gap	**5,188,009**	**(1,877,641)**	**(1,546,083)**	**(1,031,528)**	**201,285**	**934,042**

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.1 Interest rate risk (continued)

Interest rate - sensitivity analysis

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

Sensitivity of net interest income

	Consolidated	
	2019	2018
Change in net interest income arising from a shift in yield curves of +50 basis points (P'000)	5,382	4,864
As a percentage of total Shareholders equity	0.50%	0.50%
Change in net interest income arising from a shift in yield curves of -50 basis points (P'000)	(5,382)	(4,864)
As a percentage of total shareholders equity	(0.50%)	(0.50%)

	Company	
	2019	2018
Change in net interest income arising from a shift in yield curves of +50 basis points (P'000)	4,670	4,864
As a percentage of total Shareholders equity	0.50%	0.50%
Change in net interest income arising from a shift in yield curves of -50 basis points (P'000)	(4,670)	(4,864)
As a percentage of total shareholders equity	(0.50%)	(0.50%)

3.3.2 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board and the ALCO set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group and Company's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Group's assets and liabilities at carrying amounts and nominal, categorised by currency:

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

All amounts in thousands of pula
Consolidated

31 December 2019	EUR	USD	BWP	ZAR	Other	Total
Cash and balances with the Central Bank	943	11,812	63,020	1,065	298	77,138
Balances due from related parties	266	566,534	59,208	7,110	-	633,118
Balances with other banks	11,888	374,176	489,205	14,583	14,685	904,537
Derivative financial assets	-	-	59,333	1,154	-	60,487
Debt instruments	-	-	642,818	-	-	642,818
Loans and advances to customers	-	15,571	6,427,985	-	-	6,443,556
Other assets	-	-	62,359	-	-	62,359
Current tax asset	-	-	18,124	-	-	18,124
Deferred tax asset	-	-	28,220	-	-	28,220
Property and equipment	-	-	129,860	-	-	129,860
Intangible assets	-	-	104,347	-	-	104,347
Total	**13,097**	**968,093**	**8,084,479**	**23,912**	**14,983**	**9,104,564**
Deposits from banks	578	16,156	50,110	-	-	66,844
Deposits from customers	8,949	427,422	6,497,472	30,576	9,473	6,973,892
Balances due to related parties	-	14,468	3,171	23	-	17,662
Other liabilities	-	-	147,014	-	-	147,014
Borrowed funds	-	536,417	226,755	-	-	763,172
Derivative financial liabilities	264	79	59,275	-	-	59,618
Total	**9,791**	**994,542**	**6,983,797**	**30,599**	**9,473**	**8,028,202**
Net on-balance sheet position	**3,306**	**(26,449)**	**1,100,682**	**(6,687)**	**5,510**	**1,076,362**
Net off-balance sheet position	**-**	**3,445**	**15,184**	**(18,629)**	**-**	**-**
Net position	**3,306**	**(23,004)**	**1,115,866**	**(25,316)**	**5,510**	**1,076,362**

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

All amounts in thousands of pula

Consolidated

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

All amounts in thousands of pula

Company

31 December 2019	EUR	USD	BWP	ZAR	Other	Total
Cash and balances with the Central Bank	943	11,812	63,020	1,065	298	77,138
Balances due from related parties	266	566,534	59,208	7,110	-	633,118
Balances with other banks	11,888	374,176	489,205	14,583	14,685	904,537
Derivative financial assets	-	-	59,333	1,154	-	60,487
Debt instruments	-	-	642,818	-	-	642,818
Loans and advances to customers	-	15,571	6,427,985	-	-	6,443,556
Other assets	-	-	51,323	-	-	51,323
Current tax asset	-	-	19,583	-	-	19,583
Deferred Tax asset	-	-	28,220	-	-	28,220
Property and equipment	-	-	129,860	-	-	129,860
Intangible assets	-	-	104,347	-	-	104,347
Total	**13,097**	**968,093**	**8,074,902**	**23,912**	**14,983**	**9,094,987**
Deposits from banks	578	16,156	50,110	-	-	66,844
Deposits from customers	8,949	427,422	6,497,472	30,576	9,473	6,973,892
Balances due to related parties	-	14,468	150,737	23	-	165,228
Other Liabilities	-	-	132,191	-	-	132,191
Borrowed funds	-	536,417	226,755	-	-	763,172
Derivative financial liabilities	-	-	59,618	-	-	59,618
Total	**9,527**	**994,463**	**7,116,883**	**30,599**	**9,473**	**8,160,945**
Net on-balance sheet position	**3,570**	**(26,370)**	**958,018**	**(6,686)**	**5,510**	**934,042**
Net off-balance sheet position	**-**	**8,852**	**5,600**	**(14,452)**	**-**	**-**
Net position	**3,570**	**(17,517)**	**963,618**	**(21,138)**	**5,510**	**934,042**

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

All amounts in thousands of pula

Company

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

Sensitivity of currency

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

	Consolidated	
	2019 **Impact on profit or loss and equity**	**2018** **Impact on profit or loss and equity**
5% movement in US Dollar/BWP exchange rate (P'000)	(1,150)	616
As a percentage of total Shareholders equity	-0.1%	0.1%
5% movement in ZAR/BWP exchange rate (P'000)	(1,266)	(268)
As a percentage of total Shareholders equity	(0.0)	(0.0)
5% movement in EURO/BWP exchange rate (P'000)	165	571
As a percentage of total Shareholders equity	0.02%	0.06%

Sensitivity analysis

A reasonably possible strenghthening of the US dollar, EURO and ZAR against all other countries at 31 December 2019 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities

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

Consolidated
31 December 2019

	Fair value- analysis	
	Carrying amount P'000	**Fair value P'000**
Fair value of borrowed funds recognised at amortised cost		
Borrowed funds	763,172	763,172
Total borrowed funds	**763,172**	**763,172**
The estimated fair value of borrowed funds is the amount repayable on demand.		
Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	66,844	66,844
Deposits from customers	6,973,892	6,973,892
Balances due to related parties	17,662	17,662
Other liabilities	147,014	147,014
Total deposits and other liabilities	**7,205,412**	**7,205,412**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	77,138	77,138
Balances due from related parties	633,118	633,118
Balances with other banks	904,537	904,537
Financial assets	642,818	642,818
Loans and advances (Gross)	6,738,974	6,738,974
Other assets	62,359	62,359
Total loans and advances and other assets	**9,058,944**	**9,058,944**

Consolidated
31 December 2018

	Fair value- analysis	
	Carrying amount P'000	**Fair value P'000**
Borrowed funds	742,880	742,880
Total borrowed funds	**742,880**	**742,880**

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

Fair value of deposits and other liabilities recognised at amortised cost

	Fair value- analysis	
	Carrying amount P'000	**Fair value P'000**
Deposits from banks	16,321	16,321
Deposits from customers	7,192,452	7,192,452
Balances due to related parties	54,201	54,201
Other liabilities	92,787	92,787
Total deposits and other liabilities	**7,355,761**	**7,355,761**

Fair value of loans and advances and other assets recognised at amortised cost

Cash and balances with the Central Bank	424,734	424,734
Balances due from related parties	528,780	528,780
Balances with other banks	845,788	845,788
Financial assets	1,162,700	1,162,700
Loans and advances (Gross)	6,123,729	6,123,729
Other assets	53,100	53,100
Total loans and advances and other assets	**9,138,831**	**9,138,831**

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

Company
31 December 2019

	Fair value- analysis	
	Carrying amount P'000	**Fair value P'000**
Fair value of borrowed funds recognised at amortised cost		
Borrowed funds	763,172	763,172
Total borrowed funds	**763,172**	**763,172**
The estimated fair value of borrowed funds is the amount repayable on demand.		
Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	66,844	66,844
Deposits from customers	6,973,892	6,973,892
Balances due to related parties	165,228	165,228
Other liabilities	132,191	132,191
Total deposits and other liabilities	**7,338,155**	**7,338,155**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	77,138	77,138
Balances due from related parties	633,118	633,118
Balances with other banks	904,537	904,537
Financial assets	642,818	642,818
Loans and advances (Gross)	6,738,974	6,738,974
Other assets	51,323	51,323
Total loans and advances and other assets	**9,047,908**	**9,047,908**

Company
31 December 2018

	Fair value- analysis	
	Carrying amount P'000	**Fair value P'000**
Borrowed funds	742,880	742,880
Total borrowed funds	**742,880**	**742,880**
The estimated fair value of borrowed funds is the amount repayable on demand.		
Fair value of deposits and other liabilities recognised at amortised cost		
Deposits from banks	16,321	16,321
Deposits from customers	7,321,048	7,321,048
Balances due to related parties	54,201	54,201
Other liabilities	77,370	77,370
Total deposits and other liabilities	**7,468,940**	**7,468,940**
Fair value of loans and advances and other assets recognised at amortised cost		
Cash and balances with the Central Bank	424,734	424,734
Balances due from related parties	528,780	528,780
Balances with other banks	845,788	845,788
Financial assets	1,162,700	1,162,700
Loans and advances (Gross)	6,123,729	6,123,729
Other assets	49,680	49,680
Total loans and advances and other assets	**9,135,411**	**9,135,411**

The Group discloses all assets and liabilities under level 1 except for derivatives which are level 2 and 3 and have been disclosed separately below.

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value

The Group classifies and measures derivative financial assets and liabilities mandatorily through fair value profit or loss.

Fair value hierarchy

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Valuation Framework

Each Credit default swap (CDS) is BWP denominated and is valued by discounting the expected payments of the CDS to the valuation date of 31 December 2019. The discount factors for the BWP denominated cash flows for each future payment date are calculated off a BWP Bond curve. This is the most liquid-risk-free curve available for Botswana.

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

The credit ratings were sourced from Global Credit Rating Company. The conservative average credit rating was used for Atlas Mara. The Group calculated results for a range of possible recovery rates for all counterparties (20%, 30% and 40%). Volatility is measured as the annualised standard deviation of the continuously compounded daily returns of the underlying share/FX rate under the assumption that the share price and exchange rates are log-normally distributed. This is in line with market practice.

The Group therefore decided to use a more prudent recovery rate of 30%.

Consolidated and Company

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets	**P'000**	**P'000**	**P'000**	**P'000**
Forward foreign exchange contracts	-	1,154	-	**1,154**
Collateralised default swap	-	-	59,333	**59,333**
	-	**1,154**	**59,333**	**60,487**
Liabilities				
Forward foreign exchange contracts	-	1,065	-	**1,065**
Collateralised default swap	-	-	58,553	**58,553**
	-	**1,065**	**58,553**	**59,618**

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

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

Level 3 Fair value movements

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

Consolidated and Company

31 December 2019	Derivatives P'000	Total assets at fair value P'000	Derivative financial liabilities P'000	Total liabilities at fair value P'000
Opening balance	**60,433**	**60,433**	**58,408**	**58,408**
-in profit and loss	(1,100)	(1,100)	145	145
Closing balance	**59,333**	**59,333**	**58,553**	**58,553**

Consolidated and Company

31 December 2018	Derivatives P'000	Total assets at fair value P'000	Derivative financial liabilities P'000	Total liabilities at fair value P'000
Opening balance	**63,967**	**63,967**	**60,255**	**60,255**
-in profit and loss	(3,534)	(3,534)	(1,847)	(1,847)
Closing balance	**60,433**	**60,433**	**58,408**	**58,408**

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

3.4.1 Sensitivity analysis of changes in fair value on level 3 derivatives

Consolidated and Company **31 December 2019**

Credit Valuation adjustment (CVA) Asset		20% P'000	30% P'000	40% P'000
Recovery Rate	20%	(227)	(227)	(227)
	30%	(199)	(199)	(199)
	40%	(171)	(171)	(171)

Debit Valuation adjustment (DVA) Liability		20% P'000	30% P'000	40% P'000
Recovery Rate	20%	73	73	73
	30%	64	64	64
	40%	54	54	54

Consolidated and Company **31 December 2018**

Credit Valuation adjustment (CVA) Asset		20% P'000	30% P'000	40% P'000
Recovery Rate	20%	(22,180)	(2,188)	(2,196)
	30%	(1,907)	(1,914)	(1,921)
	40%	(1,635)	(1,641)	(1,647)

Debit Valuation adjustment (DVA) Liability		20% P'000	30% P'000	40% P'000
Recovery Rate	20%	2,139	2,147	2,155
	30%	1,871	1,878	1,885
	40%	1,604	1,610	1,616

Sensitivity analysis was calculated on the fair value of level 3 derivatives using credit valuation adjustment (CVA) for the asset and debit valuation adjustment (DVA) for the liability, using Deloitte independent valuation model, which takes into account the specific terms and conditions of the credit default swap, the requirements of IFRS 9 (International Financial Reporting Standards) and IFRS 13 as well as established derivative pricing theory on international market practice.

3.5 Capital management

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

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

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

The Group's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:
- To comply with the capital requirements of Bank of Botswana
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management, employing techniques based on the guidelines developed by Basel Committee and Bank of Botswana. The required information is filed with Bank of Botswana on a monthly basis.
The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. As at 31 December 2019, the Bank complied with all externally imposed capital requirements.

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

4 Significant estimates and judgments

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

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

Key assumptions:

Impairment of financial assets: In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

4.1 Measurement of expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions and application of judgement about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) including estimation of probability of default, loss given default, estimation of exposure at default, assessing significant increases in credit risk as well as management overlays.

The following are considered when assessing changes in credit risk:
- significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.
- Changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date.
- significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- an actual or expected significant change in the financial instrument's external credit rating.
- an actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- an actual or expected significant change in the operating results of the borrower.
- significant increases in credit risk on other financial instruments of the same borrower.
- actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring.
- a significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
- significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.

4 Significant estimates and judgments (continued)

4.1 Measurement of expected credit loss (continued)

- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group.
- changes in the entity's credit management approach in relation to the financial instrument.

3 Stage approach

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

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

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

Probability of Default

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

Loss given Default

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

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

31 December 2019	**Existing impairment**	**Impact on changes in probably of default**		**Impact on changes in loss given default**	
		(2%)	2%	(5%)	5%
Stage 1	70,028	(1,401)	1,401	(3,501)	3,501
Stage 2	10,237	(205)	205	(512)	1,147
	80,265	**(1,606)**	**1,606**	**(4,013)**	**4,648**

31 December 2018	**Existing impairment**	**Impact on changes in probably of default**		**Impact on changes in loss given default**	
		(2%)	2%	(5%)	5%
Stage 1	100,743	(2,015)	2,015	(5,037)	5,037
Stage 2	22,947	(459)	459	(1,147)	1,147
	123,690	**(2,474)**	**2,474**	**(6,184)**	**6,184**

Retail

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

Wholesale

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

Management Overlays

Refer to note 3.1.7

		Consolidated	
		2019	2018
5	**Net interest income**	P'000	P'000
	Effective Interest and similar income		
	Cash and short-term funds	51,178	47,110
	Debt instruments	15,685	13,971
	Loans and advances to customers	677,443	687,842
		744,306	748,923
	Effective Interest expense and similar charges		
	Deposits from banks and customers	263,021	275,437
	Lease interest expense	5,577	-
	Borrowed funds	63,783	55,494
		332,381	**330,931**
	Net interest income	**411,925**	**417,992**

		Company	
		2019	2018
5	**Net interest income**	P'000	P'000
	Effective Interest and similar income		
	Cash and short-term funds	51,178	47,110
	Debt instruments	15,685	13,971
	Loans and advances to customers	677,443	687,842
		744,306	**748,923**
	Effective Interest expense and similar charges		
	Deposits from banks and customers	268,377	275,437
	Lease interest expense	5,577	-
	Borrowed funds	63,783	55,494
		337,737	**330,931**
	Net interest income	**406,569**	**417,992**
6	**Changes in expected credit losses**		
	Expected credit losses on loans and advances	8,804	12,645
	Expected credit losses on off balance sheet and financial assets at amortised cost	1,748	3,387
	Recoveries	5,106	2,874
	Total change in expected credit losses (income statement)	**15,658**	**18,906**

The IFRS 9 results are currently produced on both a 1-month technical default ("non-technical default") and a 3-month technical default basis. The 1-month technical default basis ("non-technical default") means that after the Worst Stage Client Level consideration, if an account displays at least 1 instance of Stage 3 throughout its time series, it will be classified as Stage 3 and remain in Stage 3 for its remaining term. Conversely for the 3-month technical default basis, an account must display at least 3 consecutive instances of Stage 3 throughout its time series in order to be classified as a Stage 3, where it will thereafter remain, following application of the single default definition. This change resulted in a P24million release on the ECL provision.

7	**Net trading income**		
	Forex trading profits	15,656	11,995
	Currency revaluations	(2,796)	2,870
	Net trading income	**12,860**	**14,865**

8	Net fee and commission income Consolidated	2019 P'000	2018 P'000
	Fee and commission income		
	Fees	78,398	79,790
	Commission income	55,036	55,460
	Other income	26,165	21,541
		159,599	**156,791**
	Fee and commission expense		
	Commission expense	45,385	38,653
		45,385	**38,653**
	Net fee and commission income	**114,214**	**118,138**

8	Company		
	Fee and commission income		
	Fees	80,004	79,790
	Commission income	22,854	26,505
	Other income	26,165	21,541
		129,023	**127,836**
	Fee and Commission expense		
	Commission expense	45,385	38,653
		45,385	**38,653**
	Net fee and commission income	**83,638**	**89,183**

		Consolidated	
9	**Personnel expenses**	2019 P'000	2018 P'000
	Salaries and wages	138,470	124,531
	Pension contributions - defined contribution plans (note 15)	11,083	9,621
	Other employee expenses	6,798	10,827
		156,351	**144,979**

The average number of persons employed by the group during the year was 418 (2018:425).

		Company	
9	**Personnel expenses**	2019 P'000	2018 P'000
	Salaries and wages	137,484	123,823
	Pension contributions - defined contribution plans (note 15)	11,000	9,553
	Other employee expenses	6,797	10,827
		155,281	**144,203**

		Consolidated	
		2019	2018
10	**General and administrative expenses**	**P'000**	**P'000**
	IT and software costs	61,450	30,715
	Office expenses	8,018	6,283
	Repairs and maintenance	1,514	1,804
	Operating lease rentals	-	10,918
	Marketing and public relations	10,469	10,493
	Travel and entertainment	2,557	2,875
	Telecommunication and postage	11,649	14,501
	Stationery	9,127	6,384
	Management fees	11,725	52,210
	Other administrative expenses	11,693	23,208
		128,202	**159,391**

		Company	
		2019	2018
10	**General and administrative expenses**	**P'000**	**P'000**
	IT and software costs	61,450	30,715
	Office expenses	8,018	6,283
	Repairs and maintenance	1,514	1,804
	Operating lease rentals	-	10,918
	Marketing and public relations	10,469	10,493
	Travel and entertainment	2,557	2,875
	Telecommunication and postage	11,649	14,501
	Stationery	9,127	6,384
	Management fees	11,725	50,603
	Other administrative expenses	10,052	21,584
		126,561	**156,160**

		Consolidated and Company	
		2019	2018
11	**Depreciation and amortisation expenses**	**P'000**	**P'000**
	Depreciation of property, and equipment (note 29)	19,079	12,216
	Amortisation of intangible assets (note 28)	19,037	14,206
		38,116	**26,422**

Included in depreciation of property and equipment is the depreciation for right of use asset of P7.9million.

12	**Other operating expenses**		
	Audit fees (refer to note 12.1)	3,383	3,491
	Consulting costs	12,536	9,795
	Professional fees	7,611	5,209
	Legal expenses	346	1,125
	Commission expenses	55,816	54,073
		79,692	**73,693**

		Consolidated and Company	
12	**Other operating expenses (continued)**	**2019**	**2018**
12.1	**Auditor's Remuneration**	**P'000**	**P'000**
	Statutory audit related charges		
	- Group statutory audit fees	3,383	2,830
	- Prior year under accrual	-	661
	Year end 31 December	**3,383**	**3,491**
	Non-statutory audit related charges		
	- audit related assurance service fees (included under consultancy costs)	106	486
	Total Non statutory audit related charges	**106**	**486**
	Total fees paid/ total remuneration paid	**3,489**	**3,977**
13	**Income tax expense**		
13.1	**Consolidated**		
	Current taxes on income for the reporting year	7,793	39,191
	Total current tax	**7,793**	**39,191**
	Deferred taxation	25,719	(1,957)
	Prior year over/under provision	(3,013)	-
	Tax expense per statement of comprehensive income	**30,499**	**37,234**
13.1	**Company**		
	Current taxes on income for the reporting year	482	32,802
	Total current tax	**482**	**32,802**
	Deferred taxation	25,719	(1,957)
	Prior year over/under provision	(3,013)	-
	Tax expense per statement of comprehensive income	**23,188**	**30,845**

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

Taxation reconciliation

		2019 P'000	2018 P'000
13.2	**Consolidated**		
	Profit before tax	**152,296**	**165,416**
	Taxation calculated at the rate of 22%(2018 : 22%)	33,505	36,392
	Permanent differences	6	-
	Prior year over/underprovision of income tax	(3,013)	842
	Tax expense per statement of comprehensive income	**30,498**	**37,234**
	Effective tax rate	**20.0%**	**22.5%**

13.2 Company

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

	2019 P'000	2018 P'000
Profit before tax	**119,075**	**136,430**
Taxation calculated at the rate of 22% (2018 : 22%)	26,195	30,015
Permanent differences	6	830
Prior year over/underprovision of income tax	(3,013)	-
Tax expense per statement of comprehensive income	**23,188**	**30,845**
Effective tax rate	**19.5%**	**22.6%**

		2019	2018
13.3	**Consolidated and Company**		
	Deferred tax (Loss)/gain on revaluation of property	**(240)**	**(977)**

14 Earnings per share

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

Consolidated		
Basic and diluted earnings per share	**2019**	**2018**
Profit attributable to equity holders of the Company (P'000)	121,797	128,182
Weighted average number of ordinary shares in issue ('000)	725,000	62,833
Basic and diluted earnings per share (thebe)	**17**	**204**

There were no further issue of shares during the year. During 2018, 696 million number of shares were issued.

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

Company		
Basic and diluted earnings per share		
Profit attributable to equity holders of the Company (P'000)	95,887	105,585
Weighted average number of ordinary shares in issue ('000)	725,000	62,833
Basic and diluted earnings per share (thebe)	**13**	**168**

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

15 Pensions

A defined contribution pension scheme was introduced with effect from 1 January 2002. Eligible employees and the Group contribute 6 percent and 12.5 percent of pensionable salaries respectively.

	Consolidated and Company	
16 Cash and balances with the Central Bank	**2019 P'000**	**2018 P'000**
Notes and coins	70,812	89,515
Unrestricted bank balances	6,183	28,074
Cash and cash equivalent	**76,995**	**117,589**
Restricted balance: statutory reserve	143	307,145
	77,138	**424,734**

Balances with Central Bank includes the statutory reserve account of P143,000 (2018: 307,145,000) which is a restricted minimum statutory reserve balance not available for the Bank's daily operations.

17 Related party transactions

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

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

	Consolidated and Company	
	2019	**2018**
17.1 Balances due from related parties:	**P'000**	**P'000**
ABC Holdings Ltd	409,803	342,424
African Banking Corporation Zimbabwe Ltd	57,615	74,257
African Banking Corporation Zambia Ltd	54,494	1,143
African Banking Corporation Mozambique Ltd	253	785
African Banking Corporation Tanzania Ltd	107,774	108,103
Atlas Mara Ltd	3,179	2,068
	633,118	**528,780**
Interest income		
ABC Holdings Ltd	27,571	27,636
African Banking Corporation Zimbabwe Ltd	1,303	1,323
African Banking Corporation Zambia Ltd	1,548	-
African Banking Corporation Tanzania Ltd	8,677	8,417
	39,099	**37,376**

The tenor on the above balances ranges from 3 months -1 year and interest is payable quarterly. Interest rates range between 6% to 8%.

	2019 P'000	2018 P'000
17.2 Balances due to related parties:		
ABC Holdings Ltd	4,890	38,919
African Banking Corporation Mozambique Ltd	7,969	7,563
African Banking Corporation Zimbabwe Ltd	1,278	7,359
African Banking Corporation Zambia Ltd	46	40
African Banking Corporation Tanzania Ltd	3,479	320
	17,662	**54,201**
Balances due to subsidiary:		
Kaleu (pty) Ltd trading as BancABC insurance agency fixed deposit	138,562	-
Kaleu (pty) Ltd trading as BancABC current account	9,004	-
	147,566	-
Total balance due to related parties	**165,228**	**54,201**
Interest expense		
African Banking Corporation Zimbabwe Ltd	-	25
African Banking Corporation Zambia Ltd	-	1,547
African Banking Corporation Mozambique Ltd	655	-
	655	**1,572**

The tenor on the above balances ranges from 3 months - 1 year and interest is payable quarterly. Interest rates range between 6% to 8%.

17 Related party transactions (continued)

17.3 Loans and advances to other related parties:

	2019 P'000	2018 P'000
Executive members of staff	24,485	27,413
	24,485	**27,413**
Interest income	**905**	**968**

These loans and advances have been included in loans and advances to customers as per note 20.
The Group assists officers and employees in respect of housing, motor vehicle and personal loans repayable over a maximum period of between 5 to 25 years at subsidised interest rates, ranging between 4% and 6.5%.

17.4 Other related party transactions

Deposits held by BancABC directors and their entities:

	Consolidated and Company	
	2019 P'000	2018 P'000
Deposits held by directors	**43**	**41**
Interest expense	**-**	**-**

17.5 Key management compensation

Salaries and other short term employee benefits	**30,169**	**21,907**

17.6 Directors' fees

Fees paid to directors during the year		
Mr Adams Chilisa Dambe	537	787
Mrs Lorato Nthando Mosetlhanyane	730	808
Mr Jacob Mooketsi Motlhabane	644	685
Mr Elias Magosi	-	371
Mr Joshua Benjamin Galeforolwe	574	446
Mr Boiki Matema Wabo Tema	644	126
Mrs Ntoti Mosetlhe	569	126
	3,698	**3,349**

17.7 Payments made to Directors for services rendered

Mrs Lorato Nthando Mosetlhanyane	28	289
	28	**289**

17.8 Management fees paid to holding company

ABC Holdings Ltd	11,725	52,210
	11,725	**52,210**

18 Balances with other banks

Cash and short-term funds	**904,537**	**845,788**

		Consolidated and Company	
		2019	2018
19	**Debt instruments**	**P'000**	**P'000**
	Bank of Botswana Certificates	299,656	598,991
	Government Bonds	44,689	44,877
	Treasury Bills	298,473	518,832
		642,818	**1,162,700**
19.1	**Debt instruments qualifying to be included as part of cash and cash equivalents**		
	Bank of Botswana Certificates	299,656	598,991
	Treasury Bills	99,157	216,449
		398,813	**815,440**

At 31 December 2019, Treasury bills amounting to P200,000 000 (2018: P219,100,000) were pledged as security for the use of secured and Intraday Lending facilities. Government Bonds have a maturity of more than three months and therefore do not qualify to be included as part of cash and cash equivalents. As at 31st December 2019 Govement Bonds amounting to P40 000 000 formed part of the pledged securities.

		Consolidated and Company	
		2019	2018
20	**Loans and advances to customers**	**P'000**	**P'000**
	Loans and advances	6,710,232	6,080,589
	Instalment sales and finance leases (note 20.1)	28,742	43,140
		6,738,974	**6,123,729**
	Less: Changes in expected credit losses	(278,742)	(302,751)
		6,460,232	**5,820,978**
	Unearned fee income	(16,676)	(11,855)
	Loans and advances after unearned fee income	**6,443,556**	**5,809,123**

Leases are secured by assets being financed, whilst cash advances and term loans are secured by either cash security, mortgage and surety bonds or any equipment of value. The carrying amount and fair value of loans pledged as security for borrowing as at 31 December 2019 is P479,540,515. (2018: P442,320,885) (Refer to note 23.3).

20.1 Instalment sales and finance lease receivables

	Consolidated and Company	
Gross loans and advances to customers include finance lease receivable as follows:		
	2019	**2018**
	P'000	**P'000**
Less than one year	9,437	8,084
More than one year but less than five years	19,305	35,056
	28,742	**43,140**

		Consolidated and Company	
		2019	2018
21	**Other assets**	**P'000**	**P'000**
	Consolidated		
	Prepayments	22,180	20,140
	Sundry debtors and deposits	39,950	32,711
	Other	229	249
		62,359	**53,100**
	Company		
	Prepayments	22,180	20,140
	Sundry debtors and deposits	28,917	29,291
	Other	226	249
		51,323	**49,680**

22 Deposits from banks and customers

	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Deposits from banks	66,844	16,321
Deposits from customers	6,973,892	7,192,452
	7,040,736	**7,208,773**
Maturity analysis:		
On demand to one month	2,811,992	3,342,090
One month to three months	2,097,250	2,457,545
Three months to one year	1,807,919	1,360,062
Greater than one year	323,575	49,076
	7,040,736	**7,208,773**

23 Borrowed funds

	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Balances without accrued interest		
Botswana Development Corporation Limited - subordinated loan	150,000	150,000
African Alliance Proprietary Limited -subordinated debt	32,000	-
Gryphon Proprietary Limited -subordinated debt	400	-
Botswana Insurance fund Management Proprietary Limited -subordinated debt	600	-
Kgori Capital Proprietary Limited -subordinated debt	22,000	55,000
Botswana Building Society - long term loan	8,505	9,741
European Investment Bank(EIB)- long term loan	12,272	88,727
Overseas Private Investment Corporation (OPIC)	423,730	428,037
Microfinance Enhancement Facility SA, SICAV-SIF (MEF)	105,932	-
	755,439	**731,505**
Accrued interest		
Botswana Development Corporation Limted - subordinated loan	-	5,324
African Alliance Proprietary Limited -subordinated debt	505	-
Gryphon Proprietary Limited -subordinated debt	6	-
Botswana Insurance fund Management Proprietary Limited -subordinated debt	9	-
Kgori Capital Proprietary Limited -subordinated debt	347	906
Botswana Building Society - long term loan	5	844
European Investment Bank(EIB)- long term loan	105	603
Overseas Private Investment Corporation (OPIC)	3,578	3,698
Microfinance Enhancement Facility SA, SICAV-SIF (MEF)	3,178	-
	7,733	**11,375**
Balances with accrued interest		
Botswana Development Corporation Limted - subordinated loan	150,000	155,324
African Alliance Proprietary Limited -subordinated debt	32,505	-
Gryphon Proprietary Limited -subordinated debt	406	-
Botswana Insurance fund Management Proprietary Limited -subordinated debt	609	-
Kgori Capital Proprietary Limited -subordinated debt	22,347	55,906
Botswana Building Society - long term loan	8,510	10,585
European Investment Bank(EIB)- long term loan	12,377	89,331
Overseas Private Investment Corporation (OPIC)	427,308	431,734
Microfinance Enhancement Facility SA, SICAV-SIF (MEF)	109,110	-
	763,172	**742,880**

23 Borrowed funds (continued)	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Fair value		
Botswana Development Corporation Limted - subordinated loan	150,000	155,324
African Alliance Proprietary Limited - subordinated debt	32,505	-
Gryphon Proprietary Limited - subordinated debt	406	-
Botswana Insurance fund Management Proprietary Limited -subordinated debt	609	-
Kgori Capital Proprietary Limited - subordinated debt	22,347	55,906
Botswana Building Society - long term loan	8,510	10,585
European Investment Bank(EIB)- long term loan	12,377	89,331
Overseas Private Investment Corporation (OPIC)	427,308	431,734
Microfinance Enhancement Facility SA, SICAV-SIF (MEF)	109,110	-
	763,172	**742,880**
Maturity analysis:		
On demand to one month	4,018	4,786
One to three months	3,760	7,698
Three months to one year	16,012	30,105
Over one year	739,382	700,291
	763,172	**742,880**

23.1 Botswana Development Corporation Limited - subordinated loan

The Bank concluded a facility with Botswana Development Corporation Ltd (BDC) for BWP 150 million during the year. The facility is for 10 years at an interest rate of bank rate (currently 4.75%) and a margin of 4%. The facility qualifies as tier 2 capital. The proceeds were used to re-pay the two ABC holdings Ltd Tier II capital instruments of USD10 million and BWP 31 million. The balance was applied to grow the banks loan book.

23.2 Subordinated Debt Issuance

African Alliance Proprietary Limited - subordinated debt

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

Gryphon Proprietary Limited - subordinated debt

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

Botswana Insurance fund Management Proprietary Limited - subordinated debt

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

Kgori Capital Proprietary Limited

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

During the current year, the P55million subordianted debt held by Kgori Capital Proprietary Limited of was split amongst four holders: African Alliance Proprietary Limited P32 million, Gryphon Proprietary Limited P400 thousand, Botswana Insurance Fund Management Proprietary Limited P600 thousand and Kgori Capital Proprietary Limited remaining with P22million.

23 Borrowed funds (continued)

Qualification for Tier II Capital inclusion

The above stated loans (23.1 and 23.2) have met or exceeded the following minimum set criteria by the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana in order for them to qualify as Tier II Capital:

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

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

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

(iv) The instruments are not callable at the initiative of the issuer before five years:
- The Group will not exercise a call option on the instruments prior to Bank of Botswana approval
- the Group will not do anything that creates an expectation that the call on the instruments will be exercised;
- the Group will not exercise a call option unless :

(a) It replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

(b) It demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

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

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

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

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

23.3 Overseas Private Investment Corporation ("OPIC")

On 7 March 2017 BancABC Botswana finalised a USD 40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation ("OPIC"). The debt facility was used to provide access to finance for SMEs, individuals and to support the Bank's efforts to accelerate its digital finance initiatives, which are key areas of the Bank's strategy. The loan has a 7 year tenor with a 3 year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year 3. The rate is three month Libor plus a margin of 4.45%. The value of loans pledged as security as at 31 December 2019 is P479,540,515. (2018: P442,320,885) (Refer to note 20).

23.4 Botswana Building Society

The term loan from Botswana Building Society was obtained on 31 December 2008. The loan bears interest at prime less 0.75%, at reporting date at 5.5% (2017:6.5%). The loan is secured by land and buildings with a market value of P34 600 000 (note 29). Principal plus interest are repayable monthly. The loan matures on 30 December 2022. (Refer to note 29).

23.5 European Investment Bank

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

23.6 Microfinance Enhancement Facility SA, SICAV-SIF (MEF)

On 17 January 2019 BancABC Botswana finalised a USD 10 million debt facility with Microfinance Enhancement Facility SA, SICAV-SIF, an investment company with variable capital established as a Luxembourg specialised Investment fund, organised and existing under the laws of Luxembourg, registered with the Luxembourg Trade and Companies Register. The debt facility will be used to finance the bank's asset growth as well as to manage any potential liquidity mismatches. The debt facility has a 3 year tenor. Interest is paid half yearly during the three years. The facility is priced at Libor plus a margin of 4.25bps.

24 Stated capital

	Consolidated and Company	
	2019 P'000	2018 P'000
725 million Ordinary shares issued and fully paid at the start and end of the year: (2018: 725 million)	**222,479**	**222,479**

These ordinary shares do not have a par value.

25 Reserves and retained earnings

25.1 Other Reserves

	Consolidated and Company	
	2019 P'000	2018 P'000
As at 31 December 2018	**6,091**	**6,091**

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

25.2 Revaluation reserve

	Consolidated and Company	
	2019 P'000	2018 P'000
At 1 January	8,445	4,982
Gain/(Loss) on revaluation of land and buildings	1,090	4,440
Deferred tax gain on revaluation of land and buildings	(240)	(977)
At 31 December	**9,295**	**8,445**

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

25.3 Retained earnings

	2019	2018
Consolidated		
At 1 January	735,786	831,753
IFRS 16 day one adjustment	1,440	-
IFRS 9 day one impact	-	(224,149)
Profit for the year	121,797	128,182
Dividend declared and paid	(20,526)	-
At 31 December	**838,497**	**735,786**
Company		
At 1 January	619,376	737,940
IFRS 16 day one adjustment	1,440	-
IFRS 9 day one impact	-	(224,149)
Profit for the year	95,887	105,585
Dividends	(20,526)	-
At 31 December	**696,177**	**619,376**

26 Other liabilities	2019 P'000	2018 P'000
Consolidated		
Accruals	44,009	16,119
Deferred lease liabilities	-	1,504
Clearing accounts	2,803	5,371
Settlement accounts	20,316	38,035
Lease liability	62,082	-
Other	17,804	31,758
	147,014	**92,787**

26 Other liabilities	2019 P'000	2018 P'000
Company		
Accruals	43,864	16,119
Deferred lease liabilities	-	1,504
Clearing accounts	2,803	5,371
Settlement accounts	20,316	38,035
Lease liability	62,082	-
Other	3,126	16,341
	132,191	**77,370**

27 Taxation

27.1 Current tax assets	2019 P'000	2018 P'000
Consolidated		
Current tax assets (to be recovered within 12 months)	(18,124)	(12,544)
Net current taxation assets	**(18,124)**	**(12,544)**
Company		
Current taxation assets (to be recovered within 12 months)	(19,583)	(12,733)
Net current taxation assets	**(19,583)**	**(12,733)**

27.1.1 Consolidated	2019 P'000	2018 P'000
Income taxation brought forward	(12,544)	(17,020)
Charge for the year	7,793	39,191
Taxation paid (refer to note 27.1.1)	(13,986)	(34,715)
Prior year under provision of income taxation	613	-
Net income taxation carried forward	**(18,124)**	**(12,544)**
Reconciliation of taxation paid		
Receipts during the year	9,747	14,128
Payments during the year	(23,733)	(48,843)
Total taxation paid	**(13,986)**	**(34,715)**

27 Taxation (continued)
27.1 Current tax assets (continued)

Company	2019 P'000	2018 P'000
Income taxation brought forward	P'000	(17,669)
Charge for the year	482	32,802
Taxation paid (refer to note 27.1.1)	(7,945)	(27,866)
Prior year under provision of income taxation	613	-
Net income taxation carried forward	**(19,583)**	**(12,733)**
Reconciliation of taxation paid		
Receipts during the year	9,747	14,128
Payments during the year	(17,692)	(41,994)
Total taxation paid	**(7,945)**	**(27,866)**

27.2 Deferred taxation

Deferred taxes are calculated on all temporary differences using a principal tax rate of 22% (2018: 22%). The movements in the deferred tax account, which are attributable to timing differences are as follows.

	2019 P'000	2018 P'000
Deferred tax brought forward	(50,553)	13,900
Gain on revaluation of property	240	977
Charge per profit or loss (note 13.1)	25,721	(1,957)
Deferred tax on ECL adjustment on initial application of IFRS 9 at 1 January 2018	-	(63,473)
Prior year under provision per profit or loss	(3,628)	-
Deferred tax (assets) / liabilities	**(28,220)**	**(50,553)**

Consolidated and Company	Net balance as at 1 January 2019 P'000	Net movement recognised in profit or loss P'000	Recognised in other comprehensive income P'000	Closing balance as at 31 December 2019 P'000
Property and equipment	13,564	(5,100)	240	8,704
Debt Instruments	(335)	(15)	-	(350)
Loans and advances and impairments	(68,339)	26,886	-	(41,453)
Prepayments	4,431	448	-	4,879
Operating lease	126	(126)	-	-
	(50,553)	**22,093**	**240**	**(28,220)**

Consolidated and Company	Net balance as at 1 January 2018 P'000	Net movemen t recognised in profit or loss P'000	Recognised in other comprehensive income P'000	Closing balance as at 31 December 2018 P'000
Property and equipment	13,947	(1,360)	977	13,564
Debt Instruments	119	(454)	-	(335)
Loans and advances and impairments	(2,697)	(2,169)	(63,473)	(68,339)
Prepayments	-	4,431	-	4,431
Operating lease	2,531	(2,405)	-	126
	13,900	**(1,957)**	**(62,496)**	**(50,553)**

28 Intangible assets

	Consolidated and Company	
	2019 P'000	2018 P'000
Software		
Cost		
Balance at the beginning of the year	170,939	136,241
Additions	11,167	34,698
Work in progress	1,384	-
Balance at the end of the year	**183,490**	**170,939**
Accumulated amortisation		
Balance at the beginning of the year	(60,106)	(45,900)
Amortisation charge (note 11)	(19,037)	(14,206)
Balance at the end of the year	**(79,143)**	**(60,106)**
Carrying amount at the end of the year	**104,347**	**110,833**

29 Property and equipment

2019

Consolidated and Company

	Land and buildings P'000	Motor vehicles P'000	Furniture P'000	Computer and office equipment P'000	Total P'000
Cost/revaluation					
At 1 January 2019	**33,540**	**1,710**	**68,541**	**49,058**	**152,849**
Right of use asset (IFRS 16 transition adjustment)	66,902	-	-	-	66,902
Additions	-	-	8,977	2,266	11,243
Revaluation	1,090	-	-	-	1,090
At 31 December 2019	**101,532**	**1,710**	**77,518**	**51,324**	**232,084**
Accumulated depreciation					
At 1 January 2019	-	(1,605)	(38,984)	(42,555)	(83,144)
Charge for year (note 11)	(7,960)	(58)	(7,576)	(3,486)	(19,080)
At 31 December 2019	**(7,960)**	**(1,663)**	**(46,560)**	**(46,041)**	**(102,224)**
Net book value at 31 December 2019	**93,572**	**47**	**30,958**	**5,283**	**129,860**

Property and equipment includes right of use assets of P58.9million related to leased properties that do not meet the definition of investment property.

29 Property and equipment (continued)

2018

Consolidated and Company

	Land and buildings P'000	Motor vehicles P'000	Furniture P'000	Computer and office equipment P'000	Total P'000
Cost/revaluation					
At 1 January 2018	**29,100**	**1,710**	**61,241**	**46,910**	**138,961**
Additions			7,300	2,148	9,448
Revaluation	4,440	-	-	-	4,440
At 31 December 2018	**33,540**	**1,710**	**68,541**	**49,058**	**152,849**
At 1 January 2018	**-**	**(1,485)**	**(32,377)**	**(37,066)**	**(70,928)**
Charge for year (note 11)	-	(120)	(6,607)	(5,489)	(12,216)
At 31 December 2018	**-**	**(1,605)**	**(38,984)**	**(42,555)**	**(83,144)**
Net book value at 31 December 2018	**33,540**	**105**	**29,557**	**6,503**	**69,705**

The Group's commercial Land and buildings situated at Plot 62433, Fairgrounds Gaborone were revalued on the 31 December 2019 by Knight Frank Botswana (Pty) Ltd, an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was made on the basis of recent market transactions on arm's length terms. The carrying amount is P34.6 million (2018: P33.5million).

Land and building with a market value of P34,640,000 million has been pledged as security for the Botswana Building Society loan. (note 23).

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

Valuation technique and significant unobservable inputs:

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

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

30 Capital adequacy

	Capital composition under Basel II Framework	
	Consolidated and Company	
	2019 P'000	2018 P'000
Core capital (Tier 1)		
Stated capital	222,479	222,479
Statutory credit risk reserve and other reserves	15,386	14,536
Retained earnings	838,497	735,785
IFRS 9 Impairment Transitional Adjustments	79,451	119,176
Regulatory adjustments applied in the calculation of CET 1 Capital (intangible asset)	(83,478)	(66,500)
	1,072,335	**1,025,476**
Supplementary capital (Tier 2)		
General provision/ general loan-loss reserves eligible for inclusion in Tier II	76,873	77,116
Subordinated loan	172,000	194,000
	248,873	**271,116**
Total capital (Tier 1 and Tier 2)	**1,321,208**	**1,296,592**
Market risk	308,516	532,421
Operational risk	672,035	648,910
On Balance sheet assets/ credit risk weighted assets	5,981,410	5,915,756
Off Balance sheet assets	149,462	253,489
Total risk weighted assets	**7,111,423**	**7,350,576**
Core capital ratio	15.08%	13.95%
Capital adequacy ratio	18.58%	17.64%
Bank of Botswana preferred minimum risk asset ratio	15%	15%

The Bank is supervised by the Bank of Botswana and is required to maintain a minimum capital ratio, known as the Capital Adequacy Ratio, expressed in terms of the ratio of unimpaired capital to the risk weighted value of assets and off balance sheet items. The ratio as at 31 December 2019 meets the minimum requirement of 15% set by Bank of Botswana.

Core Capital is the portion of capital which is permanently and freely available to absorb unanticipated losses without the Bank being mandated to cease trading. It comprises CET1 capital and Additional Tier I capital (Basel II enhancements).

31 Subsidiary

Kaleu (Pty) Ltd trading as BancABC Insurance is a 100% owned subsidiary company of African Banking Corporation of Botswana Limited and was incorporated in Botswana on 22 February 2011 and started trading on 18 January 2012. The Company does not have any regulatory restrictions to use its subsidiary's assets and its cash balances. Kaleu (Pty) Ltd has paid up capital of P100.

32 Contingent liabilities and loan commitments	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Financial guarantees	57,826	109,331
Loan commitments and other credit related liabilities	180,588	530,519
	238,414	**639,850**
Changes in expected credit loss	(1,880)	(3,328)
	236,534	**636,522**

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

33 Capital commitments	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Commitments in respect of capital expenditure:		
Approved and contracted for	12,551	12,174
Approved but not contracted for	128,043	67,129
Operating lease commitments	-	28,656
Total commitments	**140,594**	**107,959**

33.1 Deferred lease liabilities	Consolidated and Company 2019 P'000	Consolidated and Company 2018 P'000
Long-term accrual	-	570
Short-term accrual	-	924
Total commitments	**-**	**1,494**
Minimum lease payments		
Cashflow within 1 year	-	8,136
Cashflow between 2- 5 years	-	19,301
Future expenses	**-**	**27,437**

34 Derivative financial instruments:

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

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

	Consolidated and Company		
Derivative financial instruments 31 December 2019	**Assets P'000**	**Liabilities P'000**	**Notional amount P'000**
Derivatives held for trading			
Foreign exchange contracts	1,154	1,065	89
Derivatives designated at fair value through profit or loss			
Collateralised default swap	59,333	58,553	780
	60,487	**59,618**	**869**

	Consolidated and Company		
Derivative financial instruments 31 December 2018	**Assets P'000**	**Liabilities P'000**	**Notional amount P'000**
Derivatives held for trading			
Foreign exchange contracts	2,322	765	1,557
Derivatives designated at fair value through profit or loss			
Collaterilised default swap	60,433	58,408	2,024
	62,755	**59,173**	**3,581**

34 Derivative financial instruments (continued):

34.1 Derivative financial instruments-cash flows:

Derivative financial liabilities-cash flows 31 December 2019	Up to 1 month P'000	1-3 months P'000	3-12 months P'000	Greater than 1 year P'000	Total P'000
	Consolidated and Company				
Value on initial recognition					
Collaterilised default swap	1,065	-	-	58,553	59,618
	1,065	**-**	**-**	**58,553**	**59,618**

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

35 Segmental Reporting

Basis of Segmenting

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

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

Segmental Reporting December 2019

Statement of comprehensive income	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Net interest income	265,824	49,971	96,130	411,925
Non- interest income	105,858	12,615	8,601	127,074
Total income	**371,682**	**62,586**	**104,731**	**538,999**
Movement in impairment	12,248	-	3,410	15,658
Net income	**383,930**	**62,586**	**108,141**	**554,657**
Operating expenditure	(314,978)	(38,323)	(49,060)	(402,361)
Profit before taxation	**68,952**	**24,263**	**59,081**	**152,296**
Taxation	(13,808)	(4,859)	(11,832)	(30,499)
Profit after tax	**55,144**	**19,404**	**47,249**	**121,797**
Statement of financial position				
Debt instruments	-	642,818	-	642,818
Loans and advances to customers	5,922,740	-	520,816	6,443,556
Total assets for reportable segments	**5,922,740**	**642,818**	**520,816**	**7,086,374**
Deposits from customers	1,076,175	-	5,897,717	6,973,892
Deposits from banks	-	66,844	-	66,844
Total liabilities for reportable segments	**1,076,175**	**66,844**	**5,897,717**	**7,040,736**

Segmental Reporting December 2018

Statement of comprehensive income	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Net interest income	301,403	66,622	49,967	417,992
Non- interest income	107,493	14,865	10,645	133,003
Total income	**408,896**	**81,487**	**60,612**	**550,995**
Movement in impairment	(5,443)	-	24,349	18,906
Net income	**403,453**	**81,487**	**84,961**	**569,901**
Operating expenditure	(310,674)	(38,532)	(55,279)	(404,485)
Profit before taxation	**92,779**	**42,955**	**29,682**	**165,416**
Taxation	(20,884)	(9,669)	(6,681)	(37,234)
Profit after tax	**71,895**	**33,286**	**23,001**	**128,182**
Statement of financial position				
Debt instruments	-	1,162,700	-	1,162,700
Loans and advances to customers	5,179,787	-	629,336	5,809,123
Total assets for reportable segments	**5,179,787**	**1,162,700**	**629,336**	**6,971,823**
Deposits from customers	1,033,451	1,598,655	4,560,346	7,192,452
Deposits from banks	-	16,321	-	16,321
Total liabilities for reportable segments	**1,033,451**	**1,614,976**	**4,560,346**	**7,208,773**

36 Events after reporting date

On the 11 March 2020 the World Health Organisation declared the Coronavirus COVID 19 outbreak to be a pandemic due to its rapid spread across the globe. The Botswana Government has taken stringent measures ahead of any confirmed cases to help contain the virus such as controlling entrants into the country at the borders, implementing social distancing measures and requiring self- isolation quarantine by those potentially affected. These measures are similar, though at early stage, to those adopted by other countries which has led to weaker economic outlook globally. As a result, the Bank will likely experience a decrease in profitability especially by the second quarter of the year due to decline in revenue, possible increase in cost of funding or increased impairments as customers and businesses potentially become affected by the pandemic.

As at date of this report there is no sufficient data to quantify the effects of the pandemic however based on the preliminary assessments the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the banks' ability to continue as a going concern.

Notice to Shareholders

2020 Annual General Meeting for BancABC botswana

Notice is hereby given that a virtual Annual General Meeting of Shareholders of **AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED t/a BANCABC BOTSWANA** will be held on 26th June 2020 at 0900HRS or anytime thereafter for the purpose of transacting the following business:

AGENDA

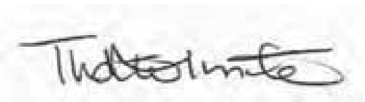
1 To receive, consider and adopt the Chairperson's report
2 To receive, consider and adopt the Managing Director's report
3 To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2019, together with the Auditor's report herein
4 To confirm the appointment of KPMG Botswana as Auditors for the ensuing year
5 To approve the remuneration of the auditors, KPMG Botswana for the year ender 31st December 2019 in the amount of **BWP3,489,000.00**
6 To approve the remuneration paid to the Directors of BancABC Botswana for the year ended 31st December 2019, in the amount of **BWP3,696,947.00**
7 To approve interim dividend of 2.8 thebe per share;
8 To re-elect;
    8.1. Mr. Joshua Benjamin Galeforolwe
    8.2. Mr. Boiki Matema Wabo Tema, and
    8.3. Mrs. Ntoti Mosetlhe

Who all retire by rotation in accordance with section 25.9.1. of the Constitution, and who all being eligible offer themselves for re-election and have their brief profiles attached herein;

9 To note and accept the resignation of Mr. A.D. Chilisa, effective 31st March 2020
10 To respond to questions from shareholders present
11 To approve that the Annual Report be shared only electronically, to those who have provided email addresses
12 To transact any other business which maybe transacted at an Annual General Meeting

All shareholders are entitled to attend and vote at the above-mentioned meeting and entitled to appoint a proxy to attend, speak and to vote in his/her/their stead. A proxy need not also be a Shareholder. A proxy form is available at the end of the Annual Report. Further proxy forms are available at the office of the Company Secretary at Grant Thornton Botswana, Acumen Park, Plot 50370, Fairgrounds, Gaborone, Botswana. All completed proxy forms must be submitted not less than 48 hours before the meeting.

BY ORDER OF THE BOARD



Ms. Thato Mmile
Company Secretary

Proxy form

for the year ended 31 December 2019

[TO BE COMPLETED BY HOLDERS OF LINKED UNITS]

Please read the notes overleaf before completing this form

For use at the virtual Annual General Meeting of Unit Holders of the company to be held at on 25th June 2020 at 0900HRS.

I / We ____

(Name in block letters)

Of (address) ____

Hereby appoint ____

Or failing him/her ____

Or failing him/her, the Chairman of the meeting as my/our proxy to act for me/us at the 2020 Annual General Meeting, to vote for or against the resolutions and/or abstain from voting in respect of the Linked Units registered in my/our name in accordance with the following instruction.

NUMBER OF LINKED UNITS

	For		Against		Abstain	
Ordinary resolution 1						
Ordinary resolution 2						
Ordinary resolution 3						
Ordinary resolution 4						
Ordinary resolution 5						
Ordinary resolution 6						
Ordinary resolution 7	Galeforolwe	☐	Galeforolwe	☐	Galeforolwe	☐
	Tema	☐	Tema	☐	Tema	☐
	Mosetlhe	☐	Mosetlhe	☐	Mosetlhe	☐
Ordinary resolution 8						

registered in my/our name in accordance with the following instruction.

Signed at: ____

Date: ____

Signature: ____

Assisted by (where applicable):

Each Unit Holder who is entitled to attend and vote at a General Meeting is entitled to appoint one or more persons as proxy to attend speak and vote in place of the Unit Holder at the Annual General Meeting and the proxy so appointed need not be a member of the company.
Please read notes 1 -7 below

1. A Shareholder must insert the names of two alternative proxies of the Shareholders choice in the space provided with or without deleting "Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy and whose name has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's instruction to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorize the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholders votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorize the proxy to vote in favour of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.
3. The completion and lodging of this form will not preclude the relevant Shareholder from attending the virtual General Meeting.
4. The Chairman of the Annual General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he/she is satisfied as to the manner in which the Shareholder concerned wishes to vote.
5. An instrument of proxy shall be valid for the Annual General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.
6. The authority of a person signing the form of proxy under power of attorney or on behalf of a company must be attached to the form of proxy.
7. Where Ordinary Shares are held jointly, all Shareholders must sign. A minor must be assisted by his/her guardian.

BancABC
part of
atlasmara