BancABC part of atlasmara

# African Banking Corporation of Botswana Limited

Incorporated in accordance with the laws of Botswana on 5 June 1986
Company Number 86/384
(“**BancABC**” or “**the Company**” or “**the Bank**”)

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD IMMEDIATELY SEEK ADVICE FROM YOUR LEGAL ADVISER, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.**

## PRE-LISTING STATEMENT

**In respect of:**

- **An invitation to apply to purchase up to 180 525 000 ordinary shares in the Company offered for sale by ABC Holdings Limited at a price of BWP 2.00 per share; and**
- **The listing of the ordinary shares in the Company on the Main Board of the Botswana Stock Exchange (“BSE”).**

This Pre-Listing Statement is not and shall not constitute an offer, or an invitation or solicitation, to the general public to apply to acquire the Offer Shares in any jurisdiction, and is issued in terms of the Companies Act and the Listing Requirements of the BSE (“Listings Requirements”) for the purpose of providing information to institutional investors and clients of the Sponsoring Broker or other stockbrokers registered as such in Botswana (“Selected Investors”) in Botswana, South Africa and certain jurisdictions, with regard to the Company.

This document and/or the Application Form should not, however, be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations including, but not limited to (subject to certain exceptions) the Excluded Territories. Please refer to the Important Legal Notice section of this document if you propose to send this document outside Botswana. The distribution of this document into jurisdictions other than Botswana may be restricted by law and therefore persons into whose possession this document and/or any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions. In particular, subject to certain exceptions, this document should not be distributed, forwarded to or transmitted in or into the United States or Canada or any of the Excluded Territories. The comments and those set out herein are intended as a general guide only. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser

This Pre-Listing Statement is an invitation to Selected Investors to apply to purchase up to 180 525 000 ordinary shares in the Company (“the Offer Shares”) to be sold by the shareholder of the Company, ABC Holdings Limited, at a price of BWP 2.00 per share (“the Offer Price”) and is a “Placing” as contemplated by Rule 5.11 of the Listing Requirements.

There are currently 725 000 000 ordinary shares of no par value in issue. ABC Holdings Limited proposes to sell up to 180 525 000 of such ordinary shares in the Company, which represent up to 24.9% of the Company’s issued ordinary shares.

**Sponsoring Broker**
motswedi securities (pty) Ltd

**Financial Advisor and Bookrunner**
Rand Merchant Bank

**Transfer Secretaries**
Grant Thornton

**Legal Advisor to the Company**
Collins Newman & Co.

**Legal Advisor to the Bookrunner**
DLA Piper

**Auditors and Reporting Accountants**
KPMG

Application has been made to the Listings Committee of the BSE, which has agreed to grant approval for a listing of the Shares on the Main Board of the BSE, subject to compliance with the Listings Requirements. It is expected that such listing will become effective and that dealings in the Shares will commence from 10 December 2018. The listing will be on the Main Board of the BSE, under the abbreviated name BANCABC and share code ABC.

This Pre-Listing Statement has been registered with the Companies and Intellectual Property Authority of Botswana ("CIPA") due to the fact that certain of the clients of the Sponsoring Broker or other stockbrokers registered as such in Botswana to whom the offer may be made, may be members of the public as defined in the Companies Act. CIPA has scrutinised the information disclosed in this Pre-Listing Statement to ensure that it complies with statutory provisions and regulations of the Companies Act. CIPA does not express any view on the risk for investors or whatever nature for any loss, liability, damage or expense resulting directly or indirectly from investment in the Company's securities.

The Offer Shares will be issued in dematerialised form only and accordingly no physical documents of title will be issued or delivered to Selected Investors to whom Shares are transferred.

The purchase of the Offer Shares involves certain risks and uncertainties as is usual for transactions of this nature. Investors are referred to the section entitled "Risk Factors" in Part E of this Pre-Listing Statement. Prospective investors in the Shares should ensure that they fully understand the nature of the Company's operations, its valuation and the extent of their exposure to risks, and that they consider the suitability of the Shares as an investment in light of their own circumstances and financial position. The BSE's approval of the listing of the Shares of the Company should not be taken as an indication of the merits of the Company. The BSE has not verified the accuracy and truth of the contents of the documentation submitted to it and, the BSE accepts no liability of whatever nature for any loss, liability, damage or expense resulting directly or indirectly from the investment in the Shares.

The Directors, whose names are given in section 30 of this Pre-Listing Statement collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts, and that the Pre-Listings Statement contains all information required by law.

The Directors confirm that the Pre-Listing Statement includes all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and of the rights attaching to the ordinary shares to which the Pre-Listing Statement relates.

See the section entitled "Important Legal Notice" on page 2 of this Pre-listing Statement for more information.

This Pre-listing Statement is only available in English and copies may be obtained from 09:00am until 4.00pm each day from 6 November to 23 November 2018 from the Company, and the Sponsoring Broker at their respective physical addresses which appear in the "Corporate Information, Directors and Advisers" section of this Pre-listing Statement. The Pre-listing Statement will also be available on the Company's website (http://www.bancabc.co.bw) under the Investor Relations tab.

The definitions and interpretations commencing on page 8 of this Pre-listing Statement apply throughout this Pre-listing Statement.

**DISCLAIMER**

**IMPORTANT: You must read the following disclaimer before continuing.**

The following disclaimer applies to the attached document and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions.

Rand Merchant Bank, a division of FirstRand Limited, acting as the Financial Advisor and Bookrunner is acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offer and Listing and will not regard any other person (whether or not a recipient of this Pre-Listing Statement) as a client in relation to the Offer and Listing and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to its clients or for giving advice in relation the Offer and Listing or any transaction or arrangement referred to in this Pre-Listing Statement.

The Bookrunner and its affiliates do not accept any responsibility whatsoever or make any representation or warranty, express or implied, in respect of the contents of this Pre-Listing Statement, including its accuracy, completeness or verification or for any other statement made or purported to be made by or on behalf of it, the Company, the Directors or the Selling Shareholder in connection with the Company, the Offer Shares or the Offer and Listing and nothing in this Pre-Listing Statement is or shall be relied upon as a promise or representation in this respect, whether as to the past or the future. The Bookrunner accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whatsoever, whether arising in delict, contract or otherwise which it might have in respect of this Pre-Listing Statement or any such statement.

**Date of Issue: 5 November 2018**

# LISTING DETAILS

**PARTICULARS OF THE SHARES BEING LISTED**

| | |
|---|---|
| Class | Ordinary shares |
| Total number of Shares to be listed | 725 000 000 |
| Market capitalisation on Listing at the Offer Price | BWP 1 450 000 000 |

All issued shares of the Company are of the same class and rank *pari passu* in every respect.

| **IMPORTANT DATES AND TIMES** | **2018** |
|---|---|
| Registration of PLS with CIPA | 5 November |
| Issue of PLS | 5 November |
| Publication of Abridged Pre-Listing Statement on X-News | 6 November |
| Offer Opens at 09:00 on | 6 November |
| Publication of Abridged Pre-Listing Statement in the Botswana press | 7 November |
| Offer Closes at 17:00 on | 23 November |
| Last day of receipt of application forms with payment from subscribers | 26 November |
| Notices of Allocation | 27 November |
| Settlement Date for placees | 29 November |
| Final Unconditional Approval of BSE to listing and confirmation of Date of Listing | 5 December |
| Announcement of Results, BSE Approval and Listing Date | 6 December |
| Shares uploaded to CSDB accounts | 7 December |
| Date of Listing | 10 December |
| Trading of Shares commences on the BSE at 09:00 on | 10 December |
| Payment of sale proceeds to Selling Shareholder | 10 December |
| Refund payments, if any, on or before | 10 December |

**These dates are subject to change. Any change will be announced on X-News and in the Press.**

**DETAILS OF LISTING**

The BSE has conditionally granted approval to the Company for the Listing of all of the Shares of the Company on the Main Board of the BSE as follows:

| | |
|---|---|
| **Abbreviated name**: | BANCABC |
| **Share code:** | ABC |
| **ISIN:** | BW 000000 2161 |

# IMPORTANT LEGAL NOTICE

The definitions and interpretations commencing on page 8 of this Pre-Listing Statement apply in this section and throughout this Pre-Listing Statement.

**SPECIAL NOTICES WITH REGARD TO THE OFFER**

This document will be registered as a prospectus with CIPA. This document will not be registered with any regulator in any other jurisdiction.

This Pre-Listing Statement is not and shall not constitute an offer, or an invitation or solicitation, to the general public to acquire the Offer Shares in any jurisdiction, and is issued in terms of the Companies Act and the Listings Requirements for the purpose of providing information to Selected Investors in Botswana, South Africa and certain jurisdictions, with regard to the Company.

The Offer and the distribution of this Pre-Listing Statement in jurisdictions other than Botswana may be restricted by law, and a failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, this Pre-Listing Statement and the Offer do not constitute an offer to issue or sell, or an invitation to purchase, or the solicitation of an offer to buy, any securities in, into or from any jurisdiction in which such offer or solicitation would be unlawful or would require further action in order to be lawful, including, without limitation, in, into or from any Excluded Jurisdiction. To the extent that this Pre-Listing Statement may be sent to any Excluded Jurisdiction, it is provided for information purposes only. Persons in Excluded Jurisdictions may not accept the Offer. No person accepting the Offer should use the mail of any such Excluded Jurisdiction nor any other means, instrumentality or facility in such Excluded Jurisdiction for any purpose, directly or indirectly, relating to the Offer. Persons into whose possession this Pre-Listing Statement comes must inform themselves about and observe any such restrictions. No actions have been taken, or will be taken, that would permit an offering of Offer Shares to occur outside Botswana.

Prospective investors should not treat the contents of this Pre-Listing Statement as advice relating to legal, taxation, investment or any other matters and should consult their own professional advisers concerning the consequences of their acquiring, holding or disposing of Offer Shares. Prospective investors should inform themselves as to:

- the legal requirements within their own countries for the purchase, holding, transfer or disposal of Offer Shares;
- any foreign exchange restrictions applicable to the purchase, holding, transfer or disposal of Offer Shares which they might encounter; and
- the income and other tax consequences which may apply to them as a result of the purchase, holding, transfer or disposal of Offer Shares.

Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, and not those of the Company or the Bookrunner, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. The information contained in this Pre-Listing Statement constitutes factual information as contemplated in Companies Act and the Listing Requirements and should not be construed as an express or implied recommendation, guidance or proposal that any particular transaction in respect of the Offer Shares is appropriate to the particular investment objectives, financial situations or needs of a prospective investor.

**SOUTH AFRICA**

In South Africa, the Offer will only be made by way of a private placement to selected persons falling within one of the specified categories listed in section 96(1)(a) of the South African Companies Act ("South African Qualifying Investors"), and to whom the Offer will specifically be addressed, and only by whom the Offer will be capable of acceptance, and this Pre-Listing Statement is only being made available to such South African Qualifying Investors. The Offer and the relevant information that pertains to such Offer in respect of each class of South African Qualifying Investor is combined in this Pre-Listing Statement for the sake of convenience only.

Accordingly: (i) the Offer is not an offer to the public as contemplated in the South African Companies Act; (ii) this Pre-Listing Statement does not, nor does it intend to, constitute a "registered prospectus", as contemplated by the South African Companies Act; and (iii) no prospectus has been filed with the CIPC in respect of the Offer. As a result, this Pre-Listing Statement does not comply with the substance and form requirements for a prospectus set out in the South African Companies Act and the South African Companies Regulations of 2011, and has not been approved by, and/or registered with, the CIPC, or any other South African authority.

The information contained in this Pre-Listing Statement constitutes factual information as contemplated in section 1(3)(a) of the South African Financial Advisory and Intermediary Services Act, 37 of 2002, as amended and should not be construed as an express or implied recommendation, guide or proposal that any particular transaction in respect of the Offer Shares or in relation to the business or future investments of the Company is appropriate to the particular investment objectives, financial situations or needs of a prospective investor, and nothing in this Pre-Listing Statement should be construed as constituting the canvassing for, or marketing or advertising of, financial services in South Africa.

**USA**

The Offer Shares have not been and will not be registered under the US Securities Act or under any securities law or regulation of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S).

The Offer Shares are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the Offer an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act.

**EEA**

This Pre-Listing Statement has been prepared on the basis that all offers of the Offer Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of the Offer Shares. Accordingly, any person making or intending to make any offer within the EEA of Offer Shares which are the subject of the Offer should only do so in circumstances in which no obligation arises for the Company or the Bookrunner or any other person to produce a prospectus for such offer. Neither the Company nor the Bookrunner nor any other person have authorised, nor do they authorise, the making of any offer of Offer Shares through any financial intermediary, other than offers made by the Bookrunner that constitute the final placement of Offer Shares contemplated in this Pre-Listing Statement.

In relation to each Relevant Member State, an offer to the public of any Offer Shares which is the subject of the Offer contemplated by this Pre-Listing Statement may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- by the Bookrunner to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Sponsoring Brokers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Offer Shares shall require the Company or the Bookrunner to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed with the Company, the Selling Shareholder and the Bookrunner that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Offer Shares to the public in a Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State, all in accordance with the Prospectus Directive, other than their offer or resale to qualified investors (as defined in the Prospectus Directive) or in circumstances in which the prior consent of the Bookrunner has been obtained to each such proposed offer or resale.

For the purposes of this legal notice, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and any Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

**UNITED KINGDOM**

This Pre-Listing Statement does not constitute an offer document or an offer of transferable securities to the public in the UK to which section 85 of the Financial Services and Markets Act 2000 of the UK ("FSMA") applies and should not be considered as a recommendation that any person should subscribe for or purchase any of the Offer Shares. The Offer Shares will not be offered or sold to any person in the UK except in circumstances which have not resulted and will not result in an offer to the public in the UK in contravention of section 85(1) of FSMA.

This Pre-Listing Statement is not being distributed by, nor has it been approved for the purposes of section 21 of FSMA by, a person authorised under FSMA. In the United Kingdom this Pre-Listing Statement is being communicated only to: (a) persons who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (b) high net worth companies, unincorporated associations and other bodies within the categories described in Article 49(2)(a) to (d) of the FPO (together "relevant persons").

In the United Kingdom the Offer Shares are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons in possession of this document are required to inform themselves of any relevant restrictions. No part of this document should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the prior written consent of the Company.

**BOTSWANA**

The Offer Shares will be offered in the first instance to institutional investors who do not comprise members of the public as defined in section 297 of the Companies Act. Thereafter up to at least 30 % of the Offer Shares shall be offered to clients of the Sponsoring Broker, subject to a reasonable proportion of the Broker Placement being offered to other Distributing Brokers at the Sponsoring Broker's discretion, who may be members of the public as defined in section 297 of the Companies Act. Accordingly, this Pre-Listing Statement is to be registered as a Prospectus with CIPA, in accordance with the provisions of the Companies Act.

**ADVISORS' DISCLAIMER**

The Financial Advisor and the Legal Advisors have not separately verified the information contained in this Pre-Listing Statement. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted, by these advisors as to the accuracy or completeness of the information contained in the Pre-Listing Statement or any other information provided by the Issuer.

# FORWARD-LOOKING STATEMENTS

This Pre-Listing Statement and any document incorporated herein by reference contains statements about the Company that are or may be forward-looking statements. All statements, other than statements of historical fact, are, or may be deemed to be, forward-looking statements, including, without limitation, those concerning: strategy; the economic outlook for the banking industry; cash costs; operating results; growth prospects and outlook for operations, individually or in the aggregate; liquidity, capital resources and expenditure; and the outcome and consequences of any pending litigation proceedings. These forward-looking statements are not based on historical facts, but rather reflect current expectations concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipate", "intend", "foresee", "forecast", "likely", "should", "planned", "may," "will," "estimated", "potential," "target," or similar words and phrases or other variations or comparable terminology. Examples of forward-looking statements include statements regarding the company's objectives, a future financial position or future profits, results of operations, cash flows, corporate strategy, estimates of capital expenditures, dividends, or future capital expenditure levels, and other economic factors, such as, amongst other things, interest and exchange rates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions that forward-looking statements are not guarantees of future performance. Forward-looking statements are not guarantees of future performance. The Company's actual performance, results of operations, financial condition, distributions to shareholders and the development of its financing strategies may differ materially from the forward-looking statements contained in this document and any documents incorporated by reference herein. Actual results, financial and operating conditions, liquidity and the developments within the industry in which the Company operates may differ materially from those made in, or suggested by, the forward-looking statements contained in this Pre-Listing Statement.

In addition, even if the Company's actual performance, results of operations, financial condition, distributions to shareholders and the development of its financing strategies are consistent with the forward-looking statements contained in this document and any documents incorporated by reference herein, those results or developments may not be indicative of results or developments in subsequent periods.

All these forward-looking statements are based on estimates and assumptions, all of which estimates and assumptions, although the Company may believe them to be reasonable, are inherently uncertain and are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies. Such estimates, assumptions or statements may not eventuate. Many factors (including factors not yet known to the Company, or not currently considered material), could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in those estimates, statements or assumptions. Such factors include, but are not limited to: general economic and business conditions in Botswana and internationally; inflation, deflation and interest rates; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient funding to meet the Company's liquidity needs; natural and other disasters, adverse weather and similar contingencies outside the Company's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Company's control; the policies and actions of governmental or regulatory authorities in Botswana or elsewhere; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the actions of competitors; and the success of managing the risks facing the Company.

Shareholders and potential investors should keep in mind that any forward-looking statement made in this Pre-Listing Statement or elsewhere is applicable only at the date of this document. New factors that could cause the business of the Company or other matters to which such forward looking statements relate, not to develop as expected, may emerge from time to time, and it is not possible to predict all of them. Further, the extent to which any factor or combination of factors may cause actual results or matters to differ materially from those contained in any forward-looking statement are not known. The Company has no duty, and does not intend, to update or revise the forward-looking statements contained in this Pre-Listing Statement after the date of this Pre-Listing Statement, except as may be required by law or regulation.

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# CORPORATE INFORMATION, DIRECTORS AND ADVISORS

**Registered Office**

BancABC House
Plot 62433, Fairgrounds Office Park
Gaborone, Botswana

**Board of Directors**

***Executive Director***
Kgotso Bannalotlhe *(Managing Director)*

***Non-executive Directors***
Lorato Mosetlhanyane *(Chairperson)*
Jacob Motlhabane *(Independent)*
Adams Chilisa Dambe *(Independent)*
Joshua Galeforolwe *(Independent)*
Beatrice Hamza Bassey *(Non-executive)*

**Company Secretary**

Thato Mmile
Plot 62433, Fairgrounds Office Park
Gaborone, Botswana

**Transfer Secretaries**

Grant Thornton Business Services Proprietary Limited
Acumen Park, Plot 50370
Fairgrounds
Gaborone, Botswana

**Financial Advisor and Bookrunner**

Rand Merchant Bank
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton, South Africa

**Auditor and Reporting Accountants**

KPMG
Plot 67977, Off Tlokweng Road
Fairgrounds
Gaborone, Botswana

**Legal Advisor to the Company**

Collins Newman & Co
Plot 4863, Dinatla Court
Gaborone, Botswana

**Sponsoring Broker**

Motswedi Securities Proprietary Limited
Plot 113, Unit 30
Kgale Mews
Gaborone, Botswana
Member of Botswana Stock Exchange

**Legal Advisor to the Bookrunner**

DLA Piper Advisory Services Proprietary Limited
6th Floor, 61 Katherine Street
Sandton, South Africa

# DEFINITIONS AND INTERPRETATION

Unless explicitly stated otherwise or the context requires otherwise, when used in this Pre-Listing Statement, the words or phrases in the first column bear the meaning stipulated in the second column and cognate expressions shall bear corresponding meanings. Words in the masculine shall import both the feminine and the neuter. Words in the singular shall include the plural and *vice versa*. Words importing natural persons shall include juristic persons (whether corporate or incorporated and *vice versa)*, including corporations and associations of persons:

| | |
|---|---|
| "**ABC Holdings Limited**" or "**ABCH**" | a company incorporated in accordance with the laws of Botswana, with registration number 99/4865; |
| "**ABCH Group**" or "**Group**" | includes ABC Holdings Limited, African Banking Corporation of Mozambique SA, African Banking Corporation of Tanzania Limited, African Banking Corporation Zambia Limited and African Banking Corporation Zimbabwe Limited; |
| "**Atlas Mara**" | a company incorporated in the British Virgin Islands under the BVI Business Companies Act 2004 with registered number 1800950, the parent company of the ABCH Group and other affiliated banks; |
| "**ATMA Group**" | includes Atlas Mara, the ABCH Group and Banque Populaire du Rwanda. However, this excludes Atlas Mara's interest in Union Bank Nigeria; |
| "**Auditors**" | KPMG, Certified Public Accountants, Botswana; |
| "**BancABC**" | a company registered in Botswana under the name of African Banking Corporation of Botswana Limited on 5 June 1986 with company number 86/384 and a bank licensed to operate as such in Botswana; |
| "**Bank**" | BancABC; |
| "**Bank of Botswana**" | means the Central Bank of Botswana established under the Bank of Botswana Act [Cap 55:01]; |
| "**Banking Act**" | means the Banking Act of Botswana [Cap 46:04] as amended or replaced; |
| "**Board**" | the Board of Directors of the Company for the time being; |
| "**Bookrunner**" | Rand Merchant Bank, a division of FirstRand Bank Limited; |
| "**Botswana**" | the Republic of Botswana; |
| "**Broker Placing**" | the offer of at least 30% of the Offer Shares to the Sponsoring Broker to be placed with clients of the Sponsoring Broker, subject to a reasonable proportion of the broker placing being offered to other stock brokers registered as such in Botswana at the Sponsoring Broker's discretion; |
| "**BSE**" | The Botswana Stock Exchange as established by the Botswana Stock Exchange Act [Cap 56:08]; |
| "**BWP**" | refer to definition of "Pula" below; |
| "**Challenger Bank**" | for purposes of this Pre-Listing Statement is a bank which seeks to position itself to achieve a place in the top three banks in its country of operation; |
| "**CIPA**" | Companies and Intellectual Property Authority established in terms of the Companies and Intellectual Property Authority Act [Cap 42:13]; |
| "**Companies Act**" | the Companies Act [Cap 42:01] for Botswana as amended or replaced; |
| "**Company**" | refer to the definition of BancABC; |
| "**Collins Newman & Co**" | Legal advisor to the Company in respect of the Offer and the Listing, being attorneys practising as such according to the laws of Botswana; |
| "**Constitution**" | the Constitution of the Company adopted on 16 October 2018 registered at CIPA on 30 October 2018 and as amended from time to time; |

| | |
|---|---|
| "**CSDB**" | Central Securities Depository Company of Botswana, operated by Central Securities Depository of Botswana Proprietary Limited under the auspices of the BSE; |
| "**Dollar**" | all references to "Dollar" "US$" or "US dollars" or "USD" are to the lawful currency of the United States; |
| "**Excluded Jurisdiction**" | a jurisdiction where the dissemination of the Pre-Listing Statement or the making of the Offer may be illegal or fails to conform to the laws of such jurisdiction or requires any type of registration or the like with any regulator or public body or the like, including, without limitation, the USA, Canada, Australia and Japan (absent an application exemption from registration requirements); |
| "**Financial Year**" | the financial year ending 31 December annually; |
| "**Investors**" | means the investors who have agreed to subscribe for Offer Shares by signing the Application for Shares; |
| "**Irrevocable Undertaking**" | an undertaking entered into between a selected institutional investor/purchaser, the Selling Shareholder and the Company in connection with the Offer; |
| "**King Code**" | the King III Code on Corporate Governance for South Africa; |
| "**Legal Advisor**" | Collins Newman & Co; |
| "**Listing**" | the admission of the Shares to the official list maintained by BSE and to trading on the Main Board; |
| "**Listing Date**" | the date of the Listing which is expected to be on or around 10 December 2018; |
| "**Listing Requirements**" | the listing requirements of the BSE; |
| "**Mandate Agreement**" | means the agreement entered into between the Borrower, the Selling Shareholder and the Company in connection with the Offer and the Listing; |
| "**Member States**" | the member states of the EEA; |
| "**Offer**" | the offer for sale of the Offer Shares by way of a placing in terms of section 5.11 of the Listings Requirements and incorporating the Broker Placing; |
| "**Offer Price**" | BWP 2.00 per share; |
| "**Offer Shares**" | up to 180 525 000 Shares in the Company; |
| "**Pre-Listing Statement** or **PLS**" | this Pre-Listing Statement issued on 5 November 2018 and its annexures and attachments, as may be amended and restated from time to time which was registered at CIPA on 5 November 2018; |
| "**Prospectus Directive**" | Directive 2003/71/EC and any relevant implementing measure in each Relevant Member State; |
| "**Pula**" or "**P**" | Botswana Pula, the legal tender of the Republic of Botswana in which all monetary amounts in this PLS are expressed; |
| "**Purchased Shares**" | the Offer Shares which are purchased by Selected Investors pursuant to the Offer; |
| "**Rand Merchant Bank**" | Rand Merchant Bank, a division of FirstRand Bank Limited (registration number 1929/001225/06), a public bank duly registered and incorporated in accordance with the laws of South Africa; |
| "**Relevant Member State**" | each Member State of the EEA which has implemented the Prospectus Directive; |
| "**Relevant Persons**" | persons who (i) are qualified investors, as defined in the Prospectus Directive, who have professional experience in matters relating to investments and fall within Article 19(5) of the "Order" and/or are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (ii) persons to whom the Offer may otherwise be lawfully communicated; |
| "**Regulation S**" | Regulation S under the US Securities Act; |
| "**Reporting Accountants**" | KPMG registered auditors, a firm of chartered accountants in Botswana and the independent reporting accountants to the Company; |

| | |
|---|---|
| "**SADC**" | the Southern African Development Community; |
| "**Selected Investors**" | institutional investors approached by the Bookrunner, and clients of the Sponsoring Broker or other stock brokers registered as such in Botswana; |
| "**Selling Shareholder**" | ABC Holdings Limited; |
| "**Shares**" or "**Ordinary Shares**" | issued ordinary shares of no par value in the Company; |
| "**South African Companies Act**" | the South African Companies Act, 71 of 2008, as amended or replaced; |
| "**Sponsoring Broker**" | Motswedi Securities, a member of the BSE which is the Sponsoring Broker for the purposes of the Listing; |
| "**Stated Capital**" | has the meaning ascribed to it in section 5 of the Companies Act; |
| "**Transfer Secretaries**" | Grant Thornton Business Services Proprietary Limited; |
| "**United States**" or "**USA**" or "**US**" | the United States of America, its territories and possessions, any state of the United States and the District of Columbia; |
| "**US Securities Act**" | the United States Securities Act of 1933, as amended or replaced; |
| "**X-News**" | BSE Exchange News Service, a news dissemination service managed by the BSE and/or any news disseminated by the BSE on its website (www.bse.co.bw); and |
| "**ZAR**" | the South African Rand. |

# PART A: OVERVIEW OF THE COMPANY

## 1. OVERVIEW

BancABC is Botswana's 4th most profitable bank and is ranked the 5th largest by assets, with a long track record of operating in the Botswana financial services sector, based on the latest available financial statements of the other commercial banks in the industry and Bank of Botswana statistics as at 30 June 2018. BancABC's goal is to bolster its market position and become the bank of choice for individuals, corporates and public-sector entities in Botswana by offering differentiated services via technologically advanced customer interaction platforms. By so-doing, the Bank aims to produce strong earnings growth and attractive returns to shareholders, while creating social impact by increasing financial inclusion.

## 2. BACKGROUND AND STRUCTURE

### 2.1 Incorporation and history

African Banking Corporation of Botswana Limited (t/a BancABC) has a rich heritage as part of a financial services group that was formed as a result of a series of strategic partnerships, mergers and acquisitions of financial institutions operating in Southern and East Africa.

BancABC was first incorporated in 1986, as UDC (Botswana) Proprietary Limited. The Company underwent a series of name changes until it became African Banking Corporation of Botswana Proprietary Limited in 2001, when it became a subsidiary of ABC Holdings Limited, which was formed as a result of the merger of three banking groups namely UDC Holdings Limited, Bard Holdings Limited and FMB holdings Limited, under the group ABC Holdings. In 2002, ABC Holdings Limited converted into a public company and listed on the Botswana Stock Exchange and Zimbabwe Stock Exchange. In the same year, African Banking Corporation of Botswana Proprietary Limited changed its name to African Banking Corporation of Botswana Limited.

In 2008, African Banking Corporation of Botswana Limited rebranded its operations as BancABC, after being issued a commercial banking licence. The Bank to this day carries on business under the registered business name of BancABC. The Bank was first to introduce chip and pin EMV cards in 2011 and entered into a partnership with Botswana Life Insurance Limited on payments solutions in 2013. By 2014, BancABC had opened eight branches, and achieved a partnership with public sector union schemes to scale its retail banking business.

### 2.2 Atlas Mara Limited acquires ABC Holdings, including BancABC

In 2014, Atlas Mara a London Stock Exchange ("LSE") listed financial services group, acquired ABCH, BancABC's parent, along with other ABCH subsidiaries. Following the acquisition, ABCH delisted from both the Botswana Stock Exchange and Zimbabwean Stock Exchange. In the year 2016, the Bank was rebranded as "BancABC, part of Atlas Mara". Atlas Mara's vision is to create a premier pan-African banking platform across key regions in sub-Saharan Africa through providing corporate and retail financial services to corporations, small corporate enterprises ("SMEs") and individuals across key markets in sub-Saharan Africa, and leveraging its access to capital, liquidity and funding within and outside sub-Saharan Africa. Atlas Mara also aims to support financial inclusion in the countries in which the Company operates. Atlas Mara has banking operations through its subsidiaries and affiliates across seven markets in sub-Saharan Africa: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe.

Atlas Mara operates a business model which incorporates principles of "Buy, Protect and Grow" as a foundation.

The "Buy" aspect of the Atlas Mara business model focuses on growth and expansion through the acquisition of a number of sub-Saharan Africa domiciled banks.

The "Protect" aspect of Atlas Mara business model focuses on generating value in the short to medium term through operational improvements in the banks acquired by Atlas Mara. Before deploying capital to grow the relevant business, Atlas Mara seeks to develop and implement a detailed action plan in respect of the relevant bank to:

- enhance corporate governance and compliance structure;
- strengthen management teams;
- improve credit processes;
- drive operational efficiencies;

- identify and strengthen key relationships with customers, partners and the relevant regulators in respect of that business;
- revitalise and optimise branch networks; and
- provide liquidity and capital support to safeguard the business.

The "Grow" aspect of the business model focuses on delivery of long-term value through a focus on driving growth in the Atlas Mara's subsidiaries through a number of growth and diversification initiatives that include digital banking as well as global markets and treasury operations.

BancABC has benefitted from "Protect" and "Grow" aspects of being part of the Atlas Mara Group, and from the expertise and economies of scale that comes with being part of a wider pan-African banking network aiming at achieving scale. For example, since it became part of the Atlas Mara Group, BancABC has benefitted from a refresh of the Board of Directors with directors of the requisite skills and expertise, strengthened management team, improved credit processes and is currently focused on implementing group-wide strategies focused on eventually delivering more efficient channels, optimisation of branches and improving the upgraded technology infrastructure and enhancing the customer experience.

## 3. BUSINESS SEGMENTS

BancABC is a full-service bank operating across three distinct business segments with the retail segment constituting the largest proportion of the Bank's current business, but with ongoing efforts to diversify client offerings and maximise value for shareholders.

### 3.1 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 SMEs who provide a steady stream of retail customer base who require secured and unsecured loans. The retail loan book constitutes 85% of BancABC's loan book, for which 87% is unsecured. The Bank's transactional banking services complement the lending proposition and include current and cheque accounts services accompanied by VISA enabled cheque and debit cards, local and international funds transfers and internet and mobile banking. The International funds transfers are predominantly managed under the treasury business unit, with the largest currencies traded being the ZAR and USD. The business contributes c.14% and 3% of the bank's non-interest and total income respectively (as at 30 June 2018).

The retail banking segment also offers savings, payroll accounts, call and fixed deposits products as well as insurance products, via bancassurance, in the form of funeral and life cover policies. BancABC undertakes the marketing of these products to its customers with Botswana Life Insurance Limited as the underwriter.

BancABC pioneered new banking initiatives such as being the first bank in the market to introduce chip and pin VISA cards, pioneered 100% mortgage lending in the Botswana market and is ranked as the market leader in prepaid cards in the industry. Both chip and pin and 100% mortgage lending were first introduced in Botswana in 2011 by BancABC. BancABC has received several awards including the Visa Card Warrior Award in 2016 in recognition of the Bank's pioneering efforts in the card space in Botswana. These achievements were also covered extensively by local media.

BancABC's retail banking segment contributes 75% to revenue, 85% to the loan book and 15% to deposits. The Bank's current strategy of developing a robust transactional banking platform seeks to grow and attract retail deposits while generating transactional banking fees.

There is scope to diversify the retail banking business and the Bank is currently focused on efforts to diversify its credit product offering away from union/personal loans by introducing a suite of credit products targeted at its retail customers, which will support loan book growth and asset yield expansion in the medium term.

### 3.2 Commercial Banking

The Bank's commercial banking segment provides investment solutions to corporates, financial institutions, government entities and international organisations. BancABC provides short-term fixed deposit investment products that collectively provide the Bank with funding for the retail loan book. About 64% of the fixed deposit balances emanate from government entities including state-owned entities, non-banking financial institutions related to government and municipalities.

The commercial banking segment is complemented by limited transactional banking capabilities, when compared to Botswana peers, including current account services supported by a VISA enabled debit card, cash management, local and international funds transfers and foreign exchange dealings. BancABC has scope to grow its transactional banking capabilities and is currently implementing a transactional banking platform to enable the bank to better serve its commercial clients who currently perform the bulk of their transactions at other banks.

BancABC's commercial banking segment contributes 13% to revenue, 15% to the loan book and 66% to deposits. The Bank's strategy is to significantly improve the corporate banking services suite in order to become the primary banker to municipalities and other government entities and for small to medium-sized enterprises. By so-doing, the commercial banking clients will transact over the Bank's platform and retain maturing fixed deposits as current account and savings accounts balances, improving overall liquidity, reducing cost of funding and increase transactional banking fee income.

### 3.3 Global Markets and Treasury Solutions

BancABC's treasury business unit provides foreign exchange solutions to commercial clients, while supporting the branch network's retail foreign exchange service. The Bank'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's coordination and efforts within the Atlas Mara Group centre that specialises in global markets and treasury operations.

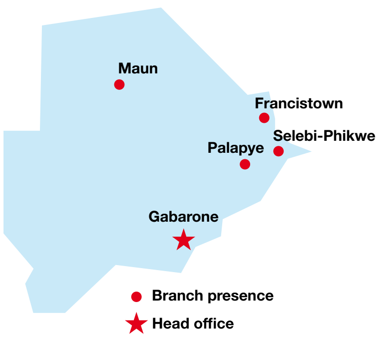
BancABC's treasury segment contributes 18% to revenue and 19% to deposits.

### 3.4 Branch network to support retail and commercial clients

BancABC services its walk-in customers through a network of eight branches across Botswana and a dedicated SME business centre in Gaborone.

**Customer services access points**

BancABC has eight branches across Botswana




- BancABC has a strategic branch network that caters for its individual and corporate clients in key urban and peri-urban sites.
- The Bank's branches serve as physical customer interaction points, particularly for services where documentation is required, or for customer queries requiring face to face interaction.
- BancABC's offering is mainly provided over cellphone, automated teller machine ("ATM") and mobile banking platforms which reduces overall cost overheads while providing immediate customer solutions from any location.

## 4. INVESTMENT RATIONALE

As at 30 June 2018, BancABC ranks as the 5th largest bank in Botswana by assets. The Bank currently provides a range of banking services to over 60 000 customers via its growing distribution network of branches, VISA enabled ATMs access points, online and mobile banking platforms and through a workforce of over 330 full-time employees.

Within the Botswana market, BancABC continues to position itself to grow its market positioning in order to become one of the leading financial services businesses in Botswana. BancABC holds a sizeable share of the banking market within Botswana, attained over the past five years. As of July 2018, the Bank has 9.7% of total assets, 10.6% of loans and 9.9% of deposits within the Botswana commercial banking sector.

### 4.1 Challenger bank with a platform positioned for scale and profitability

#### 4.1.1 Scalable core banking infrastructure delivering technological innovation

BancABC deploys a core banking platform to carry out transaction processing requirements. To increase the suite and service level of transactional banking capabilities, BancABC has invested in upgrading server and processing capabilities to improve overall performance. In the short-term, the Company plans to upgrade its core banking software so as to deliver enhanced product development capabilities and operational efficiency over a more customised software platform, to introduce leading financial services innovations.

#### 4.1.2 Strong card solutions with VISA integration

The Bank has a strong partnership with the most popular card association in Botswana and the SADC region, VISA. BancABC is recognised as a leading card issuer and benefits from providing its clients with payment solutions while gaining customer access.

#### 4.1.3 Experienced and well-trained operations, product and sales staff

BancABC has completed strategic and operational changes since becoming part of Atlas Mara. The Bank has improved internal operational audit processes and introduced project management of technology and platforms to improve operating efficiencies. In addition, BancABC has grown its staff complement from 250 in 2014, to over 330 in 2018 in order to support execution of the bank's growth initiatives. The increase in the staff complement allowed the Bank to implement technology projects across multiple customer platforms which are crucial to delivering operational efficiency, developing new business, as well as enhancing and expanding the Bank's service offerings.

BancABC continues to invest in staff training programmes, customer relations and service standards, as well as operational processing capabilities, to further drive operational efficiency and ensure industry best practices in its operations.

BancABC has been able to attract and train some of the market's most seasoned banking professionals in the product and business development departments.

### 4.2 Low non-performing loan book supported by robust credit model

BancABC utilises a robust credit management system and actively manages exposures to its retail and corporate clients, while ensuring a diversified sector mix. In the first half of 2018, the Bank achieved a 0.6%credit loss ratio and a non-performing loan ("NPL") ratio of 3.5%, the latter being significantly lower than the Botswana banking market NPL ratio of 5.0%. The low NPL ratio is achieved despite the loan book being predominantly unsecured.

#### 4.2.1 Retail credit management

The Bank's retail loan book is managed prudently by the utilisation of robust credit scoring methodologies, systematic reviews of credit history, active loan book management and collections. BancABC actively monitors non-payments and reconciles balances directly with unions and utilises collection agents for delinquent payers.

The retail credit management system is enhanced by 'deduction at source', a mechanism whereby customers' salaries are released into their bank accounts after paying any loan obligations they have with the Bank.

#### 4.2.2 Commercial credit model

BancABC has a selective commercial credit selection process and applies market intelligence and insights, over and above desktop financial analysis, to determine make informed decisions on which clients to extend credit to.

### 4.3 Unique partnership with key institutions

BancABC has established credit partnerships with three of the largest public sector labour unions. The Bank has recently renewed its principal union contracts for a further three years with civil service unions, representing 76% of the loan book, which agreements have been in place for over seven years. The bank will work on maintaining a partnership with the unions going forward, bolstered by improved service capabilities, increase points of presence and enhanced product suite.

BancABC has partnered with various market-leading organisations over the years through its prepaid card solution. Notably, the Bank has issued over 330 000 prepaid cards from the various existing partnerships with Orange Botswana and Botswana Life (both since 2013).

More recently, the Bank launched a successful partnership with the Government of Botswana to replace cash and cheque payments to a range of beneficiaries.

BancABC benefits from these partnerships by gaining deposit float from accounts held to fund the card transactions and fee income earned on card transactions done. These partnerships also provide an opportunity for the Bank to engage with clients of partnering institutions to switch their banking to BancABC.

4.4 **Sound performance on key financial metrics**

BancABC has achieved sound performance despite market-wide liquidity and funding challenges in recent years. The Bank has achieved a 9.1% compounded annual growth rate in operating income against stable to flat growth in its loan book, over the past four years. BancABC achieved a 19.2% return on equity annualised as at 30 June 2018, against a return on assets of 2.4% annualised at the same date.

BancABC is well capitalised at a capital adequacy ratio of 19.4%, above the statutory requirement of 15% at 30 June 2018. The Bank's future profitability is expected to adequately support capital requirements for future loan book growth.

4.5 **Management team with extensive financial services experience**

BancABC's management team is appropriately qualified. Atlas Mara led a systematic process of attracting new talent from established market peers into senior leadership, while retaining key senior management to help drive and energise initiatives that are geared towards delivering growth ambitions. A majority of the members of the senior management team each possess at least 15 years of professional experience in the banking sector.

4.6 **Part of a forward thinking and innovative Africa-focused banking group**

4.6.1 **Technology systems and innovation**

A key focus for Atlas Mara is having more efficient information technology ("IT") processes across all of its subsidiary banks, and is in the process of implementing uniform technology systems across core banking and digital platforms. By centralising its technology systems, while remaining adept to country requirements, group-wide cost synergies and procurement savings are being experienced and implementation modalities are more efficient.

The Atlas Mara Group has already implemented end-to-end technology systems automating know-your-customer and transaction monitoring procedures, which are applied to legacy as well as new customers to achieve compliance with know-your-customer requirements.

4.6.2 **Attracting and leveraging local and international talent**

Since 2014, Atlas Mara has attracted talented and skilled individuals from the local and international market, given the multinational nature of the business operations. At a group level, there is technical and operational capacity dedicated to supporting key initiatives at the banks Atlas Mara has also developed and is implementing talent retention schemes designed to retain and grow leadership across the platform, with proven results. Group-wide secondment programmes provided the subsidiary banks with much-needed skills for specific projects or assignments, at a fraction of the cost and without the need to hire talent when the requirement is short term. BancABC also benefits from leveraging the skills and experience of seasoned professionals to execute complex transactions, where required.

4.6.3 **Access to funding**

Through the relationship with Atlas Mara, BancABC has benefitted from a US$40 million facility provided by the United States Overseas Private Investment Corporation to support the Company's efforts towards financial inclusion and digital banking initiatives.

4.6.4 **Enhanced governance**

Atlas Mara endeavours to implement best practice governance standards and procedures, driven by its LSE listing. Atlas Mara places emphasis on a sound corporate governance framework through which its strategic objectives are set, and to achieving the highest standards of corporate governance. Atlas Mara implements these best practice corporate governance standards across its banks, which includes refreshing all of the subsidiary boards with recruitment of board members with the appropriate skills and right mix of independent and non-independent, standardising board committee terms of reference, providing for regular training and evaluation of board members, standardising policies and procedures across the banking platform, enhancing the compliance infrastructure to adequately monitor and mitigate risks and a more robust audit and risk management framework, In addition Atlas Mara has introduced new operating models for driving strategy across the banks. Coordinated by Atlas Mara and with close collaboration with the Board of BancABC, institutionally, BancABC's corporate governance standards are a continued business focus.

## 5. GROWTH OPPORTUNITIES

BancABC's growth initiatives are currently aimed at increasing transactional banking capabilities and fees, maintaining robust loan book growth and diversifying the funding mix towards current account and savings account balances from retail and commercial clients. To achieve these objectives, BancABC has near-term and long-term product plans that, once successfully rolled out, will ultimately reduce funding costs, increase fee income and grow the loan book.

The Bank expects in the near term to appropriately expand and assure speed and availability for its retail and commercial transaction banking services, introduce expanded mobile banking services for the retail segment, develop and strengthen corporate card partnerships, introduce a refreshed and expanded corporate online banking services platform and focus on stability and integration of these platforms with BancABC's systems linked to multiple service providers. The Bank's ongoing infrastructure transformation over the next 24 months is expected to deliver significantly improved operational stability and support the Bank's ability to roll out new and improved service offerings to its clients. To unlock increasing operational performance and ultimately, shareholder value and returns, the Bank is undertaking the following initiatives.

### 5.1 Near-term product initiatives for the retail and corporate banking segments

| Initiative | Rationale | Description |
|---|---|---|
| **Corporate Banking** | | |
| New transactional banking platform | BancABC's non-interest fee income was 19% of total revenue in 2017, which proportionally is lower than peers in the banking sector who averaged 43% in the same year.<br><br>BancABC has invested P16 million to develop a full suite of operations and functionality that meets transactional banking demands for SME and corporate clients and P31 million for infrastructure upgrades. These initiatives are expected to significantly improve the Bank's ability to attract cheaper deposits from its corporate and SME clients. | The Bank's new transactional banking platform for corporate clients features competitive functionalities such as bulk services, collections, real time gross settlements ("RTGS") and international payments. The Bank is undertaking extensive marketing campaigns to develop BancABC's brand within its existing customer base by offering more services that would otherwise be provided other market players.<br><br>The Bank will launch this initiative below by 2019. |
| Deployment of enhanced corporate internet banking | BancABC's corporate banking services have traditionally not provided a compelling proposition for larger corporate customers to utilise, hence being overweight in providing fixed deposit products. The Bank expects the enhanced platform to improve BancABC's value proposition to its corporate customers. | BancABC launched a new internet banking platform with additional functionalities, which include bulk services (collections, payments and payroll), RTGS, international payments and foreign exchange purchases. A second phase, scheduled for scoping in the last quarter 2018, will entail functionalities such as liquidity management, cards services (payment, statements, balances), host to host through customer ERP integration, mobile access, bulk SWIFT/international transfers and bill payments. |

| Initiative | Rationale | Description |
|---|---|---|
| **Retail Banking** | | |
| Improved mobile banking platform | The Bank's customers have experienced challenges in accessing mobile services given inadequate investment in infrastructure in the past. | BancABC has improved the back-end technology supporting the mobile platform, which will make it accessible to the Bank's over 60 000 retail customers seamlessly. BancABC is currently working to replace its mobile and internet banking platform to improve access to banking services such as utility payments, third party payments, voucher purchases and integration to third party wallets. |
| Credit cards and overdraft | The Bank seeks to diversify its credit product offering away from union/personal loans by introducing a suite of credit products targeted at its retail customers, which will support loan book growth and asset yield expansion in the medium term. | BancABC's lending product suite would include overdrafts and credit cards. The Bank will launch overdrafts, firstly to private clients, and subsequently, to the broader retail client base. The products are in high demand from BancABC's retail client base and will help to increase the Bank's net interest margins. The Bank will also benefit from a greater volume of transactions, which will enhance the Bank's non-interest revenue line as well |

5.2 **Scaling VISA card distribution**

BancABC is a leading VISA prepaid card issuer in Botswana with over 330 000 prepaid cards issued as at 30 June 2018. The Bank is increasing card partnerships with the aim to achieve a total of 500 000 cards issued by December 2019. BancABC generates non-interest fees when customers utilise the cards. The Bank expects the proliferation of co-branded cards in Botswana to create brand awareness with the potential to convert card users into full service bank customers.

5.3 **Expanding contract partnerships to corporate schemes**

BancABC intends to introduce workplace lending via strategic partnerships with corporate clients (excluding government institutions). The initiative will entail the Bank extending credit to employees of its corporate clients under a deduction at source framework, thus expanding the Bank's reach to new and potential clients whilst growing its loan book.

5.4 **Longer-term growth initiatives**

In the long-term, the Bank will undertake a systems software upgrade which will unlock further product development capabilities, the deployment of point-of-sale machines, a capable retail online banking platform and the launch of a cross-platform digital wallet. These new product launches will position the Bank as a technology-driven financial services company and the Fintech offering can serve as a key catalyst for growth.

# PART B: SALIENT FEATURES OF THE OFFER AND LISTING

The salient features of the Offer and Listing are set out below.

## 6. RATIONALE FOR THE LISTING

The directors have decided to apply for a listing of all 725 000 000 of the issued Ordinary Shares on the Main Board of the BSE by way of a Placing as contemplated by Rule 5.11 of the Listings Requirements.

There are a number of reasons for the Listing including the following:

- attract important stakeholders in Botswana into the shareholding of the Company which will serve the long-term interest of the ABCH Group;
- enable the Company to attain greater access to efficient capital markets in raising local funding to support future growth plans; and
- serve as an opportunity for the Selling Shareholder to monetise part of its shareholding in the Company.

## 7. USE OF PROCEEDS

A portion of the proceeds from the Offer will be dedicated to ABCH's ongoing efforts to develop and enhance the ABCH Group's IT infrastructure and banking platforms.

Key investment initiatives which the ABCH Group intends to deliver in the medium term will be focused on core banking software and banking channel upgrades to support growth and improve operational efficiencies across the ABCH Group. BancABC stands to benefit significantly given it is the largest subsidiary of ABCH. Some of the initiatives include:

### 7.1 Migrating and upgrading core banking software of all banks

Over the next 18 months, the ABCH Group intends to migrate all of its subsidiaries onto supported infrastructure for core banking. Specifically, for BancABC, the core banking infrastructure upgrade is currently in progress and should be completed in Q4 2018. This, combined with the Bank's ongoing infrastructure transformation over the next 24 months, is expected to deliver significantly improved operational stability and support the Bank's ability to roll out new and improved service offerings to its clients.

### 7.2 Migrating onto a common mobile and internet banking platform

The ABCH Group plans to migrate all its banking subsidiaries onto a common and upgraded mobile and internet banking platform to ensure seamless user experience across both platforms, enable roll-out of improved services to customers.

### 7.3 Centralised card processing platform

The ABCH Group intends to migrate all card processing systems onto a centralised platform with industry best practice processes and procedures. Proposed platform will acquire and process all cards thereby improving card processing efficiency, reduce lead time for card delivery and overtime deliver in-branch instant card issuing capabilities across the ABCH Group.

### 7.4 ATM upgrades

Over the next 12-18 months, the ABCH Group intends to upgrade all the ATMs within its network with the aim of improving functionality and to enhance client experience when using the ATMs. Key highlights include updating the operating software, upgrading hardware, undertaking the VISA ADVT/MasterCard MTIP certification and implementing an Atlas Mara monitoring function.

### 7.5 Point of Sale ("POS") processing platform

In addition, the ABCH Group intends to invest in the implementation of a central POS application suite which will support POS roll-out and processing across the ABCH Group. Notably, the application will feature standard processes for merchant management and will include capabilities to support mobile money integration and agency banking across the ABCH Group.

## 8. THE OFFER

The Offer comprises an invitation to purchase of up to 180 525 000 Ordinary Shares offered for sale by ABCH at a price of BWP 2.00 per share.

The Bookrunner is seeking indications of interest from institutional investors to purchase Offer Shares in terms of the Offer.

At least 30% of the Offer Shares are being made available to the Sponsoring Broker to be placed with clients of the Sponsoring Broker, subject to a reasonable proportion of the Broker Placing being offered to other brokering members at the Sponsoring Broker's discretion.

As at the date of this Pre-Listing Statement, the Bookrunner had received Irrevocable Undertakings from institutional investors to purchase up to 138 615 547 Offer Shares and additional firm commitments from institutional investors to purchase up to 10 000 000 Offer Shares. These combined commitments, amounting to 148 615 547 Offer Shares, represent 82.3% of the Offer, subject to the Broker Placing and the final allocation of the Offer Shares.

Following the Offer, the allocation of the Offer Shares will be determined by the Bookrunner in consultation with the Company and the Selling Shareholder. Among the factors which may be considered by the Bookrunner, the Company and the Selling Shareholder in determining the allocation of Offer Shares is the desire to achieve the spread of shareholders and to establish an orderly after-market in the Shares.

The Offer Price will be payable in full in Botswana Pula without deduction or set-off.

In terms of the Mandate Agreement, the Company has agreed that it will not, without the prior written consent of the Bookrunner, issue any Shares for a period of at least 180 days following the Listing Date, subject to customary exceptions. The Selling Shareholder is not subject to any lock-up provisions.

## 9. OVERSUBSCRIPTION

The Selling Shareholder will be offering up to a maximum number of Shares, being the Offer Shares, to Selected Investors. The basis of allocation of the Offer Shares will be determined by the Bookrunner (in consultation with the Company and the Selling Shareholder in their discretion). Factors to be considered in allocating Offer Shares will include achieving an appropriate spread and diversity of Shareholders and promoting liquidity, tradability and an orderly after-market.

The Bookrunner reserves the right to accept or refuse any application, either in whole or in part, or to accept some applications in full and others in part in such manner as it may, in its sole and absolute discretion, determine whether the Offer is over or undersubscribed.

At least 30% of the Offer Shares shall be available for the Sponsoring Broker to offer to its clients and those of other stockbrokers registered as such in Botswana, i.e. members of the public. If such members of the public take up of the Shares made available to them, the number of Shares committed to be taken up by the institutional investors, will be reduced *pro rata* to the commitments of each to the total commitment of institutional investors by the number of Shares taken up by such members of the public.

## 10. CONDITIONS PRECEDENT TO THE LISTING

The Listing is subject to the approval of the BSE having been granted for the Listing, and not having been revoked or withdrawn.

If the directors in their discretion determine, that it would not be advisable to proceed with the Listing, then the Company shall not be obliged to proceed with the Listing.

## 11. LISTING ON THE BSE

The BSE has agreed to the Listing of under the abbreviated name BANCABC. It is anticipated the Listing will take place with effect from 10 December 2018.

## 12. OTHER LISTINGS

The Shares of the Company are not currently listed on any other stock exchange.

## 13. COPIES OF THE PRE-LISTING STATEMENT

Copies of this Pre-Listing Statement are available from:

- The Company at its registered office as set out in the "Corporate Information" section; and
- The Sponsoring Broker at its address as set out in the "Corporate Information" section.

# PART C: SELECTED FINANCIAL INFORMATION AND KEY PERFORMANCE INDICATORS

The selected financial information and key performance indicators presented in this section should be read in conjunction with the consolidated financial information as set out in **Annexures 1** and **3** to this Pre-Listing Statement.

The following tables present selected financial and other information of the Company, as at the dates and for the periods indicated. The selected financial information in the tables below has been extracted without material adjustment from the historical financial information of the Company.

Certain of the key performance indicators presented below are measures that are not defined under IFRS, nor have these measures been reviewed by the Company's auditors. These measures are derived from the Company's IFRS financial statements. Some of these measures are defined by, and calculated in accordance with, applicable banking regulations, but those regulations often provide the Company with certain discretion in making its calculations. Because of the discretion that the Company and other banks have in defining these measures and calculating the reported amounts, potential investors should – exercise caution in comparing these various measures with similar measures used by other banks.

14. **SUMMARY BALANCE SHEET INFORMATION**

The following table sets out certain balance sheet information of BancABC.

| | **As at 30 June 2018 P'000** | **As at 31 December 2017 P'000** | **2016 P'000** | **2015 P'000** | **2014 P'000** | **CAGR 2014-2017 %** |
|---|---|---|---|---|---|---|
| Gross loans and advances to customers | 6 087 241 | 5 889 453 | 5 818 206 | 5 830 479 | 4 110 506 | 12.7 |
| Impairments | (330 089) | (94 081) | (140 173) | (115 080) | (132 330) | (10.8) |
| Net loans and advances to customers | 5 757 152 | 5 795 372 | 5 678 033 | 5 715 399 | 3 978 176 | 13.4 |
| **Total assets** | **8 422 410** | **8 127 719** | **8 317 605** | **7 962 826** | **6 194 029** | **9.5** |
| Deposits from customers | 6 317 226 | 6 059 935 | 6 771 611 | 6 214 222 | 4 828 334 | 7.9 |
| Borrowed funds | 711 068 | 683 906 | 296 803 | 235 199 | 142 231 | 68.8 |
| **Total liabilities** | **7 453 230** | **7 062 414** | **7 390 292** | **7 205 786** | **5 559 390** | **8.3** |
| Stated capital | 222 479 | 222 479 | 222 479 | 222 479 | 222 479 | – |
| Retained earnings | 735 828 | 831 753 | 692 591 | 522 318 | 402 119 | 27.4 |
| **Total equity** | **969 380** | **1 065 305** | **927 313** | **757 040** | **634 639** | **18.9** |

15. **SUMMARY INCOME STATEMENT INFORMATION**

The following table sets out certain income statement information of BancABC.

| | For the six months ended 30 June 2018 P'000 | For the year ended 31 December 2017 P'000 | 2016 P'000 | 2015 P'000 | 2014 P'000 | CAGR 2014-2017 % |
|---|---|---|---|---|---|---|
| Interest and similar income | 368 132 | 767 181 | 812 187 | 710 581 | 642 826 | 6.1 |
| Interest expense | (151 039) | (278 230) | (268 276) | (335 529) | (275 779) | 0.3 |
| **Net interest income** | **217 093** | **488 951** | **543 911** | **375 052** | **367 047** | **10.0** |
| Non-interest income | 72 019 | 112 908 | 139 558 | 147 683 | 96 513 | 5.4 |
| **Operating income** | **289 112** | **601 859** | **683 469** | **522 734** | **463 560** | **9.1** |
| Loan impairment charges | 16 686 | (48 697) | (74 899) | (5 518) | (110 103) | (23.8) |
| **Total net revenue** | **305 798** | **553 162** | **608 570** | **517 217** | **353 457** | **16.1** |
| Total operating expenses | (180 576) | (374 040) | (390 287) | (364 133) | (261 999) | 12.6 |
| **Profit before tax** | **125 222** | **179 122** | **218 283** | **153 085** | **91 458** | **25.1** |
| Income tax expense | (27 644) | (39 960) | (48 010) | (32 885) | (19 986) | 26.0 |
| **Net profit for the year** | **97 578** | **139 162** | **170 273** | **120 199** | **71 472** | **24.9** |

16. **KEY PERFORMANCE INDICATORS**

The following table sets out key financial and operating measures used by BancABC to track the performance of its business.

| **Performance indicator** | For the six months ended 30 June 2018 | For the year ended 31 December 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Gross yield[(1)] | 12.8% | 13.4% | 14.3% | 14.7% | 14.7% |
| Cost of funding[(2)] | 4.2% | 5.9% | 3.7% | 5.3% | 5.3% |
| Net interest margin[(3)] | 5.2% | 5.9% | 6.7% | 5.3% | 7.2% |
| Cost to income ratio[(4)] | 62.5% | 62.1% | 57.1% | 69.7% | 56.5% |
| Credit loss ratio[(5)] | (0.6%) | 0.8% | 1.3% | 0.1% | 2.7% |
| Return on assets[(6)] | 2.3% | 1.7% | 2.7% | 2.2% | 2.2% |
| Return on equity[(7)] | 19.2% | 14.0% | 20.2% | 17.3% | 8.1% |
| Loans to deposits ratio[(8)] | 91.1% | 95.6% | 83.9% | 92.0% | 82.4% |
| NPL ratio[(9)] | 3.5% | 3.6% | 4.2% | 3.3% | 3.9% |
| Coverage ratio[(10)] | 162.0% | 44.0% | 57.1% | 60.1% | 82.1% |
| Capital adequacy ratio[(11)] | 19.4% | 19.8% | 20.2% | 15.7% | 17.6% |

The directors have identified the following financial and operating targets against which the performance of BancABC can be evaluated over the medium term:

| Performance indicator | Target |
|---|---|
| Cost to income ratio(4) | < 55% |
| Return on average equity(7) | => 20% |
| Capital adequacy ratio(11) | =>17% |

**Notes:**

1. Gross yield is calculated as interest income as a percentage of average net loans.
2. Cost of funding is calculated as annualised interest expense divided by average interest-bearing liabilities.
3. Net interest margin is calculated as net interest income as a percentage of average total interest earning assets.
4. Cost to income ratio is calculated as operating expenses as a percentage of operating income.
5. Credit loss ratio, or cost of risk, is calculated as credit impairments as a percentage of average gross loans.
6. Return on assets is calculated as profit after tax as a percentage of average total assets.
7. Return on equity is calculated as profit after tax as a percentage of average total equity.
8. Loans to deposits ratio is calculated as net loans and advances to customers as a percentage of deposits from customer.
9. NPL ratio is calculated as non-performing loans as a percentage of gross loans.
10. Coverage ratio is calculated as total impairments as a percentage of non-performing loans.
11. Capital adequacy ratio is calculated as total Tier 1 capital and Tier 2 capital, divided by total risk-weighted assets.

## 17. PROFIT FORECAST AND OUTLOOK

The unaudited profit forecast for the financial year ended 31 December 2019 presented in this section should be read in conjunction with the report of the Independent Accountants on the profit forecast set out in **Annexure 5** to this Pre-Listing Statement.

Preparation of the unaudited profit forecast is the responsibility of the directors. The profit forecast has been prepared in accordance with the Company's accounting policies which comply with IFRS.

### 17.1 Profit forecast

The directors are making the following forecasts available for illustrative purposes only and wish to emphasise that they cannot and have not verified or procured an audit of these numbers and the related assumptions. The directors believe that these forecasts (which are to be read with the related assumptions) give a fair indication of what the future performance of BancABC is likely to be. While these numbers and the related assumptions have not been audited they have been reviewed by the Reporting Accountants see Annexure 5, however, remain subject to potential risk factors identified in the Pre-Listing Statement.

The unaudited profit forecast for BancABC for the financial years ending 31 December 2018 and 2019 has been prepared based on the notes and assumptions listed below.

| Year ending 31 December | 2019 P'000 | 2018 P'000 | % y-o-y growth |
|---|---|---|---|
| **Balance sheet items** | | | |
| Net loans and advances | 6 878 542 | 5 882 600 | 16.9 |
| Deposits | 7 240 427 | 6 464 667 | 12.0 |
| **Income statement items** | | | |
| Interest income | 806 505 | 747 687 | 7.9 |
| Interest expense | (315 725) | (321 155) | (1.7) |
| Net-interest income | 490 780 | 426 533 | 15.1 |
| Non-interest revenue | 200 678 | 140 232 | 43.1 |
| Total income | 691 457 | 566 765 | 22.0 |
| General and specific debt provisions | (60 842) | (1,825) | n.m |
| Operating income | 630 616 | 564 940 | 11.6 |
| Operating expenses | (391 446) | (384 974) | 1.7 |
| Profit before tax | 239 170 | 179 966 | 32.9 |
| Income tax | (52 892) | (39 799) | 32.9 |
| Profit after tax | 186 278 | 140 167 | 32.9 |

**Notes and assumptions made for the year ending 31 December 2018**

1. Deposits have grown at a rate of 6.0% in the first six months of the year and BancABC expects deposits to grow at a lower rate in the second half of the year, given liquidity challenges in the market.
2. Gross loans have grown at a rate of 3.0% in the first six months of year. BancABC expects further loan book growth in the last half of year on the back of loan growth initiatives put in place which include the finalisation of new group schemes, introduction of credit cards and finalisation of material corporate lending transactions.
3. Average asset yield was at 10.0% in the first six months of the year and is expected to remain flat for the second half of 2018.
4. Average cost of funds was 4.2% in the first six months and is expected to increase, in the second half of 2018, to 4.5%, reflecting liquidity in the market.
5. Credit impairments were calculated in line with the Bank's policy and complies with IFRS 9. The non-performing loans ratio, expressed as a percentage of gross loans and advances, has decreased to 3.5% in the first six months of the year. This is expected to remain at this level for the second half of the year.
6. The Bank's capital is adequate for the expected growth in the loan book, generated from retained earnings and raising of additional Tier 2 capital.
7. Income tax has been calculated at the corporate tax rate of 22%.

**Notes and assumptions made for the year ending 31 December 2019 and the medium term**

The profit forecast has been prepared based on assumptions including the following:

| Year ending 31 December 2019 and the medium term | **% growth** |
|---|---|
| **Balance sheet items** | |
| Net loans and advances | 15.0% to 20.0% |
| Deposits | 10.0% to 15.0% |

| **Income statement items** | |
|---|---|
| Interest income | 5.0% to 10.0% |
| Interest expense | (0.0%) to (5.0%) |
| Non-interest revenue | 35.0% to 45.0% |
| Operating expenses | 2.5% to 7.5% |

The profit forecast is based on the following assumptions relating to depositors and loan and advances:

1. Deposits growth is expected, as the banking sector recovers, to be in line with economic growth expectations which is stimulated by a rebounding mining sector and the general improvement in business confidence.
2. BancABC is deploying transactional and mobile banking platforms catered towards attracting new depositors and maintaining corporate and retail customers' deposits in their respective current and savings accounts. The Bank could see initial retail and corporate deposits growth, as a result of these efforts, in 2018, but more so in subsequent periods.
3. Credit growth is expected to improve in Botswana, mainly on the back of stronger economic conditions and income per capita growth. BancABC is in advanced negotiations with governmental and corporate unions to provide lending solutions to their respective members, which will materialise in the Bank achieving prudent loan book growth with similar credit characteristics as the current loan book.
4. The loan to deposit ratio, including long-term borrowings, is forecast to be maintained below 90% in 2019 and the medium term.

   The profit forecast is based on the following assumptions on interest income and interest expense:

1. BancABC forecasts the average asset yields to be 10% in the 2019 financial year and medium term. The Bank does not expect an increase in asset yields as interest rate and yield spread will remain stable, given the economy is only just rebounding.
2. Average cost of funds is expected to decrease by between 0.2% points and 0.5% in the 2019 financial year and medium term, driven by a normalisation in market liquidity in the short term to the medium term and an increased proportion of cheaper and more stable retail, SME and transactional deposits in the Bank's deposit mix. BancABC anticipates that the change in its liability mix will be driven by key near and medium-term growth initiatives highlighted in section 5 of the PLS.

The profit forecast is based on the following assumptions around non-interest revenue and operating expenses:

1. BancABC's non-interest revenue is derived from transactional banking fees, foreign exchange transactions and trading income. BancABC expects non-interest revenue growth to be between 35.0% and 45.0%, driven by customers utilising an improved suite of banking services. The Bank will launch mobile, online and transactional banking capabilities by the end of 2018 at the completion of information technology projects currently being undertaken.
2. BancABC's operating cost growth is expected to be between 2.5% and 7.5%.

   (a) Staff costs and administration costs are expected to increase by between 7.5% and 10% annually, in the medium term driven by inflation and the additional staff hired to cater for an increased suite of banking services and business growth.

   (b) Reduction in shared services cost by 40.0% in 2019, as the Bank migrates to a shared services framework whereby BancABC only pays for centralised services provided by the Group, which would otherwise be provided by a third-party vendor.

The unaudited profit forecast has been reported on by the Independent Reporting Accountant, whose report is included in **Annexure 5** to this Pre-Listing Statement.

# PART D: OPERATING AND FINANCIAL REVIEW

The following discussion summarises the significant factors and events affecting the financial position and results of operations of BancABC for the six months ended 30 June 2018 and the financial years ended 31 December 2017, 2016 and 2015. This section should be read in conjunction with the consolidated financial information of the Company set out in **Annexures 1** and **3** to this Pre-Listing Statement.

## 18. FINANCIAL POSITION

### 18.1 Loans and advances to customers

BancABC's loan book is currently concentrated in longer term, personal loans to its Retail Banking customers with a majority of loan repayments deducted directly from customer salaries by way of the deduction codes.

Following a period of balance sheet growth, BancABC reduced its loan and advances growth during the period under review against the backdrop of a weaker macroeconomic environment.

Gross loans and advances to customers as at 31 December 2017 were P5 889 million, a 1% increase compared with P5 818 million as at 31 December 2016. The increase in loans and advances over the period was primarily due to increase credit appetite after an increase in government employees' salaries and a 50 basis point decrease in the lending rate in August 2016 as well as October 2017.

Gross loans and advances to customers as at 30 June 2018 increased by 3% to P6 087 million.

The following table sets out a breakdown of loans and advances to customers as at 31 December 2017:

| **By product** | **P'000** | **%** |
|---|---|---|
| Retail and SME lending | 4 287 917 | 72.7 |
| Corporate lending | 865 633 | 14.7 |
| Mortgage lending | 557 644 | 9.4 |
| Commercial and property finance | 147 952 | 2.5 |
| Instalment finance | 40 609 | 0.7 |
| **Gross loans and advances** | **5 899 757** | **100.0** |

| **By industry sector** | **P'000** | **%** |
|---|---|---|
| Individuals | 4 990 921 | 84.6 |
| Wholesale, retail and trade | 318 622 | 5.4 |
| Financial services | 263 495 | 4.5 |
| Real estate | 119 257 | 2.0 |
| Agriculture | 103 012 | 1.7 |
| Construction | 46 147 | 0.8 |
| Tourism | 14 700 | 0.3 |
| Manufacturing | 9 583 | 0.2 |
| Transport | 7 442 | 0.1 |
| Mining and energy | 795 | 0.0 |
| Other | 25 783 | 0.4 |
| **Gross loans and advances** | **5 899 757** | **100.0** |

| **By maturity profile** | **P'000** | **%** |
|---|---|---|
| Up to one month | 412 435 | 7.0 |
| One – three months | 114 380 | 1.9 |
| Three – 12 months | 256 611 | 4.3 |
| Greater than 1 year | 5 116 331 | 86.8 |
| **Net loans and advances** | **5 899 757** | **100.0** |

Going forward, the directors expect loan growth to accelerate as the Company leverages its partnership model experience to attract new schemes. BancABC's ability to grow its balance sheet through new lending will have a direct impact on its net interest income and profitability.

18.2 **Impairments and provisions**

The following table sets out a breakdown of gross loans and advances to customers as at 31 December 2017:

| **By credit quality** | **P'000** | **%** |
|---|---|---|
| Neither past due or impaired | 5 571 659 | 94.5 |
| Past due but not impaired | 114 461 | 1.9 |
| Individually impaired | 213 637 | 3.6 |
| **Gross loans and advances** | **5 899 757** | **100.0** |

The composition of BancABC's robust credit model and risk management framework and the ability to deduct loan repayments directly from customer salaries by way of the deduction codes, has resulted in a very high credit quality and exceptionally low cost of risk.

BancABC's loan impairment charges for the financial year ended 31 December 2017 decreased significantly by 35%, from P75 million for the financial year ended 31 December 2016 to P49 million for the financial year ended 31 December 2017. The decline in loan impairment charges was primarily due to a number of factors which included enhancement of credit processes done in 2016, improvement in collection processes and the impact of one-off items in 2016.

BancABC's credit loss ratio decreased to 0.8% in the financial year ended 31 December 2017 from 1.3% in the financial year ended 31 December 2016. The decrease in the cost of risk arose primarily from improvement in collection efforts on the group schemes which averaged 98% in 2017 as well the one-off clean-up of the loan book in 2016. The bank increased the size of the collection team as well as collection agencies in 2017.

BancABC's NPL ratio declined to 3.6% in the financial year ended 31 December 2017 from 4.2% in the financial year ended 31 December 2016. The decrease in the NPL ratio resulted primarily from improvement in collection rates on the scheme book as well as significant write-offs in 2017 in preparation for IFRS 9. BancABC's coverage ratio decreased from 57% in the financial year ended 31 December 2016 to 44% in the financial year ended 31 December 2017, primarily as a result of one significant exposure which was not performing but was not provided for as it was government risk as well as significant increase in write-offs in 2017.

Impairments in terms of IFRS 9 are determined based on an Expected Credit Loss ("ECL") model, as opposed to an incurred loss model in terms of IAS 39. The ECL model applies to financial assets measured at amortised cost and debt instruments at Fair Value through Other Comprehensive Income, lease receivables and certain loan commitments as well as financial guarantee contracts.

Under the ECL model, BancABC accounts for expected future credit losses taking into account historic, current and future-looking information such as macroeconomic data. This results in an earlier recognition of credit losses, as opposed to the IAS 39 regime of waiting for an incurred loss event to occur prior to the recognition of credit losses.

As part of the change in accounting policy from IAS 39 to IFRS 9, BancABC has to account for an impairment charge of P194 million in 2018, resulting in a reduction in BancABC's capital. The Bank of Botswana has permitted BancABC to absorb the impairment charge over three years in computing their capital adequacy calculation.

18.3 **Deposits**

As is typical in Botswana, BancABC is funded predominantly through commercial deposits. Additional wholesale funding is provided by non-banking financial institutions such as pension funds and asset managers. The top 20 clients of the Company account for 54% of total depositors, with the commercial deposits accounting for 64% of all deposits.

Deposits from customers as at 31 December 2017 were P6 060 million, a 10.5% decrease compared with P6 772 million as at 31 December 2016. The decrease in deposits over the period was primarily due to the loss of a significant transitory deposit by a single corporate customer in 2017. The deposit was appropriately invested in short-term liquid assets.

Deposits from customers as at 30 June 2018 increased by 4.2% to P6 317 million.

The following table sets out a breakdown of deposits as at 31 December 2017:

| By division | P' million | % |
|---|---|---|
| Commercial | 3 985 | 65.8 |
| Retail | 1 062 | 17.5 |
| Global Markets and Treasury | 1 013 | 16.7 |
| **Total deposits** | **6 060** | **100.0** |

The concentration of depositors and the short-term nature of BancABC's deposits means that the Company is much more susceptible to funding issues in the event of a liquidity crisis. Going forward, it is a key strategy of the Company to diversify its funding pools and attract additional SME and retail deposits through its transactional banking offering.

18.4 **Equity**

BancABC's total equity as at 31 December 2017 was P1 065 million, comprising P223 million of shareholders' funds and P842 million of other equity.

Total equity as at 31 December 2017 increased by 14.9% from total equity of P927 million as at 31 December 2016. The increase over the period was primarily due to an increase in retained earnings.

18.5 **Return on equity**

BancABC's return on equity has averaged 17.2% over the past three financial years.

Return on equity decreased from 20.2% in the financial year ended 31 December 2016 to 14.0% in the financial year ended 31 December 2017, primarily as a result of the decline in operating income for the year.

For the six months ended 30 June 2018, return on equity increased to 19.2%.

The directors believe that reasonable prospects exist that a return on equity of 20% can be achieved in the medium term, as the Company optimises its capital and its strategic growth initiatives to begin to deliver increased profitability.

19. **Results of operations**

19.1 **Interest income**

BancABC's interest income fell by 5.5% from P812 million for the financial year ended 31 December 2016 to P767 million for the financial year ended 31 December 2017. The decrease in interest income was primarily due to a compression in gross yield, as described below. This effect was marginally offset by a modest increase in loan and advances to customers over the period.

For the financial year ended 31 December 2017, the average gross yield that BancABC earned on its loans and advances to customers was 13.4%, compared to 14.3% for the financial year ended 31 December 2016. The compression in gross yield was primarily due to a 50 basis point decrease in the bank lending rate in August 2016 and October 2017.

For the six months ended 30 June 2018, the average gross yield that BancABC earned on its loans and advances to customers decreased to 12.8%.

19.2 **Interest expense and cost of funding**

BancABC's interest expense increased by 3.7% from P268 million for the financial year ended 31 December 2016 to P278 million for the financial year ended 31 December 2017. The increase in interest expense was primarily due to higher cost of funding and increase in borrowings.

For the financial year ended 31 December 2017, BancABC's average cost of funding was 4.0% compared to 3.7% for the financial year ended 31 December 2016. The increase in interest expense was primarily due to tight market liquidity as well as increase in borrowings.

BancABC's cost of funding is currently higher than its banking peers in Botswana, primarily due to its relatively lower share of retail deposits. It is a key strategy of the Company to diversify its funding pools and attract additional SME and retail deposits through its transactional banking offering. This is expected to lower the Company's cost of funding, which will in turn have a material impact on profitability. If the Company's cost of funding for the financial year ended 31 December 2017 had been 1.0% lower, this would have resulted in a 39% increase in net profits for the year.

For the six months ended 30 June 2018, BancABC's cost of funding increased to 4.2%, primarily as a result of tight market liquidity.

### 19.3 Net interest margin

Net interest income is the difference between interest income generated by loans and advances made by BancABC to customers and other interest-bearing assets and the amount of interest that BancABC has paid on funding its liabilities (such as customer deposits and borrowings).

BancABC's ability to increase its net interest income for any given period of time depends on both balance sheet growth and the spread of asset and liability margins that it can achieve.

BancABC's net interest income fell by 10.1% from P544 million for the financial year ended 31 December 2016 to P489 million for the financial year ended 31 December 2017. The decrease in net interest income was due to the compression in net interest margin.

For the financial year ended 31 December 2017, the average net interest margin that BancABC earned was 6.9%, compared to 7.3% for the financial year ended 31 December 2016. The compression in net interest margin is due to the lower gross interest margin, compounded by the higher cost of funding, as explained above.

For the six months ended 30 June 2018, BancABC's net interest margin decreased to 5.2%, primarily as a result of a 50 basis point decrease in the bank lending rate in October 2017, increase in cost of funding and reduced lending rates for union customers based on renewed contracts.

### 19.4 Non-interest income

Non-interest income comprises trading income, fees and commission income.

Trading income includes forex sales and trading.

Fees and commission income includes bank account management fees, loan arrangement fees, insurance income and customer transactional commission.

BancABC's non-interest income for the financial year ended 31 December 2017 fell by 19.1%, from P140 million for the financial year ended 31 December 2016 to P113 million for the financial year ended 31 December 2017. The decrease in non-interest income was primarily due to a P16 million decline in trading income as a result of unfavourable trading and low forex trading volumes. Fee and commission income also declined by P10 million for the financial year ended 31 December 2017 as a result of low loan book loan book growth.

BancABC's non-interest income contribution to total income, is currently significantly lower than its banking peers in Botswana. It is a key strategy of the Company to drive the growth in its transactional banking offering and increase the contribution of non-interest fees.

### 19.5 Operating expenses

Operating expenses primarily includes personnel expenses, general and administrative expenses, depreciation and amortisation expenses, and other operating expenses.

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| | P'000 | P'000 | P'000 |
| Personnel expenses | 126 598 | 112 054 | 98 851 |
| General and administrative expenses | 137 581 | 142 442 | 128 535 |
| Depreciation and amortisation expenses | 22 298 | 16 803 | 17 187 |
| Other operating expenses | 87 563 | 118 988 | 119 560 |
| **Total operating expenses** | **374 040** | **390 287** | **364 133** |

BancABC's total operating expenses fell by 4.3% from P390 million for the financial year ended 31 December 2016 to P374 million for the financial year ended 31 December 2017.

Personnel expenses increased by 13.0%, from P112 million for the financial year ended 31 December 2016 to P127 million for the financial year ended 31 December 2017. The increase was primarily driven by a review of salaries during the year as well as an increase in head count. Salaries and wages also included a BWP 5 million one-off payment.

General and administrative expenses decreased by 3.4%, from P142 million for the financial year ended 31 December 2016 to P138 million for the financial year ended 31 December 2017.

Depreciation and amortisation expenses increased by 32.7% from P17 million for the financial year ended 31 December 2016 to P22 million for the financial year ended 31 December 2017.

Other operating expenses decreased by 26.4% from P119 million for the financial year ended 31 December 2016 to P88 million for the financial year ended 31 December 2017. The decrease in other operating expenses was primarily due to a significant reduction in the consulting fees and professional fees incurred in 2016 which were once off assignments.

19.6 **Cost to income ratio**

Despite good cost management and containment, BancABC's cost to income ratio increased to 62.1% in the financial year ended 31 December 2017 from 57.1% in the financial year ended 31 December 2016. The increase in the cost to income ratio resulted primarily from the decline in operating income as described above.

The directors believe that reasonable prospects exist that a cost to income ratio of less than 55% in the medium term can be achieved.

## 20. CAPITAL ADEQUACY

The Group's regulatory capital position as at 30 June 2018 and 31 December 2017 was as follows:

| | **As at 30 June 2018** P'000 | **As at 31 December 2017** P'000 |
|---|---|---|
| **Core capital (Tier 1)** | | |
| Stated capital | 222 479 | 222 479 |
| Statutory credit risk reserve and other reserves | 11 073 | 11 073 |
| Retained earnings | 831 753 | 831 753 |
| IFRS 9 day one impact | (194 316) | |
| Transitional adjustment amount added back | 94 435 | |
| Regulatory adjustments (intangible assets) | (59 372) | (36 137) |
| | **906 052** | **1 029 168** |
| **Supplementary capital (Tier 2)** | | |
| General provision/general loan-loss reserves | 71 299 | 17 387 |
| Unaudited current year profit | 97 579 | |
| Subordinated loan | 190 221 | 184 425 |
| | **359 099** | **201 812** |
| **Total capital (Tier 1 and Tier 2)** | **1 265 151** | **1 230 980** |
| Core capital ratio | 14.1% | 16.5% |
| Capital adequacy ratio | 19.4% | 19.8% |
| Bank of Botswana preferred minimum risk asset ratio | 15.0% | 15.00% |

The directors have confidence that the Company will maintain a minimum capital adequacy ratio which exceeds the minimum prescribed by Bank of Botswana.

## 21. Dividends

21.1 **Dividend policy**

The Company intends to pay dividends on the Ordinary Shares at such times (if any) and in such amounts (if any) as the Board determines appropriate. Subject to the financial performance, applicable laws, maintaining the Bank's target capital adequacy ratios and approval of Bank of Botswana, the Company's current intention is to aim to pay between 40% and 60% of its net income as dividends to shareholders following the publication of its full year annual financials and approval at the Annual General Meetings.

The Board retains absolute discretion to determine the actual dividend declarations. Dividends paid will be a function of the profitability, capital expenditure requirements as well as future organic and possible acquisitive growth strategies of the Bank.

21.2 **Current year dividends**

No dividends have been declared for the year ended 31 December 2017.

21.3 **Dividend declarations and payments**

In any year that the Company declares dividends, such dividends shall be declared and paid to shareholders in proportion to the Shares held by them. Dividends shall be payable to shareholders that are duly registered as at the date of declaration of the dividend. Any dividend declaration shall be subject to Bank of Botswana approval.

21.4 **Unclaimed Dividends**

All dividends which are not claimed, shall be held by the Company for three years. The Company shall advertise for shareholders to claim the dividends due to him, on or about 31 December each year. Dividends unclaimed at the expiry of three years from the date of declaration of the dividend, may be appropriated by the Company.

21.5 **Waiver of future dividends**

The Company does not have an existing arrangement in which future dividends may be waived.

## 22. WORKING CAPITAL

The directors of the Company are of the opinion that:

22.1 the Company's stated capital is adequate for the purposes of the business of the Company for the foreseeable future; and

22.2 the Company's working capital resources will be adequate cover for its current and foreseeable requirements.

## 23. MATERIAL BORROWINGS AND FINANCING ARRANGEMENTS

Details of the Company's material borrowings are set out in **Annexure 7** to this Pre-Listing Statement.

23.1 **Off-balance sheet arrangements**

| | **As at 30 June 2018** | **As at 31 December 2017** |
|---|---|---|
| Financial guarantees | 84 061 | 149 851 |
| Loan commitments and other credit related liabilities | 547 763 | 588 591 |
| **Total** | **631 824** | **738 442** |

23.2 **Capital commitments, lease payments and contingent liabilities**

Following approval of the Bank of Botswana, the Company has issued a one-year guarantee for an amount up to USD 17 000 000, to African Export-Import Bank as part of a security package for a term loan facility between ABC Holdings and African Export-Import Bank. The term loan facility is to be repaid within four years, including a one-year moratorium on principal payments. The USD17 000 000 guarantee is backstopped by a counter guarantee in favour of the Company to cover the obligation of the Company provided by Atlas Mara Limited, the parent company of ABC Holdings.

| | **As at 30 June 2018** | **As at 31 December 2017** |
|---|---|---|
| Commitments in respect of capital expenditure | | |
| Approved but not contracted for | 51 306 | 35 647 |
| Operating lease commitments | 32 933 | 32 625 |
| **Total** | **84 239** | **68 272** |

23.3 Neither BancABC nor its subsidiaries have exceeded their borrowing powers during the past three years.

## 24. Related party transactions

The Bank is a wholly-owned subsidiary of the ABCH Group. The Bank has related party transactions with its parent company, ABCH and with other ABCH 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, arms' length commercial terms and conditions at market rates. These include loans, deposits, and foreign currency transactions. The volume of related party transactions, outstanding as at 30 June 2018 and 31 December 2017, and related expense and income for the period are as follows:

| | | **As at 30 June 2018** P'000 | **As at 31 December 2017** P'000 |
|---|---|---|---|
| **A.** | **Balances due from related parties** | | |
| | ABC Holdings Ltd | 526 095 | 477 241 |
| | African Banking Corporation Zimbabwe Ltd | 54 403 | 49 195 |
| | Atlas Mara Zambia Ltd | 938 | 376 |
| | African Banking Corporation Mozambique Ltd | 513 | 292 |
| | Banque Populaire du Rwanda Ltd (BPR) | 2 043 | 1 911 |
| | African Banking Corporation Tanzania Ltd | 105 292 | 99 386 |
| | Atlas Mara Ltd | 2 | 2 |
| | | **689 284** | **628 403** |
| **B.** | **Interest income** | | |
| | ABC Holdings Ltd | 14 537 | 28 027 |
| | African Banking Corporation Zimbabwe Ltd | 571 | 1 109 |
| | Atlas Mara Zambia Ltd | – | 199 |
| | African Banking Corporation Tanzania Ltd | 3 442 | 6 684 |
| | | **18 550** | **36 019** |
| **C.** | **Balances due to related parties** | | |
| | ABC Holdings Ltd | 6 779 | 4 569 |
| | African Banking Corporation Mozambique Ltd | 7 200 | 6 645 |
| | African Banking Corporation Zimbabwe Ltd | 6 471 | 1 706 |
| | Atlas Mara Zambia Ltd | 20 944 | 19 766 |
| | | **41 394** | **32 686** |
| **D.** | **Interest expense** | | |
| | ABC Holdings Ltd | – | 68 |
| | African Banking Corporation Mozambique Ltd | – | 36 |
| | Atlas Mara Zambia Ltd | – | 76 |
| | | – | **180** |
| **E.** | **Subordinated loan from ABCH** | | |
| | ABC Holdings Ltd | **136 733** | **130 114** |
| **F.** | **Shared services fee** | | |
| | Shared services fee expenses | **25 596** | **55 877** |

**Notes**

A. Balances due from related parties relates to placements/loans from ABC Botswana to ABCH Limited and ABCH subsidiaries. The outstanding balances are unsecured and carry variable interest rates. The indebtedness of ABCH to the Company is a legacy loan that has been paid down over the years. ABC Holdings Limited and the Company have agreed with the Bank of Botswana the terms of a three-year repayment of the related party balance due to the Company from ABC Holdings Limited.

B. Balances due to related parties relates to deposits from ABCH Limited and ABCH subsidiaries. The outstanding balances are unsecured, carry variable interest rates and are repayable within three months. Balances due to ABC Holdings Limited are payable over three-years in 3 equal instalments beginning 1st January 2019.

C. As of June 2018, the Bank was the issuer of two subordinated/Tier II instruments held by ABC Holdings Limited, one denominated in Pula for P31 million and the other in US Dollar (USD) for USD10 million. The Pula denominated borrowing had perpetual maturity at a fixed interest rate of 12.5% per annum, while the US Dollar denominated borrowing has perpetual maturity at a fixed interest rate of 12.0% per annum, interest is paid bi-annually.

   On 17 July 2018, these two subordinated instruments were refinanced and fully paid down with a P150 million subordinated Tier II facility from Botswana Development Corporation Limited (BDC). The new subordinated Tier II facility from BDC has a tenor of 10 years and nominal interest rate of Botswana Prime (6.5%) plus 2.5% margin, payable semi-annually.

D. Shared services fee expenses relate to services rendered at arm's length between ABC Botswana (BancABC) and ABC Holdings Ltd and Atlas Mara. These services are for shared support services such as strategy formulation, information technology support, risk and credit governance, internal audit, compliance, corporate governance and other administrative services provided at the centre for the benefit of ABC Botswana.

## 25. MATERIAL CHANGES

The directors' report that to their knowledge there have been no material changes in the financial or trading position of the Company since the date of last interim financial statements, 30 June 2018, other than in the ordinary course of business, or as set out in this Pre-Listing Statement.

# PART E: RISK FACTORS

26. Before deciding to invest in the equity of the Company, potential investors should carefully consider the risk factors and uncertainties associated with any such investment, the Company's business, strategy and the industry in which it operates, together with all other information contained in this Pre-Listing Statement, including, in particular, the risk factors described below. Additional risks and uncertainties relating to the Company or business environment that are not currently known to the Company, or that the Company currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Company's business, operating results, financial condition or prospects. If any of the following risk factors (as well as other risks and uncertainties that are not currently known to the Company or that it currently believes are not material) actually occur, the Company's business, reputation, financial condition, revenue, margins, cash flows and/or results of operations could be materially and adversely affected. Accordingly, the trading price of the Shares could decline, and you may lose part or all of your investment. Investors should carefully consider whether an investment in the Company is suitable for them in the light of the information in this Pre-Listing Statement and their personal circumstances. The order in which the risks are presented below is not intended to provide an indication of the likelihood of their occurrence or of their severity or significance. The following is not an exhaustive list or explanation of all risks that prospective investors may face when making an investment in the equity of the Company and should be used as guidance only.

27. **RISKS RELATED TO THE COMPANY'S BUSINESS**

27.1 **The Company's business is inherently subject to macroeconomic risk**

The Company's business is inherently subject to and affected by the prevailing economic conditions in the market. In particular, the Company's activities are subject to interest rate risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. The performance of financial markets may cause changes in the value of the Company's investment and trading portfolios. Macroeconomic factors also have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers and the availability of capital and liquidity for the Bank. The Company has implemented risk management methods to mitigate and control these and other market risks to which the Company is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Company's financial performance.

27.2 **The Company has umbrella agreements with four trade unions which are subject to renegotiation**

The Company currently has agreements with union clients which has ensured consistent customer engagements which are beneficial for its current loan book and credit pipeline. However, the agreements with the trade unions are subject to negotiation at periodic intervals ranging from one to three years, and are subject to the risks inherent in renegotiation, including renewal on different or less favourable terms. There can be no assurance that these agreements will be renewed or that they will be renewed on terms no less favourable than the current agreements.

In addition, trade union clients may decide not to use the Company's ancillary services, such as funeral insurance cover, and instead use a third party agent. This would lead to a reduction in fees payable to the Company.

27.3 **The Company is subject to liquidity and refinancing risk**

The Company is exposed to liquidity risk, arising out of mismatches between the maturities of the Company's assets and liabilities, which, together with increased market volatility and changes in general economic conditions, may contribute to the Company not being able to meet its net funding requirements at a reasonable cost.

This risk is inherent in all banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance upon a particular source of funding (such as short-term deposits), changes in credit ratings or market-wide dislocation. The Company's customer deposits are its primary source of funding, comprising more than 80% of total funds as of 31 December, 2017. Reliance upon deposits as its primary funding source makes it susceptible to changes in customer perception of the strength of the banking sector in general and of the Company. The Company might be materially and adversely impacted by substantial customer withdrawals of deposits.

Deposits, which are the primary source of the Company's funding, are primarily short-term liabilities, with 70% of deposits having maturities of less than three months as of 31 December, 2017. In contrast, the Company has mainly long-term assets in the form of retail, commercial and corporate loans, including mortgages and credit cards.

As a result, the Company is exposed to maturity gaps between its assets and liabilities, which could ultimately lead to liquidity concerns in the event of a banking crisis or similar event. There can be no assurance that the Company will continue to successfully manage its liquidity and the maturity profile of its funding base in the future.

27.4 **The Company's business may be exposed to the adverse effects of operational risks**

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. Operational losses can result, for example, from failure to prevent or detect money laundering, prevent or rectify IT failures or outages, prevent or detect information and cyber-security breaches, deter, prevent or detect external and internal fraud, manage data adequately or handle client data with the appropriate duty of care, manage critical change projects, manage systemic product risks, prevent mis-selling, deliver the conduct of business expected of the Group and their respective employees, prevent risks concentrated in critical third-party vendors, comply with standards set by regulatory authorities, prevent a major systems failure, prevent a significant business interruption, and ensure that its collateral and legal documentation is available and reliable when called upon.

As operational risks are inherent in banking activities, from time to time the Bank has experienced non-material losses arising from operational risks. The Group seeks to ensure that operational risks are managed and kept to a minimum through an operational risk framework and processes. Failure to manage one or more of such risks effectively such that a material loss arises from an operational risk may have a material adverse effect on the Bank's financial condition, results of operations and prospects.

The Company's systems, processes and internal controls are designed to ensure that the operational risks associated with its activities are appropriately monitored and controlled. In addition, business resumption and disaster recovery processes have been implemented to mitigate operational risks inherent in the Company's business.

27.5 **The Company's risk management policies and procedures may not have identified or anticipated all potential risk exposures**

The Company has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, market, liquidity, interest rate and operational risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

27.6 **The Company has invested in new projects, which if not successfully implemented will be a cost to the Company**

The Company has invested in a number of new projects, including an improved banking platform, deployment of enhanced corporate internet banking and increasing the scale of its prepaid cards. The Company has invested funds in hardware and software replacement as well as increasing employee capacity to assist with the implementation of these projects. There can be no assurance that these projects will be successfully implemented and that once implemented will lead to increased revenues for the Company. To the extent that any of these projects or a stage of any project is not successfully implemented or is significantly delayed, the Company would have invested funds in non-revenue generating projects and these increased costs would be borne by the Company.

27.7 **The financial services industry in which the Company operates is competitive**

The financial services industry in which the Company's business operates is highly and increasingly competitive. The Company competes on the basis of a number of factors, including customer services and quality, transaction execution, its products and services, innovation, reputation and price. New competitors, including companies other than banks, may disintermediate the market thus impacting market share. Many of the banks operating in the market compete for substantially the same customers as the Company. An increase in competition in some or all of the Company's principal markets may have an adverse effect on its financial condition and results of operations.

27.8 **Concentration risk**

The Company's business is focused on specifically the Botswana market and therefore faces a geographic concentration risk. Any adverse changes affecting the Botswana economy are likely to have an adverse impact on the Company's business loan portfolio and, as a result, on its financial condition and results of its operations.

27.9 **Volatility in financial markets**

A significant portion of the Company's revenues are derived from proprietary trading through its Global Markets and Trading business lines. The Company maintains active trading positions of in risky marketable financial assets, classes of which include but are not limited to currency, interest rate, credit, commodities, securities, debt instruments and/or derivatives. The risk of loss in financial assets due to volatility in financial markets can be substantial and unpredictable, and could materially adversely impact the Company's profitability and forecasts if these market movements are adverse to trading views.

The Company invests substantial time and effort in its strategies and procedures for monitoring and managing its market risk positions. Notwithstanding these efforts and control measures, the Company's risk management activities cannot anticipate or control every economic and financial outcome or the specifics and timing of each risk.

27.10 **The Company is subject to capital requirements that could limit its operations**

The Company is subject to capital adequacy guidelines adopted by the Bank of Botswana which provide for a minimum target ratio of capital to risk-adjusted assets. Any failure by the Company to maintain its ratios may result in sanctions against the Company which may in turn impact on its ability to fulfil its obligations under the Offer Shares.

27.11 **The impact of any future change in law or regulation on the Company's business is uncertain**

The nature and impact of future changes in laws, regulations and regulatory policies are not predictable and are beyond the Company's control, and changes in such laws, regulations and regulatory policies may have an adverse effect on the Company's financial condition and results of operations.

27.12 **Any information security breach or data theft could damage the Company's reputation and have a material adverse effect on its business, financial condition, results of operations and prospects**

The Company stores, retrieves, evaluates and utilises a range of data and information about its customers, adviser network and employees and relies on industry-standard commercial technologies to maintain the security of those systems. Despite the security measures the Company has in place to comply with applicable laws, regulations and standards, its facilities and systems, and those of its third-party providers may be vulnerable to security breaches, acts of cyber terrorism, vandalism or theft, computer viruses, misplaced or lost data, programming and human errors or other similar events. Third parties and or staff who are able to circumvent the Company's security measures and penetrate its IT or treasury systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information, or make unauthorised payments. Login credentials of customers, intermediaries and employees may be intercepted by cyber criminals, which could lead to abuse of information.

As a result, there can be no assurance that such theft or attacks will not be successful and result in a material adverse effect on the Company's business, financial condition, results of operations, prospects or damage its reputation. If the Company is the victim of a cyber-attack, it may also have to shut down its systems in order to appropriately protect its systems to prevent a future security breach, which could have a further material adverse effect on the Company's business, financial condition, results of operations, prospects and reputation.

27.13 **Failure to comply with data protection legislation or a security breach or system failure in the Company's technical or IT infrastructure could result in regulatory action, compensation claims and adverse publicity which could have a material adverse effect on the Company's business and results of operations.**

The use and storage of customer information is subject to numerous laws, regulations and standards designed to protect sensitive or confidential customer and employee data, including, among others, the Electronics Communication and Transactions Act and the Consumer Protection Act.

A breach of any aspect of data protection legislation, especially a breach involving the misappropriation, loss or other unauthorised disclosure of sensitive or confidential member information, including the use of such information for direct marketing purposes, whether by the Company or one of its sub-contractors or service providers, could result in regulatory action, compensation claims and adverse publicity. In addition, compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on the Company's business models and the development of new administrative processes.

27.14 **The Company is involved in various legal and regulatory proceedings and may be involved in more in the future**

The Company, like other financial institutions, is, and may in the future be, subject to legal proceedings, regulatory investigations and general litigation. Depending on the context, these may be initiated by regulators, customers or other third parties and arise in the normal course of its business. Due to the nature of these proceedings, investigations and litigation it is not feasible to forecast or determine the final results of all such proceedings, investigations and litigation.

27.15 **Investors in foreign jurisdictions may have difficulty bringing actions, and enforcing judgments, against the Company, its Directors and its executive officers based on the laws of other jurisdictions outside Botswana.**

The Company is incorporated in Botswana. It may be difficult for investors to enforce against the Company a judgment obtained in a foreign court predicated upon the laws of jurisdictions outside Botswana.

Investors should be aware that it is the policy of Botswana courts to award compensation for the loss or damage actually sustained by the person to whom the compensation is awarded. Botswana courts cannot enter into the merits of a foreign judgment and cannot act as a court of appeal or review over the foreign court. Botswana courts will usually implement their own procedural laws and, where an action based on an international contract is brought before a Botswana court, the capacity of the parties to the contract will usually be determined in accordance with Botswana law. It is doubtful whether an original action based on the laws of jurisdictions outside Botswana may be brought before Botswana courts.

Further, a plaintiff who is not resident in Botswana may be required to provide security for costs in the event of proceedings being initiated in Botswana. In addition, the Authentication of Documents Act provides that documents executed outside Botswana must be authenticated for the purpose of use in Botswana.

27.16 **The Company's financial performance is subject to inherent risks concerning borrower credit, changes in the credit quality and the recoverability of loans and amounts due from counterparties**

The Company's business is subject to inherent risks regarding borrower credit quality and the recoverability of loans and amounts due from counterparties. Adverse changes in the credit quality of the borrowers and counterparties arising from deterioration in macroeconomic conditions or systemic risk in the financial systems could reduce the recoverability and value of the Company's assets, and require increased provisions for bad and doubtful debts in the Company's business. In addition, changes in economic conditions may result in deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default in the Company's business.

In addition, an increase in overall levels of lending could increase the credit risk of the Company. In particular, retail and small commercial banking customers typically have less financial strength than large companies, and as the banks' retail and SME businesses grow going forwards, negative developments in the broader economy could affect these borrowers more significantly than large companies. This could result in higher levels of non-performing loans in this sector, which, although Company prices for such risk, may not be fully covered and therefore higher levels of provisioning may result. Additionally, this could lead to substantial losses in the future. Although the Company devotes considerable resources to managing credit risks, many of the factors affecting borrower and counterparty credit risks are beyond the control of the Company and the occurrence of any of the foregoing risks, or a failure by Company to manage these risks effectively, could have a material adverse effect on the Company's financial condition, results of operations and, if severe or prolonged, their future financial prospects.

Further, while the Company's loans to corporate customers and individuals are secured by collateral such as real estate property, land leasing rights, production equipment, vehicles and securities, a significant portion of the Company's retail lending book is unsecured. Downturns in the relevant markets, a lack of an existing market for the collateral where it is located or a general deterioration of economic conditions may result in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. If collateral values decline, the collateral may not be sufficient to cover irrecoverable amounts on the affected bank's secured loans (including any non-performing loans), which may require the bank to reclassify the relevant loans, establish additional loan loss expenses and increase reserve requirements. Additionally, the Bank may experience delays in being able to realise the value of collateral in a timely manner. A failure to recover the expected value of collateral may expose the Bank to losses, which could result in increases in loan losses and have an adverse effect on the Bank's businesses, results of operations and/or financial condition. Regarding the unsecured loan book, any deterioration in the quality of a borrower, including due to general deterioration of economic conditions, may result in the borrower's inability to repay the loan and an increase in their respective impaired loans or provisions for impairment.

The Company has established credit quality management policies and actively monitors credit exposure on an ongoing basis to mitigate such risks.

27.17 **The Bank is exposed to interest rate risks and net interest margin may be under pressure due to government monetary policies and the banking sector environment**

Fluctuations in interest rates could adversely affect the Bank's operations and financial condition in a number of different ways. Interest rates are sensitive to many factors, including the policies of central banks, local and international economic conditions and geopolitical factors. For example, an increase in interest rates may increase the Bank's funding costs and could also generally decrease the value of fixed-rate debt securities in the securities portfolio. In addition, an increase in interest rates may also reduce overall demand for new loans and increase the risk of impairments or customer default. At the same time, general volatility in interest rates may result in a gap between interest-earning assets and interest-bearing liabilities. The Bank might not be able to protect itself from the adverse effects of future interest rate fluctuations due to the scarcity of hedging products in their markets. Any fluctuations in market interest rates, and the Bank's inability to respond in a cost-effective manner, could lead to a reduction in net interest income and adversely affect the Bank's businesses, results of operations and/or financial condition.

Central banks have also in recent times called for the banking sector to reduce its charges, and specifically lending rates to individual customers, in order to reflect the decreasing central bank rates being applied by the government monetary policy committees in these markets. The effect of such calls for reform, alongside increased competition and a structural increase in cost of funds, could increase the pressure on the Bank's net interest margin.

The Bank of Botswana has previously implemented a two-year freeze on any increases in bank charges. Any further Central Bank action to limit interest rates in Botswana, or the rates of return earned by commercial banks, may have an adverse effect on the Bank's business, results of operations and/or financial condition.

27.18 **Liquidity risk may impair the Company's ability to adequately fund its operations**

This risk is inherent in banking operations and can be heightened by a number of factors, including an over-reliance on or inability to access a particular source of funding, the extent of mobility of intra-group funding, changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters. In addition, any significant increase in the cost of acquiring deposits, inability to further increase deposits or significant outflow of deposits from the Bank, particularly if it occurs over a short period of time, could have a material adverse impact on the Bank's financial condition and liquidity positions.

Ready access to funds is essential to any banking business, including those operated by the Company. An inability on the part of the Company to access funds or to access the markets from which it raises funds may lead to it being unable to finance its operations adequately, which in turn could adversely affect its results of operations and financial condition. In particular, maturities which are shorter than the loans it makes.

Further, the Bank has historically relied primarily on deposits to fund its business, with the result that the Bank is required to manage a significant maturity gap in relation to longer-dated assets. Most deposits in Botswana are short-term in nature, as most customers are not prepared to commit to investing significant funds on a long-term basis. This exposes the Company to the risk that depositors in the Company's business could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains.

Additionally, the Company's ability to raise or access funds may be impaired by factors that are not specific to it, such as general market conditions, severe disruption of the financial markets or negative views about the prospects for the industries or regions in which the Company operates. In addition, the Company's borrowing costs and access to funds may be adversely affected by any reduction in its credit rating, and no assurance can be given that any rating agency will not at some time in the future reduce such credit ratings. The Company has developed and implemented liquidity risk management policies, procedures and processes designed to reduce this risk through active monitoring and reporting of its liquidity position. Any maturity mismatches may have a material adverse effect on its financial condition and results of operations. Furthermore, there can be no assurance that the Company will be successful in obtaining additional sources of funds on acceptable terms or at all.

27.19 **The Company is subject to comprehensive laws and regulations and may in the future be subject to new legal and statutory requirements and the Bank's ability to meet new requirements has not been tested.**

The Company is subject to comprehensive banking financial services and competition laws and related regulations, and to supervision by many regulatory authorities that have broad administrative and discretionary power over the Company. The laws and regulations to which the Group is subject relate, amongst other things, to: capital adequacy requirements; liquidity requirements; privacy and confidentiality; recordkeeping and financial reporting; price controls, tax, competition and exchange controls. Changes in the nature of the regulatory requirements could limit the Bank's ability to execute its growth strategy and could adversely affect existing business and results of operations. Failure to comply with any such laws and regulations could lead to disciplinary or remedial action, the imposition of fines and/or revocation of a licence, permission or authorisation necessary for the conduct of the Company's business or civil liability, all or any of which could have a materially adverse effect on the Company's business, results of operations and financial condition.

The requirements imposed by the regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with the Bank, and are not designed to protect the Bank's shareholders or investors. Consequently, these regulations can serve to limit the Bank's flexibility regarding capital structure. Customer protection and market conduct requirements may also limit the scope of the Bank's activities or increase the costs of carrying out its business.

Regulatory obligations require a commitment of resources. The Bank's abilities to comply with applicable laws, rules and regulations is largely dependent on its establishment and maintenance of compliance, control and reporting systems, as well as ability to attract and retain qualified compliance and other risk management personnel. If it fails to maintain such compliance and reporting systems or fails to attract and retain personnel who are capable of designing and operating such systems, this will increase the likelihood that the Bank may breach applicable laws and regulations exposing the Bank to risk of civil litigation and investigations by regulatory agencies. Similarly, any failure of management to understand and act upon applicable laws and regulations would present a similar risk.

27.20 **The Company's current and future success depends on the retention of key management and qualified personnel**

The success of the ABCH Group and the Bank depend on, in part, the ability to retain, motivate and attract, qualified and experienced banking and management personnel. The Company's current Board and senior management team have built up a significant network of business contacts and have extensive experience in the financial services industry. If one or more of its key management members cannot be successfully retained, the Bank could lose required market know-how and the necessary skills to profitably manage its operations.

Generally, competition for talent is considerable and attracting, training and retaining qualified personnel is challenging. Although the ABCH Group has implemented incentive and retention programmes, there can be no assurance that the staff recruitment, training and incentive programmes will be sufficient to allow it to retain sufficient numbers of qualified personnel. A failure to recruit, train and/or retain necessary personnel could have a material adverse effect on the Bank's businesses, results of operations and/or financial condition.

## 28. RISKS RELATED TO THE MARKET

**Political, social and economic risks in Botswana or regionally may have an adverse effect on the Company's operations**

The Company's operations are concentrated in Botswana. Operations in this market are subject to various risks which need to be assessed in comparison to jurisdictions elsewhere. These include political, social and economic risks specific to Africa, such as general economic volatility, recession, inflationary pressure, exchange rate risks and exchange controls, which could affect an investment in the Offer Shares. The existence of such factors may have an impact on Botswana and the results of the Company in ways that cannot be predicted.

## 29. RISKS RELATED TO THE OFFER

### 29.1 Share price volatility

The market price of the shares is subject to fluctuations due to changes in sentiment in the market in response to various facts and events, any regulatory changes affecting the Company's operations, variations in the Company's results of operations and the business developments of the Company's or its competitors or changes in financial estimates by securities analysts. Stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Company's operating results and prospects may, from time to time, be below the expectations of market analysts and investors. Any of these events could adversely affect the market price of the shares, and the Company cannot ensure that the public trading market prices of the shares will not decline below the Listing Price.

### 29.2 Dividends

The Company pays dividends to its shareholders only if funds are available for that purpose. Whether funds are available depends on a variety of factors, including the amount of cash available and other cash requirements existing at the time. Given these factors and the Board's discretion to declare a cash dividend, there can be no assurances that the Company will, in the future, pay dividends at current levels or at all.

### 29.3 Dilution

In terms of the Companies Act and the Listings Requirements, the Company is required when making any further issues of new shares, to offer these to existing shareholders on a *pro rata* basis. The Company may seek to raise financing in the future, including to fund future acquisitions, future investments and other growth opportunities and in connection with share incentive and share option plans. In terms of the Listing Requirements the shareholders may place shares up to the equivalent of 15% of the issued shares of the Company under the control of directors, for any and including such purposes. Any issue of new shares for other purposes not the subject of prior shareholder approval or in excess of the 15% aforesaid will require shareholder approval. In the event of new issues at a discount, the Company's existing shareholders may suffer a diminution in the value of their interest in the Company as well as dilution in their percentage ownership.

# PART F: DIRECTORS AND MANAGEMENT

30. **DIRECTORS**

The full names, ages, qualifications, nationalities, addresses, occupations of the Directors of the Company are:

| Name | Nationality | Address | Other directorships | Nature of business |
|---|---|---|---|---|
| Lorato Mosetlhanyane Independent Non-Executive Director | Motswana | Plot 50804, Phakalane | Pinnalead Proprietary Limited | Leadership training and development, personal growth and corporate development |
| | | | G4S Botswana Limited | Security services |
| | | | Kingdom Arts Academy Proprietary Limited | Music and talent exploration institution |
| Jacob Motlhabane Independent Non-Executive Director | Motswana | Plot 15326 Fikeng Close Broadhurst Gaborone | CNCF Investments Proprietary Limited | Business consultancy for a property company |
| | | | Eastbourne Proprietary Limited | Cattle slaughter investment company |
| | | | Botswana Society of Arts | Arts |
| | | | Spring Trends Holdings Proprietary Limited | Farming |
| Adams Chilisa Dambe Independent Non-Executive Director | Motswana | Kenmoir Plot 49/50 Ruretse Estate, Oodi | Gradam Holdings Proprietary Limited | Tourism |
| | | | Teemane Casino Proprietary Limited | Casino operator |
| | | | Chobe Holdings Proprietary Limited | Eco tourism |
| Joshua Galeforolwe Independent Non-Executive Director | Motswana | Plot 69193 Phakalane Golf Estate Gaborone | Orange Botswana Proprietary Limited | Mobile Telecommunications and internet service provider |
| | | | Mosokelatseng Cellular Proprietary Limited | Investor in the telecommunications industry |
| | | | Julius Klein Diamonds Proprietary Limited | Diamond cutting and manufacturing |
| | | | Gold Heir Proprietary Limited | Investment company in the mining industry |
| | | | WestCliff Capital Proprietary Limited | Corporate advisory and management consultancy |
| Kgotso Bannalotlhe Executive Director | Motswana | Plot 7958 Extension 25 Broadhurst Gaborone | Direct Link Sys Proprietary Limited | Telecommunications provider |

| Name | Nationality | Address | Other directorships | Nature of business |
|---|---|---|---|---|
| Beatrice Hamza Bassey Non-Executive Director | American | 3702 Al Seef Tower, Dubai Marina, United Arab Emirates | Banque Populaire du Rwanda | Banking and financial services |
| | | | Union Bank of Nigeria Limited | Banking and financial services |
| | | | Atlas Mara Management Services Limited (DIFC, UAE) | Management services |

31. **CURRICULUM VITAE OF DIRECTORS**

31.1 **LORATO MOSETLHANYANE (BCom Commerce) (MBA) (46) – Non-Executive Director**

Lorato Mosetlhanyane is a Certified Professional Integral Coach, having successfully completed the Professional Coaching Course (PCC) through the Centre for Coaching which partners with the Graduate School of Business at the University of Cape Town and New Ventures West (NVW) based in San Francisco. For the past five years as a full time Coach, Lorato has worked to coach and train both young and mature leaders, locally and internationally. Lorato brings a wealth of experience to the BancABC board, having worked as an Accountant at different levels across different industries for over 17 years. She left the corporate world five years ago as Chief Finance Officer of the leading life Insurance company in Botswana, having contributed to the growth and success of the company.

Lorato is a Fellow member of the Association of Certified Chartered Accountants (FCCA) and also holds a Master's in Business Administration (MBA) from Oxford Brookes University in the UK.

Lorato currently serves in the board of G4S, a security company listed on the Botswana Stock Exchange.

31.2 **JACOB MOOKETSE MOTLHABANE (BCom Accounting) (46) – Non-Executive Director**

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

31.3 **ADAMS CHILISA DAMBE (Diploma in Hotel Management) (69) – Non-Executive Director**

Mr Dambe is the Chief Executive Director of Gradam Holdings, a tourism company in Botswana and a Director of Chobe Holdings Limited, which owns and operates eco-tourism lodge camps in Botswana and Namibia. Mr Dambe holds a Master of Arts in Business Administration from Kensington University in California, USA and a Bachelor of Science. He also holds a diploma in Hotel Management from Kenya Utalli College in Nairobi and an advanced Diploma in Labour Relations from UNISA Business School of Leadership. He has also completed an Industrial Relations Development Programme at Stellenbosch University, South Africa, and an Anglo-American Management Programme at UNISA School of Business. Mr Dambe chairs the remuneration committee and seats in the loans review committee, audit committee and the credit committee.

31.4 **JOSHUA BENJAMIN GALEFOROLWE (BCom Acc) (66) – Non-Executive Director**

Mr Galeforolwe has an established track record of over 35 years' experience in large scale performance and process improvement, leadership and strategic management, formulation of policies, development of privatisation implementation strategies. He is a Managing Consultant for West Cliff Capital Proprietary Limited, a corporate advisory and management consultancy company in Botswana and holds a BCom in accounting from Makerere University, in Kampala, Uganda and has completed Part 1 of BA in Economics at the University of Botswana and a Management and Development Programme at the University of Pittsburg. Mr. Galeforolwe seats in the risk and compliance committee, audit committee, loans review committee, board credit committee and the remuneration and nominations committee.

31.5 **KGOTSO BANNALOTLHE (BCom) (ExMPLS) (39) – Executive Director**

Mr Bannalotlhe is the Managing Director of the Company and was first appointed as such on 7 August 2017. Kgotso has an established track record at Executive Level in the Banking industry. He joined the Bank from Barclays Bank Botswana, where he served as Head of Corporate and Investment Banking for four years. Prior to this, he held several positions including Barclays Country Treasurer and Head of Markets. He has also worked for Standard Chartered Bank Botswana and Tanzania as Head, Assets and Liabilities Management, and Head of Financial Markets/Co-Head for Wholesale Banking, respectively. Kgotso began his career with First National Bank Botswana. He holds a Bachelor of Commerce from the University of Melbourne and Executive Masters in Positive Leaders and Strategy (ExMPLS) from IE University, Madrid, Spain. Mr Bannalotlhe has completed level 1 of the CFA programme.

31.6 **BEATRICE HAMZA BASSEY (LLB) (46) – Non-Executive Director**

Ms Hamza Bassey joined Atlas Mara as Group General Counsel after almost two decades representing a roster of multi-national corporate entities in compliance and corporate governance matters. Prior to joining Atlas Mara, Beatrice was a partner in the New York office of the Wall Street firm Hughes Hubbard & Reed where she was chair of the firm's Africa Practice Group and member of their Executive Committee. She has represented numerous financial institutions and 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 the multi-billion Dollar customer estate to customers of Lehman Brothers. Beatrice has won many awards and garnered many accolades for her work by various African, US and International media, and has been profiled by Forbes Africa and CNN's African Voices, as a top African lawyer. She obtained her law degrees from the University of Maiduguri, Nigerian Law School and Harvard Law School, Cambridge, Massachusetts. She sits in the risk and compliance committee, loans review committee and the remuneration and nominations committee.

## 32. TERM OF OFFICE OF DIRECTORS

Save for the Executive Director, whose term of office is subject to a separate contract all directors serve, subject to:

(i) retirement by rotation as set out below;

(ii) voluntary retirement or resignation;

(iii) disqualification by law; and

(iv) removal by shareholders by Special Resolution. One third of the Directors other than the Executive Director shall retire at each annual general meeting and be eligible for re-election.

## 33. INTERESTS OF THE DIRECTORS IN THE COMPANY

As at the date of this Pre-Listing Statement none of the Independent Directors hold any Shares in the Company nor do they have direct or indirect interest in the Shares of the Company. However, the Executive Director and the Non-Executive Director hold shares or options in Atlas Mara Limited, the parent company of ABC Holdings Limited.

None of the Directors have beneficial interest in transactions involving the Company which are unusual in their nature.

## 34. AGGREGATE REMUNERATION AND BENEFITS TO DIRECTORS

34.1 For the year ended 31 December 2017 the approved remuneration for the Directors was BWP3 244 000.

34.2 Such remuneration for Non-Executive Directors aggregated BWP1 811 110 and for the Executive Director was BWP1 433 000.

34.3 Mr Leonard Musa Makwinja resigned during the year, following his appointment as Chief Executive Officer of a government parastatal.

34.4 There will not be variation in the remuneration receivable by the Directors as a result of the Listing.

## 35. CONSENT OF DIRECTORS

The Directors have consented to act as such and have undertaken to comply with the BSE Listings Requirements.

36. **BORROWING POWERS OF DIRECTORS**

The Directors may raise or borrow for the purpose of the Company's business and/or its subsidiaries sum or sums of money as in aggregate at any time does not exceed any limit as the Shareholder's may, by ordinary resolution, in a general meeting have determined. The Directors may secure the repayment of or raise any such sum or sums as aforesaid by mortgage or charge upon the whole or any part of the property and assets of the Company, present and future, or by issue, at such price as they may think fit, of securities in the Company or as permitted by law securities in its subsidiaries either charged upon the whole or any part of the property and assets of the company, or not so charged or in such other way as the Directors may think expedient.

37. **MANAGEMENT**

Management consists of the Executive Director, Head of Finance, Head of Legal and Compliance, Head of Retail Banking, Head of Commercial Banking, Head of Global Markets and Treasury, Head of Credit, Head of Strategic Partnerships and Head of Information and Technology.

The Curriculum Vitae of Management are as follows:

37.1 **FORTUNE TAKAINDISA (CIMA) (MBA) – Head of Finance**

Fortune has over 20 years' experience in the financial services industry. He attained a Masters of Business Administration (MBA) from University of Hull in the United Kingdom and a Bachelor of Accountancy from the University of Zimbabwe. Fortune joined the then UDC Holdings in 1998 as Financial accountant and rose through the ranks to become Head of Finance in April 2006. In May 2007, he was transferred to BancABC Botswana in the same capacity. Prior to joining BancABC, Fortune worked as an auditor in manufacturing and retail trading environments.

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

37.2 **THATO MMILE (LLB) – Head of Legal and Compliance**

Thato has over 10 years' experience in the financial services industry and over 19 years' experience in legal roles. She previously served as Head of Legal and Compliance to Standard Chartered Bank Mauritius. She spent 10 years at Standard Chartered Bank Botswana as the Head of Legal and Compliance and later moved to Standard Chartered Bank – Mauritius as Head of Legal and Compliance.

Thato holds Bachelor's Degree in Law and has expertise in Compliance, Legal Risk and Regulatory Management and Company Secretarial.

37.3 **GRACE SETLHARE-MANKANKU (BCom) (MBA Candidate) – Head of Retail Banking**

Grace Setlhare has over 15 years' experience in the financial services industry. Her experience includes serving as a Director in the business segment at First National Bank Botswana Limited. She has held various roles during her career including Corporate and Credit Analyst, Customer Service Manager, Relationship Executive, Head of Corporate Banking and Director of Wholesale Banking segment.

Grace holds a BCom Degree from University of Botswana and Management Programme certificates from University of Cape Town and University of Pretoria Graduate School of Business. She is currently pursuing her MBA from Duke University, USA.

37.4 **MMOLOKI RAMAEBA (BA) (MLDP) – Head of Commercial Banking**

Mmoloki has over 20 years' experience in the financial services industry. He previously served as Group CIB Front Line COO for BancABC, part of Atlas Mara. Mmoloki has 20 years of banking experience that started from First National Bank Botswana as an FX trader. After a few years at the Bank of Botswana, Mmoloki joined BancABC as Treasury Senior FX trader. Working through the ranks he was promoted to Head of Treasury for BancABC Mozambique; where he built the most successful Treasury units in the Group.

Mmoloki holds a Bachelor of Arts degree (Economics major) from the University of Botswana. He further completed the Executives Leadership Development Programme Certificate from Gordon Institute of Business Science (GIBS) and the Banking Development Programme for the Executives in Dublin, Ireland.

37.5 **TUMELO PITLO (BA Economics) (MSc Strategic Management) – Head of Global Markets and Treasury**

Tumelo has over 14 years' experience in the financial services industry. She previously held the position of Chief Dealer at BancABC Botswana. Tumelo started in the bank in 2005 as a Graduate Trainee and has progressed to the role of Chief Dealer Treasury.

Tumelo holds a BA in Economics degree and a Master of Science in Strategic Management degree from University of Botswana and Derby University, respectively.

37.6 **SEGAMETSI SETHANTSHO (Hons Financial Management) (MSc Leadership and Change Management) (BA Honours in Economics and Environmental Science) – Head of Credit**

Segametsi joined BancABC in August 2018 from Barclays Bank Botswana, where she previously held the role of Consumer Risk Director. Prior to this she was Head of Credit Origination. Segametsi started her career at Barclays as a Performance Analyst and was later promoted to Retail Manager and moved to Corporate Banking as a Corporate Relationship Manager. She then joined Stanbic Bank Botswana and held a few roles, including Credit Origination Manager.

37.7 **ITUMELENG MOREMONG (BA Economics) (MA Finance and Investments) – Head of Strategic Partnerships**

Itumeleng previously served as Acting Head of Retail Banking at BancABC Botswana, she has over 15 years' experience in the financial services industry. Mrs Moremong joined BancABC (when it was still African Banking Corporation Ltd) as a Dealer in 2002. She left the Bank four years later in 2006 to join First National Bank of Botswana as a Treasury Sales Executive and later moved to Standard Chartered Bank Botswana as Head of Financial Institutions. Before joining BancABC in 2002, Itumeleng worked for a year at a fund management outfit called Strategic Fixed Income in Virginia (USA) on their money market desk responsible for providing market analysis to the traders. She rejoined BancABC in 2011 as a Senior Relationship Manager in the Corporate Banking division before being elevated to the position of Country Manager (Schemes and Partnerships) in 2013.

Itumeleng holds Bachelors and Masters Degrees in Economics & Finance and Investments from West Virginia University (USA) and University of Exeter (UK), in 1998 and 2000, respectively.

37.8 **MOLEFE PETROS (BA Communication Design) (MSc Strategic Management) – Head of Information Technology**

Molefe previously served as Head of Innovation at Barclays Bank of Botswana. He has over 13 years' experience in the financial services industry. Petros has experience in IT Governance, Customer Relationship Management, Telecommunications Technologies, Service Level Management and Banking Platforms. He has worked for Barclays Bank Botswana, Bayport and NACA. Petros was the Lead Systems Developer-Data Generale (Australia), Telecommunications Consultant-Telefocus (Australia). He was the Head of Innovation, CIO, IT Manager, IT Applications Analyst and IT Systems Analyst and Informatics Specialist at Barclays Bank Botswana.

Molefe holds an MSc in Strategic Management from the University of Derby (UK) and a Degree in Communication Design (IT) from Queensland University of Technology (Australia) as has completed the Managers Development Programme from the University of Stellenbosch (SA).

38. **MANAGEMENT INCENTIVE PLAN**

The disclosure below is not intended to comply with Schedule 14 of the BSE Listings Requirements relating to "Requirements for executive and staff shares" and is provided for information purposes only.

The Company's key management personnel will be participants in a long-term performance driven incentive plan and up to 5 500 000 new shares of the Company may be issued as part of a management incentive plan ("MIP").

The Company will be pursuing a number of key growth initiatives in the near term and recognises that BancABC's management team is an integral part of successfully executing these growth initiatives. Accordingly, the Company is in the process of designing an appropriate MIP that is aligned to shareholders' objectives, which will be approved post the Listing with shareholders support. The MIP will be a market-related scheme that will look to award management with salaries, cash bonuses and share options or related share-based instruments subject to the achievement of the Company's key targets and performance parameters.

The Company has provided summary terms of the portion of the MIP insofar as it relates to shares in the Company, which is set out below:

| | |
|---|---|
| **Description** | Long-term incentive programme based on the principle of aligning shareholder interests and management decisions/performance in the short to long term. |
| **Participation group** | Senior management team responsible for delivering the Bank's growth strategy/key financial performance targets and select key talent in critical roles. |
| **Basis of award** | Achievement of the Bank's key targets and performance parameters, as set out from time to time, and as discussed in this investor document |
| **Award** | Share options or related share-based instruments. |
| **Award vesting period** | Appropriate vesting periods will be applied to all awards. |
| **Maximum cost to shareholder** | 0.75% of the post listing of shares over a period of 3 – 5 years. |
| **Approval** | All shareholders will be given an opportunity to vote on the implementation of the MIP, which will be effective post the listing. |

It is envisaged that the MIP will be tabled to Investors after the Listing Date and the Selling Shareholder and all Investors will be given the opportunity to vote on the management incentive programme.

## PART G: SHARE CAPITAL

39. **SHARE CAPITAL**

39.1 All of the issued shares in the Company are of the same class and rank *pari passu* in every respect.

39.2 None of the shares are listed on any stock exchange, other than on the BSE.

39.3 No issues or offers of securities of the Company and its subsidiaries have been made during the preceding three years.

39.4 On 23 February 2016, the following share transfers were made by the named nominee shareholders in favour of ABC Holdings Limited.

| Date transferred | Name of transferring shareholder | Name of transferee | Number of shares transferred |
|---|---|---|---|
| 23.02.2016 | Kurian Jitto | ABC Holdings Limited | 2 |
| 23.02.2016 | Moyo Bekithemba | ABC Holdings Limited | 1 |
| 23.02.2016 | Sibanda Joseph | ABC Holdings Limited | 1 |
| 23.02.2016 | Kudenga Ngoni | ABC Holdings Limited | 1 |
| 23.02.2016 | Monyatsi Douglas Tawanda | ABC Holdings Limited | 1 |

39.5 **Summary of any consolidations or sub-divisions**

The Selling Shareholder on 16 October 2018 by special resolution approved the sub-division of 29 000 000 ordinary shares into 25 shares and that such shares replace every ordinary share in the Company.

The number of ordinary shares in issue following the subdivision is currently 725 000 000.

39.6 **Voting rights**

In accordance with the Constitution, at any general meeting, upon a show of hands, every shareholder, present in person or by authorised representative or proxy shall have one vote but upon a poll every shareholders present or by authorised representative or proxy shall have one vote for every share held by them.

39.7 **Variation of rights attaching to shares**

The rights attaching to any class of shares may be, subject to the provisions of the Companies Act, be modified, abrogated or varied with the consent in writing of the holders of three-fourths of the issued shares of that class.

39.8 **Options or preferential rights in respect of shares**

There will be no contract or arrangement, either actual or proposed, whereby any option or preferential right of any kind has been given to any person to buy the shares. Further, no deferred shares have been awarded to founders of the Company or management.

39.9 **Offers to the public**

No offer has been made to the public for the sale of shares in the Company during any period preceding the date of the issue of this Pre-Listing Statement.

39.10 **Shares held by advisors and promoters**

None of the advisors set out in this Pre-Listing Statement, nor any of the promoters, save as disclosed elsewhere in the Pre-Listing Statement, hold any shares or have agreed to acquire any shares, as at the date of this Pre-Listing Statement.

## 40. INFORMATION ON SHAREHOLDING

### 40.1 Details of the controlling shareholder before the Offer

| Name | Country | Total shares | Percentage |
|---|---|---|---|
| ABC Holdings Limited | Botswana | 725 000 000 | 100 |

### 40.2 Details of any major shareholders before the Offer

The following shareholder held more than 5% or more of the issued shares in the Company prior to Listing:

| Name | Country | Total shares | Percentage |
|---|---|---|---|
| ABC Holdings Limited | Botswana | 725 000 000 | 100 |

### 40.3 Details of shareholding after the Offer

Assuming all the Offer Shares are applied for and 30% thereof are applied for by clients of the Sponsoring Broker and other brokers which are members of the public, the issued shares of the Company would be held as follows:

| Name | Total shares | Percentage |
|---|---|---|
| ABC Holdings Limited | 544 475 000 | 75.1 |
| Institutional investors | 126 367 500 | 17.4 |
| Other members of the public | 54 157 500 | 7.5 |
| **Total Issued Shares** | **725 000 000** | **100.0** |

### 40.4 Details of controlling shareholder after the Offer

ABC Holdings Limited will remain the controlling shareholder after the Offer:

| Name | Country | Total shares | Percentage |
|---|---|---|---|
| ABC Holdings Limited | Botswana | 544 475 000 | **75.1** |

## 41. ISSUED ORDINARY SHARES

Subject to the provisions of the Companies Act, the Constitution of the Company and the Listings Requirements, to the extent applicable, the shareholders may at a general meeting and by ordinary resolution, authorise the directors to issue Shares and/or give options to subscribe for unissued Shares. In the event of an issue of new Shares, these new Shares shall be offered to existing shareholders *pro rata* their existing shareholding unless the shareholders by ordinary resolution otherwise determine.

## 42. STATUS OF COMPANY

The Company was incorporated as private company under the name of UDC (Botswana) Proprietary Limited in June 1986. It subsequently changed its company name to ULC Proprietary Limited and then to African Banking Corporation of Botswana Limited. The Company converted into a public company in November 2002.

## 43. STATED CAPITAL

The Stated Capital of the Company as at the date of this Pre-Listing Statement is BWP 222 479 000.

The Company's Stated Capital effectively represents the total amounts received by it or due and payable by it in respect of its ordinary shares.

# PART H: OTHER INFORMATION

## 44. MATERIAL CONTRACTS

As at the date of this Pre-Listing Statement, other than the agreements set out in Annexures 7, 8 and 9, there are no material contracts other than those concluded in the ordinary course of the business carried or proposed to the carried on by the Company during the past three years preceding this Pre-Listing Statement save for the Intra Group Services Agreement entered into between the Company and ABCH Management Support Services Proprietary Limited ("ABCH MSS").

As is usual for company that is part of a group structure, the Bank has entered into an Intra Group Services Agreement with ABCH MSS to provide ongoing executive management services and shared support services to the Company. In the event that the Company requests ABCH MSS to provide services in terms of the agreement, the Company and ABCH MSS will mutually agree in writing on a fee for such agreed services, which will be calculated with reference to the costs incurred by ABCH MSS in relation to the services provided with an additional mark-up to be agreed on a periodic basis. The agreement is arm's-length and in accordance with the OECD principles on methods for pricing transactions within and between enterprises under common ownership or control. Executive management services may include, but are not limited to, strategy setting, marketing, business development, corporate finance origination, investor relations, operational management assistance and transaction assistance. Shared support services may include, but are not limited to, support on information technology, finance and tax, business operations, strategic consulting and legal support. Either party may terminate its participation in the agreement with respect to any one or more of the shared services or executive management services by giving at least 60 days' notice.

ABCH is in the process of formalising a new shared services cost model across the Group. Upon implementation, this shared services model will replace the Intra Group Services Agreement and is expected to result in a reduction of operating costs of the Company.

## 45. REGULATORY APPROVALS

The Company is a holder of a valid banking licence issued in terms of Section 3(1) of the Banking Act, [Cap 46:04], of the laws of Botswana. The Company is in good standing with Bank of Botswana.

The Company is a bank under the Banking Act and accordingly is subject to the Licensing Policy and the Directive on Significant Shareholding in Banks under the Banking Act. This means that firstly, prior written approval of the Central Bank is required for the holding, directly or indirectly, of shares equal to or exceeding 5% of the shares or the voting rights attached to the shares in a bank. In terms of the Directive on Significant Shareholding in Banks, within 90 days of receipt of a complete written application for authorisation to acquire a significant shareholding in a bank, the Central Bank will either grant or refuse to grant, written authorisation for the proposed acquisition. Although the Company has engaged the Central Bank to request dispensations from these requirements, there can be no assurance that such dispensations will be granted.

## 46. CONSENTS

To the extent that the sale of the Offer Shares by the Selling Shareholder represents a change of control in terms of a contract to which the Company is a party, and the consent of the counterparty to such change of control is necessary, the Company believes such consents will be forthcoming, prior to the date of Listing.

## 47. CORPORATE GOVERNANCE

Good corporate governance is the bedrock of the ATMA Group. The Company shall continue to place emphasis on a sound corporate governance framework through which its strategic objectives are set, and to achieving the highest standards of corporate governance. The Company's disclosure standards are regulated by the Companies Act and the Banking Act. The Board appreciates that effective corporate governance is the key driver to sustainability and acknowledges its responsibility in this regard, including its obligation to report openly on the stakeholders.

In this regard, as a subsidiary of a company listed on the LSE which is subject to the UK Corporate Governance Code, the Directors endeavour to align the company with the best practice in corporate governance and endorses the King Code on corporate governance, the Bank of Botswana guidelines, which seek to provide guidance on the provisions of the Banking Act, [Cap 46:04] and the Guidelines on

Corporate Governance issued by the BSE. The Directors strive to conduct the affairs of the Company with integrity in accordance with generally accepted corporate practices. The implications of the King 4 code on corporate governance are still being assessed.

The Board is, amongst other things, responsible and accountable for the performance and affairs of the Company and seeks to provide effective and ethical leadership. Specific responsibilities include:

- ensuring that the Company complies with applicable laws and regulations;
- discussing and regularly reviewing the Company's business and where necessary recommending adjustments for the Company to keep up with local market considerations;
- monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management;
- approving and upholding the Company's purpose, values and behaviours;
- engaging pro-actively with the Company's management to test, challenge, counsel and support management;
- overseeing the performance of management;
- providing challenges, counsel and support to management;
- receiving reports from management on matters pertaining to the Board and Board Committees agendas including governance, internal control, assurance, risk, capital management, business performance, resourcing, technology and to oversee the action taken by management; and
- testing, challenging and implementing controls, process and policies that enable risk to be assessed and managed.

47.1 **The Board Composition**

The Constitution of the Company provides for a minimum number of four Directors. As at the date of this Pre-Listing Statement, the Board of Directors consists of seven Directors, five of which are Independent and one Non-Executive. To this end the Board is satisfied that there is sufficient independence and objectivity in its decision-making.

47.2 **Board Meetings**

The Board meets at least quarterly and retains full responsibility for the strategic direction and control of the Company. Where appropriate, decisions are also taken by way of circulated resolutions.

47.3 **Board committees**

47.3.1 **Audit Committee**

The Audit Committee assists the Board in overseeing the systems of internal control and external financial reporting across the Company and the Company's subsidiaries. The Audit Committee performs its role by ensuring that:

(a) it monitors the integrity and financial statement of the Company including its annual and half-yearly reports, trading updates, interim management statements and any other formal announcements relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements having regard to matters communicated to the committee by the auditor;

(b) where requested by the Board, the contents of the annual report are reviewed and advice is given to the Board on whether, taken as a whole, the annual reports and accounts are fair, balanced, understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy;

(c) approve the appointment or termination of the head of internal audit; and

(d) consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor.

47.3.2 **Loans and Review Committee**

The Loans and Review Committee fulfils the role of assisting the Board with reviewing the Company's loan portfolio and making recommendations with regard thereto and ensures that:

(a) the lending portfolio and lending function conforms to the lending policy and with approved internal policies and applicable laws and regulations;

(b) it reviews and determines annually the maximum lending limits;

(c) it reviews and approves the Company's debt recovery strategies; and

(d) it reviews and recommends to the Board the lending strategies and policies, including but not limited to, commercial lending, lending and leasing, commercial real estate lending, consumer credit and mortgage lending policies including loan limits and classification of loans requiring Board or Loans and Review Committee approval.

47.3.3 **Remuneration and Nominations Committee**

The Remuneration and Nominations Committee gives advice to the Board on the remuneration of Executive Directors and makes recommendations on fees paid to Non-Executive Directors. The Remuneration and Nominations Committee is responsible for evaluation of the adequacy, effectiveness and appropriateness of reward and remuneration policies and ensures their alignment to best practice.

47.3.4 **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.

47.3.5 **Risk and Compliance Committee**

The Risk and Compliance Committee assists the Board in overseeing the systems of compliance policies and procedures across the Company and its subsidiaries and provides advice to the Board in respect of the Group's risk appetite, risk monitoring, capital management and compliance requirements. Further, the Risk and Compliance Committee is to provide oversight and advice on the current risk exposures and risk strategy and to assist the Board in monitoring and reviewing the effectiveness of the credit and risk functions in the context of the Company's overall risk management framework.

47.3.6 **Asset and Liability Committee**

The Asset and Liability Committee monitors the balance sheet management and concentration 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 on approved facilities; or

(d) unanticipated movement in exchange rates.

47.4 **Composition Board Committees**

47.4.1 **Remuneration and Nominations Committee** – Adams Chilisa Dambe (Chairperson), Lorato Mosetlhanyane and Beatrice Hamza Bassey.

47.4.2 **Loans Review Committee** – Joshua Galeforolwe (Chairperson), Adams Chilisa Dambe and Beatrice Hamza Bassey.

47.4.3 **Audit Committee** – Jacob Mooketsi Motlhabane (Chairperson), Adams Chilisa Dambe and Joshua Galeforolwe.

47.4.4 **Credit Committee** – Lorato Mosetlhanyane (Chairperson), Joshua Galeforolwe and Adams Chilisa Dambe.

47.4.5 **Risk and Compliance Committee** – Beatrice Hamza Bassey (Chairperson), Lorato Mosetlhanyane and Joshua Galeforolwe.

47.4.6 **Asset and Liability Committee** – Kgotso Bannalotlhe (Managing Director), Fortune Takaindisa (Head of Finance), Tumelo Pitlo (Head of Treasury), Mmoloki Ramaeba (Head of Commercial Banking), Grace Setlhare-Mankanku (Head of Retail), Segametsi Sethantsho (Head of Credit).

## 48. ADVISORS CONSENTS

The Legal Advisors, Finance Advisor and Bookrunner, Sponsoring Broker, Reporting Accountants, Auditors, Company Secretaries and Transfer Secretaries have not, prior to the issue of this Pre-Listing Statement withdrawn their written consent to the inclusion of their names in the capacities as stated and, where applicable, reports in the form and context in which they appear.

## 49. GENERAL

### 49.1 Directors' responsibility statement

Directors, whose names are given in section 18 of this Pre-Listing Statement collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts, and that the Pre-Listing Statement contains all information required by law.

The Directors confirm that the Pre-Listing Statement includes all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and of the rights attaching to the securities to which the Pre-Listing Statement relates.

### 49.2 Litigation

This section highlights only material litigation. BancABC together with, BancABC Zambia, Standard Chartered Bank of Botswana Limited and Standard Chartered Bank Johannesburg Branch ("the other defendants") are defendants to a dispute before the Gauteng High Court, which matter was instituted by Mapula Solutions Proprietary Limited ("Mapula Solutions"). The matter arose out of a Debt Restructuring Agreement, between Mapula Solutions and the defendants. Mapula Solutions is claiming an alleged breach of contract and damages in the sum of ZAR163 000 000 (One Hundred and Sixty Three Million Rand). Default judgement was initially granted against BancABC and the other defendants, but which was later overturned. The matter will proceed to trial on a date to be set by the High Court.

No provision has been made for the claim of Mapula Solutions as BancABC and other defendents are of the opinion that the claim is baseless.

Save for the aforementioned matter, there are no material litigation or arbitration matters which have taken place in the past three years, except for the debt recovery matters instituted by the Company.

### 49.3 Material lease payments and commitments

Details regarding the Company's material lease payments and commitments are set out in Annexure 8 to this Pre-Listing Statement.

### 49.4 Underwriting

As at the date of this Pre-Listing Statement, the Bookrunner had received Irrevocable Undertakings from institutional investors to purchase up to 138 615 547 Offer Shares and additional firm commitments from institutional investors to purchase up to 10 000 000 Offer Shares. These combined commitments, amounting to 148 615 547 Offer Shares, represent 82.3% of the Offer, subject to the Broker Placing and the final allocation of the Offer Shares.

### 49.5 Commission paid or payable

There has been no commission, discounts, brokerages or other special terms granted by the Company during the three years preceding the Pre-Listing Statement, in connection with the issue or sale of shares, where this has not been disclosed in the audited financial statements of the Company.

### 49.6 Preliminary expenses

Preliminary expenses related to the offer and the listing shares of the Company are estimated at approximately BWP 3 235 000 (excluding VAT) comprising payments relating to various services as set out below:

| | Fees (P) | VAT (P) | Total (BWP) |
|---|---|---|---|
| Legal Advisors to the Company | 600 000 | 72 000 | 672 000 |
| Sponsoring Broker | 75 000 | 9 000 | 84 000 |
| Auditors | 1 000 000 | 120 000 | 1 120 000 |
| BSE | 240 000 | 28 800 | 268 800 |
| Transfer Secretaries | 70 000 | 8 400 | 78 400 |
| Road Show Bookbuild | 150 000 | 18 000 | 168 000 |
| Printing of PLS | 100 000 | – | 100 000 |
| Contingency | 1 000 000 | 120 000 | 1 120 000 |
| **Total** | **3 235 000** | **376 200** | **3 611 200** |

The above fees are exclusive of VAT.

49.7 **Promoters Fees**

The Selling Shareholder will effect payment of commissions and fees agreed as between Selling Shareholder and the Sponsoring Broker to those parties.

The Company will not be liable to pay any such commissions.

49.8 **Property Acquired**

The Company has not acquired any property within the past three years preceding the date of this Pre-Listing Statement.

49.9 **Disposal of Property**

The Company has not disposed of any property during the past three years preceding the date of this Pre-Listing Statement.

## 50. DOCUMENTS AVAILABLE FOR INSPECTION

50.1 Copies of the following documents will be available for inspection at the registered office of the Company at any time during business hours on weekdays (excluding Botswana public holidays) from 6 November 2018 to 23 November 2018:

- Constitution of the Company;
- The written consent of the Independent Report Accountant as experts;
- The written consents of the Legal Advisor, Financial Advisor and Bookrunner, Sponsoring Broker, Company Secretary and Transfer Secretaries named in this PLS;
- Irrevocable Undertakings;
- The signed reports of the Independent Reporting Accountants;
- Annual financial statements of the Company for the years 2013, 2014, 2015, 2016 and 2017;
- Employment contracts of the Directors of the Company;
- Intragroup Services Agreement;
- The Agreements and Contracts the subject of Annexures 7, 8 and 9.

## 51. INSTRUCTIONS TO INVITEES OTHER THAN PLACES

If you wish to apply to be allotted and to purchase shares you should:

51.1 Complete the appropriate Application Form which is annexed hereto (for a company or an individual as is applicable to you);

51.2 Deliver the application form duly completed with payment of the price for the number of shares applied for to:

The Transfer Secretaries

"Banc ABC Share Offer"

| | |
|---|---|
| By hand to: | Acumen Park, Plot 50370 Fairgrounds, Gaborone |
| By post to: | PO Box 1157, Gaborone, Botswana |
| By fax to: | +267 397 2357 |
| By email to: | anjana.suresh@bw.gt.com |

to reach the addressee before 17:00 on 23 November 2018.

51.3 Your application to purchase shares in terms of the Application Form constitutes an unconditional, irrevocable offer by you to subscribe for any shares allocated to you by the Company at a price of BWP 2.00 per share. The number of shares that could be allocated to you will not be more than such number of shares applied for in terms of your Application Form.

51.4 The Selling Shareholder may reject your offer, or accept your offer in whole or in part.

51.5 The Company, as agent for the Selling Shareholder will indicate acceptance of your offer, and the number of shares allocated to you by email to you or your broker on or before 29 November 2018. The Company will, after receiving the Payment for the Purchased Shares upon the Listing, cause the Purchased Shares to be credited into CSDB.

51.6 Payment of the price due by you, being the number of shares applied for ("the Purchased Shares") multiplied by a price of BWP 2.00 per share allocated to you (the Price), is payable on delivery of the Application Form to your broker or, and which can be made (a) by cheque made in favour of BancABC Share Offer or (b) paid directly by electronic funds transfer to the Bank account details of which appear in the Application Form, without any deduction for bank charge, levy, commission, or the like, in BWP. You are to instruct your paying bank that there are to be no charges whatsoever to the beneficiary account. Quote Code:

Duly authorised to sign, for and on behalf of each of the Directors, on this 2nd day of November 2018.

**Lorato Mosetlhanyane**
**Capacity: Chairman**

**Kgotso Elvis Bannalotlhe**
**Capacity: Director**

Duly authorised to sign for and on behalf of the Selling Shareholder on this 2nd day of November 2018.

**Livingstone Takudzwa Gwata**
Chairman

**Tinotenda Gwendoline Muteiwa**
Director

# AUDITED HISTORICAL FINANCIAL INFORMATION OF BANCABC

The consolidated statements of financial position at 31 December 2017, 31 December 2016 and 31 December 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, together with the related accounting policies and notes, have been extracted from the audited consolidated financial statements of BancABC.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
for the years ended 31 December 2015 – 2017

| | | Consolidated | | |
|---|---|---|---|---|
| | **Notes** | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Interest and similar income | | 767 181 | 812 187 | 710 581 |
| Interest expense and similar charges | | (278 230) | (268 276) | (335 529) |
| **Net interest income** | **5** | **488 951** | **543 911** | **375 052** |
| Loan impairment charges | **6** | (48 697) | (74 899) | (5 518) |
| **Net interest income after loan impairment charges** | | **440 254** | **469 012** | **369 534** |
| Net trading income | **7** | 36 432 | 52 375 | 36 680 |
| Net fee and commission income | **8** | 76 476 | 87 183 | 111 003 |
| **Total net revenue** | | **553 162** | **608 570** | **517 217** |
| Personnel expenses | **9** | (126 598) | (112 054) | (98 851) |
| General and administrative expenses | **10** | (137 581) | (142 442) | (128 535) |
| Depreciation and amortisation expenses | **11** | (22 298) | (16 803) | (17 187) |
| Other operating expenses | **12** | (87 563) | (118 988) | (119 560) |
| **Total operating expenses** | | **(374 040)** | **(390 287)** | **(364 133)** |
| **Profit before tax** | | **179 122** | **218 283** | **153 084** |
| Income tax expense | **13** | (39 960) | (48 010) | (32 885) |
| **Profit for the year** | | **139 162** | **170 273** | **120 199** |
| **Other comprehensive income** | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | |
| Gain on revalution of property | | (1 500) | – | 2 822 |
| Deferred tax on gain/(loss) on revaluation of property | **13.4** | 330 | – | (620) |
| **Other comprehensive income for the year** | | **(1 170)** | **–** | **2 202** |
| **Total comprehensive income for the year** | | **137 992** | **170 273** | **122 401** |
| **Earnings per share** | | | | |
| Basic and diluted earnings per share (thebe) | **14** | 480 | 587 | 414 |

The notes on pages 57 to 108 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**
as at 31 December 2015 – 2017

| | | Consolidated | | |
|---|---|---|---|---|
| | **Notes** | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| **ASSETS** | | | | |
| Cash and balances with the Central Bank | **16** | 369 567 | 451 782 | 511 812 |
| Balances with other banks | **18** | 425 038 | 281 911 | 469 013 |
| Balances due from related parties | **17.1** | 628 403 | 658 694 | 617 225 |
| Derivative financial assets | **34** | 63 967 | 64 445 | 406 |
| Financial assets held for trading | **19** | 632 673 | 1 027 132 | 518 904 |
| Loans and advances to customers | **20** | 5 795 372 | 5 678 033 | 5 715 399 |
| Other assets | **21** | 37 305 | 12 896 | 23 209 |
| Current tax assets | **27.1** | 17 020 | 3 003 | 425 |
| Deferred tax asset | **27.2** | – | 3 735 | 3 936 |
| Intangible assets | **28** | 90 341 | 59 126 | 17 887 |
| Property and equipment | **29** | 68 033 | 76 848 | 84 610 |
| **Total assets** | | **8 127 719** | **8 317 605** | **7 962 826** |
| **LIABILITIES** | | | | |
| Deposits from banks | **22** | 130 703 | 97 599 | 379 660 |
| Deposits from customers | **22** | 6 059 935 | 6 771 611 | 6 214 222 |
| Derivative financial liabilities | **34** | 61 577 | 61 510 | 680 |
| Balances due to related parties | **17.2** | 32 686 | 109 542 | 307 734 |
| Other liabilities | **26** | 79 707 | 53 227 | 68 291 |
| Deferred tax liabilities | **27.2** | 13 900 | – | – |
| Borrowed funds | **23** | 683 906 | 296 803 | 235 199 |
| **Total liabilities** | | **7 062 414** | **7 390 292** | **7 205 786** |
| **EQUITY** | | | | |
| Stated capital | **24** | 222 479 | 222 479 | 222 479 |
| Retained earnings | **25.3** | 831 753 | 692 591 | 522 318 |
| Revaluation reserve | **25.2** | 4 982 | 6 152 | 6 152 |
| Other reserves | **25.1** | 6 091 | 6 091 | 6 091 |
| **Total equity** | | **1 065 305** | **927 313** | **757 040** |
| **Total equity and liabilities** | | **8 127 719** | **8 317 605** | **7 962 826** |

The notes on pages 57 to 108 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**
for the years ended 31 December 2015 – 2017

| | | Consolidated | | | | |
|---|---|---|---|---|---|---|
| | **Notes** | **Stated capital** | **Other reserves** | **Revaluation reserve** | **Retained earnings** | **Total P'000** |
| **At 1 January 2015** | | **222 479** | **6 091** | **3 950** | **402 119** | **634 639** |
| Profit for the year | | – | – | – | 120 199 | 120 199 |
| **Other comprehensive income** | | | | | | |
| Gain on revaluation of property | **25.2** | – | – | 2 822 | – | 2 822 |
| Deferred tax gain on revaluation of property | **25.2** | – | – | (620) | – | (620) |
| **Total comprehensive income** | | **–** | **–** | **2 202** | **120 199** | **122 401** |
| **At 31 December 2015** | | **222 479** | **6 091** | **6 152** | **522 318** | **757 040** |
| **At 1 January 2016** | | **222 479** | **6 091** | **6 152** | **522 318** | **757 040** |
| Profit for the year | | – | – | – | 170 273 | 170 273 |
| **Total comprehensive income** | | **–** | **–** | **–** | **170 273** | **170 273** |
| **At 31 December 2016** | | **222 479** | **6 091** | **6 152** | **692 591** | **927 313** |
| **At 1 January 2017** | | **222 479** | **6 091** | **6 152** | **692 591** | **927 313** |
| Profit for the year | | – | – | – | 139 162 | 139 162 |
| Revaluation of land and buildings | **25.2** | – | – | (1 500) | – | (1 500) |
| Deferred tax on revaluation | **25.2** | – | – | 330 | – | 330 |
| **Total comprehensive income** | | **–** | **–** | **(1 170)** | **139 162** | **137 992** |
| **At 31 December 2017** | | **222 479** | **6 091** | **4 982** | **831 753** | **1 065 305** |

## STATEMENT OF CASH FLOWS

for the years ended 31 December 2015 – 2017

| | Notes | Consolidated 2017 P'000 | 2016 P'000 | 2015 P'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | 179 122 | 218 283 | 153 084 |
| **Adjusted for:** | | | | |
| Depreciation | **29** | 12 074 | 11 910 | 12 347 |
| Amortisation of intangible assets | **28** | 10 224 | 4 893 | 4 840 |
| Loan impairment charges | **6** | 48 697 | 74 899 | 5 518 |
| Profit on disposal of fixed assets | | (5) | – | (167) |
| Fair value adjustment on derivatives | | 545 | (3 209) | – |
| Movement in deferred lease liability | | 2 698 | – | – |
| Tax paid | **27.1** | (36 012) | (50 387) | (29 900) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **217 343** | **256 389** | **145 722** |
| **Movement in operating assets/liabilities:** | | | | |
| Loans and advances to customers | | (166 036) | (37 532) | (1 742 740) |
| Other assets | | (245 770) | (122 485) | 181 614 |
| Deposits from customers and banks | | (678 572) | 275 328 | 1 235 467 |
| Other liabilities | | (53 074) | (149 217) | 321 233 |
| **Net cash from operating activities** | | **(926 109)** | **222 483** | **141 296** |
| **Cash flows from investing activities** | | | | |
| Purchase of property and equipment | **29** | (4 759) | (4 148) | (15 322) |
| Proceed from disposal of property and equipment | | 5 | – | 167 |
| Purchase of intangibles assets | **28** | (41 439) | (46 132) | (5 272) |
| **Net cash used in investing activities** | | **(46 193)** | **(50 280)** | **(20 427)** |
| **Cash flows from financing activities** | | | | |
| New borrowed funds | | 396 236 | 67 386 | 94 515 |
| Repayments on borrowed funds | | (9 133) | (5 782) | (1 547) |
| **Net cash from financing activities** | | **387 103** | **61 604** | **92 968** |
| Net (decrease) increase in cash and cash equivalents | | (585 199) | 233 807 | 213 837 |
| Cash and cash equivalents at beginning of year | | 1 459 234 | 1 225 427 | 1 011 590 |
| **Cash and cash equivalents at end of year** | | **874 035** | **1 459 234** | **1 225 427** |
| **Cash and cash equivalents comprised of:** | | | | |
| Balances with other banks | **18** | 425 038 | 281 911 | 469 013 |
| Financial assets | **19.1** | 368 830 | 1 027 132 | 518 904 |
| Cash and balances with the Central Bank | **16** | 80 167 | 150 191 | 237 510 |
| | | **874 035** | **1 459 234** | **1 225 427** |

The notes on pages 57 to 108 are an integral part of these financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the years ended 31 December 2015 – 2017

### GENERAL INFORMATION

African Banking Corporation of Botswana Limited (trading as BancABC) provides corporate banking, retail and investment banking services. 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 Proprietary Limited 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. The ultimate holding company is Atlas Mara Co-Nvest Limited incorporated in the British Virgin Islands and assumed control of ABC Holdings on 31 August 2014.

### 1. BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the manner required by the Banking Act (Cap 46:04). The financial statements have been prepared under the historical cost convention for all years presented unless otherwise stated, except for held for trading financial assets measured at fair value and 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 financial statements comprise the statement of profit or loss and comprehensive income showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumption and estimates are significant to the financial statement are disclosed. Refer to note 4.

#### 1.1 Standards and Interpretations in issue but not yet effective:

The Directors are of the opinion that the impact of the *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2),IFRS 4 Insurance Contracts (Amendments to IFRS 4), Transfers of Investment property (Amendments to IAS 40), IFRS 15 Revenue from Contracts with Customers, Classification and Measurement of Share-based Payment Transactions (Ammendments to IFRS 2), IFRIC 22 Foreign Currency Transactions and Advance Considerations, Prepayment Features with Negative Compensation* (Ammendments to IFRS 9), *Long-term Interests in Associates and Joint Ventures* (Ammendment to IAS 28) and *IFRS 17 Insurance Contracts* are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

**IFRS 16 Leases**

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

**IFRS 9 Financial Instruments**

On 24 July 2014, the IASB issued the final IFRS 9 (Financial Instruments Standard), which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 (Financial Instruments: Recognition and Measurement). This standard will have a significant impact on the group, which will include changes in the measurement bases of the group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The group has an ongoing project to prepare for adoption.

*Refer to page 107 for disclosures on the impact of IFRS 9.*

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

**IFRS 15 Revenue from contracts with customers**

This standard replaces IAS 11 (*Construction Contracts*), IAS 18 (*Revenue*), IFRIC 13 (*Customer Loyalty Programmes*), IFRS 15(*Agreements for the Construction of Real Estate*), IFRIC 18 (*Transfer of Assets from Customers*) and SIC-31 (*Revenue – Barter of Transactions Involving Advertising Services*). The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group did not opt for early adoption.

**IFRS 16 Leases**

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lesees and lessors.

The Group will begin assessing the potential impact of IFRS 16 on the financial statements during the year 2018. The standard is effective for annual periods on or later than 1 January 2019.

**IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements. IFRIC 23 does not introduce any new disclosures but reinforce the need to comply with existing disclosure requirements about: judgements made, assumptions and other estimates used; and the potential impact of uncertainties that are not reflected. The standard applies to annual periods beginning on or after 1 January 2019, therefore will not have a significant impact on the Group's financial statements.

1.2 **(c) Early adoption of standards**

The Group did not early-adopt new or amended standards in 2017.

## 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 **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.

2.2 **Foreign currency transactions**

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

2.3 **Financial instruments**

**Classification of financial assets**

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. The fair value designation, once made, is irrevocable. Subsequent to the initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes therein are recognised in profit or

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

loss for all dated financial assets and in non interest revenue for all undated financial assets. Financial assets at fair value through profit and loss are measured at initial recognition and subsequently at fair value based on quoted market price using the bid/offer mid rate at the reporting date. If there is no quoted market price in an active market, the instruments are measured using valuation models. All changes in fair value are recognised in the profit or loss.

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

Financial instruments, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

(b) **Loans and receivables**

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

Loans and advances are accounted for on an amortised cost basis using the effective interest method. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's advances are included in the loans and receivables category. They are stated net of allowances for specific and portfolio impairment.

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

(c) **Cash and cash equivalents**

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

(d) **Other assets**

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

(e) **Offsetting financial instruments**

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

(f) **Derivative financial assets and liabilities**

A derivative is a financial instrument with the following characteristics:

– Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable;

(f) **Derivative financial assets and liabilities (continued)**

- It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date. Derivatives are normally recorded in the statement of financial position at fair value with any changes in value reported in profit or loss.

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

2.3.1 **Fair value**

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

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

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

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.2 **Impairment of financial assets**

(a) **Assets carried at amortised cost**

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

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

2.3 **Financial instruments (continued)**

2.3.2 **Impairment of financial assets (continued)**

(a) **Assets carried at amortised cost (continued)**

– Delinquency in contractual payments of principal or interest;

– Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);

– Breach of loan covenants or conditions;

– Initiation of bankruptcy proceedings;

– Deterioration of the borrower's competitive position;

– Deterioration in the value of collateral.

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss in loan impairment charges.

(c) **Available for sale assets**

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

(d) **Renegotiated loans**

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

2.3.3 **Financial liabilities**

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

2.4 **Interest income and expense**

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

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

2.5 **Fee and commission income**

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

2.6 **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.

**Deferred tax**

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

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

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

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

**Deferred tax (continued)**

Deferred taxation is not recognised when it arises from:

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

2.7 **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 | Shorter of estimated life or period of lease |
| – Motor vehicles | 5 – 6 years |
| – Furniture | 10 years |
| – Office equipment | 5 years |
| – Computer equipment | 3 – 4 years |

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

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

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

2.8 **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.

2.9 **Impairment of non-financial assets**

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

## 2.10 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.

## 2.11 Provisions

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

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

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

## 2.12 Financial guarantee contracts

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

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

Any increase in the liability relating to guarantees is taken to profit or loss under other operating expenses.

## 2.13 Employee benefits

### (a) Defined Contribution plans

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

### (b) Other short term employee benefits

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

The Group assists officers and employees in respect of housing, motor vehicles and personal loans at subsidised rates as part of their remuneration package.

## 2.14 Stated capital

### Share issue costs

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

### Dividends on ordinary shares

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

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

2.15 **Lease agreements**

**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.

2.16 **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.

2.17 **Other liabilities**

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

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.

**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.

## 3.1 Credit risk

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

**Risk limit control and mitigation policies**

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

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

Some specific control and mitigation measures are outlined below.

(a) **Collateral**

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

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

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

(b) **Credit related commitments**

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

(b) **Credit related commitments (continued)**

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

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Balances with other banks | 425 038 | 281 911 | 469 013 |
| Financial assets held for trading | 632 673 | 1 027 132 | 518 904 |
| Balances with Central Bank | 369 567 | 451 782 | 511 812 |
| Amounts due from related parties | 628 403 | 658 694 | 617 225 |
| **Loans and advances to customers** | **5 899 757** | **5 828 210** | **5 842 676** |
| Mortgage lending | 561 091 | 470 443 | 374 631 |
| Instalment finance | 40 609 | 46 140 | 79 297 |
| Corporate lending | 865 636 | 995 571 | 999 985 |
| Commercial and property finance | 424 | 34 815 | 103 025 |
| Retail and SME lending | 4 431 997 | 4 281 241 | 4 285 738 |
| **Maximum exposure** | **7 955 438** | **8 247 729** | **7 959 630** |
| **Credit exposures relating to off-balance sheet items are as follows:** | | | |
| Financial guarantees | 149 851 | 28 374 | 33 951 |
| Loan commitments and other credit related liabilities | 588 592 | 191 199 | 483 526 |
| | **738 443** | **219 573** | **517 477** |

3.1.1 **Credit quality of the loan book – Internal rating**

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Performing | 5 571 659 | 5 338 565 | 5 591 289 |
| Special mention | 114 461 | 243 986 | 59 753 |
| Sub-standard | 74 401 | 59 298 | 56 697 |
| Doubtful | 50 357 | 51 827 | 34 877 |
| Loss | 88 879 | 134 534 | 100 060 |
| | **5 899 757** | **5 828 210** | **5 842 676** |

**Internal rating of loans and advances**

Loan books are rated as explained below.

| Category | Description | Objective criteria |
|---|---|---|
| Performing | No evident weakness. | Performing according to contractual terms. |
| Special mention | Exhibits potential weakness. | In arrears for more than 30 days but less than 90 days. |
| Sub-standard | Untimely repayment. | In arrears for more than 90 days but less than 180 days. |
| Doubtful | Settlement highly improbable. | Non-performing credit facilities on which any amount due remains unpaid more than 180 days but less than 12 months. |
| Loss | Collection not possible. | Non-performing credit facilities on which any amount due remains unpaid for more than 12 months, including initiation of bankruptcy proceedings and deterioration in collateral value. |

The Group's policy requires the review of individual financial assets at least once a month or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for the individual account. Collectively assessed impairment allowances are provided for (i) portfolios of homogeneous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but not yet identified, by using the available historical experience, experienced judgment and statistical techniques.

3.1.2 **Loans and advances by credit quality**

The impairment provision shown in the statement of financial position at reporting date is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the loss category. The table shows the percentage of the Group's statement of financial position items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories. Impairment on performing loans represents portfolio impairment assessment.

**Distribution of loans and advances by credit quality**

| | **Consolidated** | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Neither past due nor impaired | 5 571 659 | 5 338 565 | 5 591 289 |
| Past due but not impaired | 114 461 | 243 986 | 59 753 |
| Individually impaired | 213 637 | 245 659 | 191 634 |
| Gross loans and advances | **5 899 757** | **5 828 210** | **5 842 676** |
| Less: Unearned fee income | (10 304) | (10 004) | (12 197) |
| **Net loans and advances after unearned fee income** | **5 889 453** | **5 818 206** | **5 830 479** |
| Less: allowance for impairment | (94 081) | (140 173) | (115 080) |
| **Net loans and advances after allowance for impairments** | **5 795 372** | **5 678 033** | **5 715 399** |

(a) **Distribution of loans and advances neither past due nor impaired**

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

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| **Internal grade: Performing** | | | |
| Mortgage lending | 501 695 | 428 666 | 360 780 |
| Instalment finance | 33 554 | 29 131 | 57 458 |
| Corporate lending | 813 731 | 814 027 | 975 770 |
| Commercial and property finance | 423 | 34 464 | 74 026 |
| Retail and SME lending | 4 222 256 | 4 032 277 | 4 123 255 |
| **Total** | **5 571 659** | **5 338 565** | **5 591 289** |

(b) **Loans and advances past due but not impaired**

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

**Loans and advances past due but not impaired: by class**

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| **Internal Grade: Special Mention** | | | |
| Instalment finance | 1 450 | 5 250 | 2 090 |
| Corporate lending | 21 498 | 145 313 | 2 640 |
| Retail and SME lending | 65 660 | 77 053 | 47 572 |
| Mortgage lending | 25 853 | 16 370 | 7 451 |
| **Total** | **114 461** | **243 986** | **59 753** |

(c) **Loans and advances individually impaired**

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

| | Consolidated | | |
|---|---|---|---|
| | **Gross loans P'000** | **Fair value of collateral P'000** | **Exposure P'000** |
| **As at 31 December 2017** | | | |
| Mortgage lending | 30 096 | 32 283 | (2 187) |
| Instalment finance | 5 604 | 4 393 | 1 211 |
| Corporate lending | 30 408 | 90 632 | (60 224) |
| Retail and SME lending | 147 529 | 13 092 | 134 437 |
| **Total** | **213 637** | **140 400** | **73 237** |
| **As at 31 December 2016** | | | |
| Mortgage lending | 25 407 | 23 691 | 1 716 |
| Instalment finance | 11 759 | 8 521 | 3 238 |
| Corporate lending | 35 897 | 93 935 | (58 038) |
| Retail and SME lending | 172 245 | 53 275 | 118 970 |
| Commercial and property finance | 351 | 1 426 | (1 075) |
| **Total** | **245 659** | **180 848** | **64 811** |
| **As at 31 December 2015** | | | |
| Mortgage lending | 6 400 | 6 400 | – |
| Instalment finance | 19 749 | 10 946 | 8 803 |
| Corporate lending | 50 574 | 43 199 | 7 375 |
| Retail and SME lending | 114 911 | 41 447 | 73 464 |
| **Total** | **191 634** | **101 992** | **89 642** |

(d) **Loans and advances renegotiated**

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.

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

**The carrying amount of renegotiated loans is as follows:**

| | **Consolidated** | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Retail and SME lending | 22 629 | 1 593 | 14 260 |
| Corporate lending | 22 976 | – | – |
| **Total loans and advances** | **45 605** | **1 593** | **14 260** |

3.1.3 **Repossessed collateral**

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

| | **Consolidated** | | |
|---|---|---|---|
| **Nature of assets** | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Property | 12 573 | 10 597 | 11 903 |
| Motor vehicles | 3 363 | 2 652 | 487 |
| | **15 936** | **13 249** | **12 390** |

3.1.4 **Impaired customer loans and impairment allowance by geographical region**

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

| | **Consolidated** | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | **2016** | | **2015** | |
| | **Impaired loans P'000** | **Allowance P'000** | **Impaired loans P'000** | **Allowance P'000** | **Impaired loans P'000** | **Allowance P'000** |
| Botswana | 213 637 | 94 081 | 245 526 | 114 283 | 191 493 | 92 621 |
| Zimbabwe | – | – | 116 | 116 | 123 | 123 |
| South Africa | – | – | 17 | 17 | 18 | 18 |
| | **213 637** | **94 081** | **245 659** | **114 416** | **191 634** | **92 762** |

3.1.5 **Loans and advances by industry sectors**

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

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Agriculture | 103 012 | 134 914 | 68 247 |
| Construction | 46 147 | 69 052 | 33 156 |
| Wholesale, retail and trade | 318 622 | 468 806 | 444 773 |
| Manufacturing | 9 583 | 18 805 | 96 548 |
| Mining and energy | 795 | 17 | 4 495 |
| Financial services | 263 495 | 223 386 | 304 426 |
| Transport | 7 442 | 17 151 | 42 852 |
| Real estate | 119 257 | 202 091 | 213 997 |
| Individuals | 4 990 921 | 4 668 088 | 4 500 387 |
| Tourism | 14 700 | 1 462 | 44 566 |
| Other | 25 783 | 24 438 | 89 229 |
| **Total** | **5 899 757** | **5 828 210** | **5 842 676** |

3.1.6 **Collateral and other credit enhancements obtained**

The following table analyses the collateral and other credit enhancements obtained by the bank.

| | Consolidated | | |
|---|---|---|---|
| **Nature of assets** | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Deposits from customers | 6 717 | 7 630 | 16 200 |
| Mortgage, bonds, inventory, plant and equipment | 1 600 320 | 1 284 756 | 1 273 971 |
| | **1 607 037** | **1 292 386** | **1 290 171** |

3.1.7 **Age analysis of loans and advances**

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

**31 December 2017**

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

3.1.7 **Age analysis of loans and advances (continued)**

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2016** | **Neither past due nor impaired P'000** | **1 to 30 days P'000** | **31 to 60 days P'000** | **61 to 90 days P'000** | **Individually impaired P'000** | **Total P'000** |
| Mortgage lending | 428 666 | – | – | 16 370 | 25 407 | 470 443 |
| Instalment finance | 29 131 | – | – | 5 250 | 11 759 | 46 140 |
| Corporate lending | 814 027 | 17 614 | – | 127 699 | 35 897 | 995 237 |
| Commercial and property finance | 34 464 | – | – | – | 351 | 34 815 |
| Retail and SME lending | 4 032 277 | – | 312 | 76 741 | 172 245 | 4 281 575 |
| **Total** | **5 338 565** | **17 614** | **312** | **226 060** | **245 659** | **5 828 210** |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2015** | **Neither past due nor impaired P'000** | **1 to 30 days P'000** | **31 to 60 days P'000** | **61 to 90 days P'000** | **Individually impaired P'000** | **Total P'000** |
| Mortgage lending | 360 780 | 1 336 | 4 799 | 1 316 | 6 400 | 374 631 |
| Instalment finance | 57 458 | 1 800 | 193 | 97 | 19 749 | 79 297 |
| Corporate lending | 975 770 | 2 349 | 291 | – | 21 575 | 999 985 |
| Commercial and property finance | 74 026 | – | – | – | 28 999 | 103 025 |
| Retail and SME lending | 4 123 255 | 15 753 | 19 495 | 12 324 | 114 911 | 4 285 738 |
| **Total** | **5 591 289** | **21 238** | **24 778** | **13 737** | **191 634** | **5 842 676** |

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 the concentration and profile of debt maturities.

3.2 **Liquidity risk (continued)**

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.

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

**Maturity analysis based on contractually undiscounted amounts**

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

**Consolidated**
**Non-derivative cash flows**

| **31 December 2017 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 | 369 567 | – | – | – | 369 567 | – | 369 567 |
| Balances due from related parties (receivables) | 357 566 | 324 708 | – | – | 682 274 | (53 871) | 628 403 |
| Balances with other banks | 425 038 | – | – | – | 425 038 | – | 425 038 |
| Financial assets held for trading | 392 306 | – | 248 250 | 15 593 | 656 149 | (23 476) | 632 673 |
| Loans and advances to customers | 478 162 | 1 214 805 | 2 669 288 | 5 011 945 | 9 374 200 | (3 578 830) | 5 795 372 |
| **Total** | **2 022 639** | **1 539 513** | **2 917 538** | **5 027 538** | **11 507 228** | **(3 656 177)** | **7 851 053** |
| **Liabilities** | | | | | | | |
| Deposits from banks | 130 703 | – | – | – | 130 703 | – | 130 703 |
| Deposits from customers | 2 591 023 | 1 985 276 | 1 454 615 | 91 076 | 6 121 990 | (62 055) | 6 059 935 |
| Borrowed funds | 150 | 5 087 | 420 546 | 333 383 | 761 939 | (78 033) | 683 906 |
| Balances due to related parties | 33 545 | – | – | – | 33 545 | (859) | 32 686 |
| Other liabilities | 79 707 | – | – | – | 79 707 | – | 79 707 |
| **Total** | **2 835 128** | **1 990 363** | **1 875 161** | **424 459** | **7 127 884** | **(140 947)** | **6 986 937** |

## 3.2 Liquidity risk (continued)

### Maturity analysis based on contractually undiscounted amounts (continued)

**Consolidated non-derivative cash flows**

| 31 December 2016<br>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 | 451 782 | – | – | – | 451 782 | – | 451 782 |
| Balances due from related parties (receivables) | 661 223 | – | – | 53 939 | 715 162 | (56 468) | 658 694 |
| Balances with other banks | 281 911 | – | – | – | 281 911 | – | 281 911 |
| Financial assets held for trading | 1 028 380 | – | – | – | 1 028 380 | (1 248) | 1 027 132 |
| Loans and advances to customers | 90 900 | 7 822 | 158 458 | 9 033 805 | 9 290 985 | (3 612 952) | 5 678 033 |
| **Total** | **2 514 196** | **7 822** | **158 458** | **9 087 744** | **11 768 220** | **(3 670 668)** | **8 097 552** |
| **Liabilities** | | | | | | | |
| Deposits from banks | 97 599 | – | – | – | 97 599 | – | 97 599 |
| Deposits from customers | 2 454 406 | 2 831 927 | 1 343 453 | 197 308 | 6 827 094 | (55 483) | 6 771 611 |
| Borrowed funds | 150 | 504 | 1 637 | 328 377 | 330 668 | (33 865) | 296 803 |
| Balances due to related parties | 31 275 | – | – | 81 145 | 112 420 | (2 878) | 109 542 |
| Other liabilities | 53 227 | – | – | – | 53 227 | – | 53 227 |
| **Total** | **2 636 657** | **2 832 431** | **1 345 090** | **606 830** | **7 421 008** | **(92 226)** | **7 328 782** |

**Consolidated**
**Non-derivative cash flows**

| 31 December 2015<br>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 | 511 812 | – | – | – | 511 812 | – | 511 812 |
| Balances due from related parties (receivables) | 622 620 | – | – | – | 622 620 | (5 395) | 617 225 |
| Balances with other banks | 469 013 | – | – | – | 469 013 | – | 469 013 |
| Financial assets held for trading | 150 | 520 060 | – | – | 520 210 | (1 306) | 518 904 |
| Loans and advances to customers | 312 425 | 300 169 | 756 406 | 6 701 958 | 8 070 958 | (2 355 559) | 5 715 399 |
| **Total** | **1 916 020** | **820 229** | **756 406** | **6 701 958** | **10 194 613** | **(2 362 260)** | **7 832 353** |
| **Liabilities** | | | | | | | |
| Deposits from banks | 382 437 | – | – | – | 382 437 | (2 777) | 379 660 |
| Deposits from customers | 2 841 323 | 1 298 638 | 2 119 026 | 694 | 6 259 681 | (45 459) | 6 214 222 |
| Borrowed funds | 218 | 656 | 6 405 | 253 513 | 260 792 | (25 593) | 235 199 |
| Balances due to related parties | 307 753 | 58 | 153 | 2 460 | 310 424 | (2 690) | 307 734 |
| Other liabilities | – | 41 117 | – | 27 174 | 68 291 | – | 68 291 |
| **Total** | **3 531 731** | **1 340 469** | **2 125 584** | **283 841** | **7 281 625** | **(76 519)** | **7 205 106** |

**Off balance sheet items**

(a) **Loan commitments**

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

(b) **Financial guarantees and other financial facilities**

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

(c) **Operating lease commitments**

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

(d) **Capital commitments**

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

**Consolidated**

| 31 December 2017 | 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 | 149 851 | 33 152 | 105 652 | 11 047 |
| Operating lease commitments | 32 625 | 8 926 | 23 699 | – |
| Capital commitments | 35 647 | 35 647 | – | – |
| Loan commitments and other credit related liabilities | 588 591 | 471 184 | 117 407 | – |
| **Total** | **806 714** | **548 909** | **246 758** | **11 047** |

**Consolidated**

| 31 December 2016 | 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 | 28 374 | 15 018 | 13 356 | – |
| Operating lease commitments | 16 505 | 6 307 | 10 198 | – |
| Capital commitments | 29 651 | 29 651 | – | - |
| Loan commitments and other credit related liabilities | 191 199 | 191 199 | – | – |
| **Total** | **265 729** | **242 175** | **23 554** | **–** |

**Consolidated**

| 31 December 2015 | 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 | 33 951 | 33 951 | – | – |
| Operating lease commitments | 16 423 | 6 380 | 10 043 | – |
| Capital commitments | 61 422 | 61 422 | – | – |
| Loan commitments and other credit related liabilities | 483 526 | 422 233 | 61 293 | – |
| **Total** | **595 322** | **523 986** | **71 336** | **–** |

### 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 2017 | Up to 1 month P'000 | 1 – 3 months P'000 | 3 – 12 months P'000 | Greater than 1 year P'000 | Total P'000 |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 369 567 | – | – | – | 369 567 |
| Balances with other banks | 425 038 | – | – | – | 425 038 |
| Balances due from related parties | 329 334 | 299 069 | – | – | 628 403 |
| Derivative financial assets | – | – | – | 63 967 | 63 967 |
| Financial assets held for trading | 149 762 | 219 068 | 248 250 | 15 593 | 632 673 |
| Loans and advances to customers | 412 434 | 114 380 | 256 611 | 5 011 947 | 5 795 372 |
| Other assets | 37 305 | – | – | – | 37 305 |
| Current income tax assets | – | – | 17 020 | – | 17 020 |
| Intangible assets | – | – | – | 90 341 | 90 341 |
| Property and equipment | – | – | – | 68 033 | 68 033 |
| **Total assets** | **1 723 440** | **632 517** | **521 881** | **5 249 881** | **8 127 719** |
| Deposits from banks | 130 703 | – | – | – | 130 703 |
| Derivative financial liabilities | 1 322 | – | – | 60 255 | 61 577 |
| Deposits from customers | 2 589 633 | 1 970 031 | 1 417 580 | 82 691 | 6 059 935 |
| Balances due to related parties | 6 312 | 19 729 | – | 6 645 | 32 686 |
| Borrowed funds | 151 | 5 087 | 26 644 | 652 024 | 683 906 |
| Other liabilities | 79 707 | – | – | – | 79 707 |
| Deferred tax liabilities | – | – | 13 900 | – | 13 900 |
| **Total liabilities** | **2 807 828** | **1 994 847** | **1 458 124** | **801 615** | **7 062 414** |
| **Net maturity gap 31 December 2017** | **(1 084 388)** | **(1 362 330)** | **(936 243)** | **4 448 266** | **1 065 305** |

**Consolidated**

| As at 31 December 2016 | 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 | 451 782 | – | – | – | 451 782 |
| Balances with other banks | 281 911 | – | – | – | 281 911 |
| Balances due from related parties | 658 694 | – | – | – | 658 694 |
| Derivative financial assets | 215 | – | – | 64 230 | 64 445 |
| Financial assets held for trading | 1 027 132 | – | – | – | 1 027 132 |
| Loans and advances to customers | 90 900 | 7 822 | 158 458 | 5 420 853 | 5 678 033 |
| Other assets | 12 896 | | – | – | 12 896 |
| Current income tax assets | – | 3 003 | – | – | 3 003 |
| Deferred tax asset | – | – | 3 735 | – | 3 735 |
| Intangible assets | – | – | – | 59 126 | 59 126 |
| Property and equipment | – | – | – | 76 848 | 76 848 |
| **Total assets** | **2 523 530** | **10 825** | **162 193** | **5 621 057** | **8 317 605** |
| Deposits from banks | 97 599 | – | – | – | 97 599 |
| Derivative financial liabilities | 393 | – | – | 61 117 | 61 510 |
| Deposits from customers | 2 552 005 | 2 831 927 | 1 343 453 | 44 226 | 6 771 611 |
| Balances due to related parties | 28 397 | – | – | 81 145 | 109 542 |
| Borrowed funds | 150 | 504 | 1 637 | 294 512 | 296 803 |
| Other liabilities | 53 227 | – | – | – | 53 227 |
| **Total liabilities** | **2 731 771** | **2 832 431** | **1 345 090** | **481 000** | **7 390 292** |
| **Net maturity gap 31 December 2016** | **(208 241)** | **(2 821 606)** | **(1 182 897)** | **5 140 057** | **927 313** |

## 3.2 Liquidity risk (continued)

**Consolidated**

| As at 31 December 2015 | 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 | 511 812 | – | – | – | 511 812 |
| Balances with other banks | 469 013 | – | – | – | 469 013 |
| Balances due from related parties | 617 225 | – | – | – | 617 225 |
| Derivative financial assets | 406 | – | – | – | 406 |
| Financial assets held for trading | 150 | 518 754 | – | – | 518 904 |
| Loans and advances to customers | 312 425 | 112 924 | 231 933 | 5 058 117 | 5 715 399 |
| Other assets | 23 209 | | – | – | 23 209 |
| Current income tax assets | – | 425 | – | – | 425 |
| Deferred tax asset | – | – | 3 936 | – | 3 936 |
| Intangible assets | – | – | – | 17 887 | 17 887 |
| Property and equipment | – | – | – | 84 610 | 84 610 |
| **Total assets** | **1 934 240** | **632 103** | **235 869** | **5 160 614** | **7 962 826** |
| Deposits from banks | 379 660 | – | – | – | 379 660 |
| Derivative financial liabilities | 680 | – | – | – | 680 |
| Deposits from customers | 2 840 500 | 1 276 497 | 2 096 572 | 653 | 6 214 222 |
| Balances due to related parties | 305 063 | 58 | 153 | 2 460 | 307 734 |
| Borrowed funds | 218 | 656 | 6 405 | 227 920 | 235 199 |
| Other liabilities | – | 41 117 | – | 27 174 | 68 291 |
| **Total equity and liabilities** | **3 526 121** | **1 318 328** | **2 103 130** | **258 207** | **7 205 786** |
| **Net maturity gap 31 December 2015** | **(1 591 881)** | **(686 225)** | **(1 867 261)** | **4 902 407** | **757 040** |

## 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. All trading positions are marked to market as required by IAS 39. 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, 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 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.

## 3.3.1 Interest rate risk (continued)

**Consolidated**

| **31 December 2017** | **Up to 1 month P'000** | **1 – 3 months P'000** | **3 – 12 months P'000** | **1 – 5 years P'000** | **Non-interest bearing P'000** | **Total P'000** |
|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 80 167 | – | – | – | 289 400 | 369 567 |
| Balances with other banks | 425 038 | – | – | – | – | 425 038 |
| Balances due from related parties | 329 334 | 299 069 | – | – | – | 628 403 |
| Financial assets held for trading | 149 761 | 219 068 | 248 250 | 15 593 | – | 632 673 |
| Derivative financial assets | | – | – | 63 967 | – | 63 967 |
| Loans and advances to customers | 5 795 372 | – | – | – | – | 5 795 372 |
| Other assets | – | – | – | – | 37 305 | 37 305 |
| Current tax asset | – | – | – | – | 17 020 | 17 020 |
| Property and equipment | – | – | – | – | 68 033 | 68 033 |
| Intangible assets | – | – | – | – | 90 341 | 90 341 |
| **Total assets** | **6 779 672** | **518 137** | **248 250** | **79 560** | **502 099** | **8 127 719** |
| **Liabilities** | | | | | | |
| Deposits from banks | 130 703 | – | – | – | – | 130 703 |
| Deposits from customers | 2 589 633 | 1 970 031 | 1 417 580 | 82 690 | – | 6 059 935 |
| Balances due to related parties | 32 686 | – | – | – | – | 32 686 |
| Other liabilities | | – | – | | 79 707 | 79 707 |
| Deferred tax liability | | | | | 13 900 | 13 900 |
| Borrowed funds | 150 | 5 087 | 423 318 | 255 351 | – | 683 906 |
| Derivative financial liabilities | 1 322 | | | 60 255 | – | 61 577 |
| **Total liabilities** | 2 754 495 | 1 975 118 | 1 840 897 | 398 296 | 93 607 | 7 062 414 |
| **Total interest repricing gap** | **4 025 179** | **(1 456 981)** | **(1 592 647)** | **(318 736)** | **408 493** | **1 065 305** |

**Consolidated**

| **31 December 2016** | **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 | 82 863 | – | – | – | 368 919 | 451 782 |
| Balances with other banks | 281 911 | – | – | – | – | 281 911 |
| Balances due from related parties | 658 694 | – | – | – | – | 658 694 |
| Financial assets held for trading | 571 890 | 249 344 | 199 475 | 6 423 | – | 1 027 132 |
| Derivative financial assets | 215 | – | – | 64 230 | – | 64 445 |
| Loans and advances to customers | 5 678 033 | – | – | – | – | 5 678 033 |
| Other assets | – | – | – | – | 12 896 | 12 896 |
| Current tax asset | – | – | – | – | 3 003 | 3 003 |
| Deferred tax asset | – | – | – | – | 3 735 | 3 735 |
| Property and equipment | – | – | – | – | 76 848 | 76 848 |
| Intangible assets | – | – | – | – | 59 126 | 59 126 |
| **Total assets** | **7 273 606** | **249 344** | **199 475** | **70 653** | **524 527** | **8 317 605** |

3.3.1 **Interest rate risk (continued)**

| 31 December 2016 | 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 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits from banks | 97 599 | – | – | – | – | 97 599 |
| Deposits from customers | 2 454 406 | 2 831 927 | 1 343 453 | 141 825 | – | 6 771 611 |
| Balances due to related parties | – | – | – | 81 145 | 28 397 | 109 542 |
| Other liabilities | – | – | – | – | 53 227 | 53 227 |
| Borrowed funds | 150 | 504 | 1 637 | 294 512 | – | 296 803 |
| Derivative financial liabilities | 393 | – | – | 61 117 | – | 61 510 |
| **Total liabilities** | **2 552 548** | **2 832 431** | **1 345 090** | **578 599** | **81 624** | **7 390 292** |
| **Total interest repricing gap** | **4 721 058** | **(2 583 087)** | **(1 145 615)** | **(507 946)** | **442 903** | **927 313** |

**Consolidated**

| 31 December 2015 | 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 | 511 812 | – | – | – | – | 511 812 |
| Balances with other banks | 469 013 | – | – | – | – | 469 013 |
| Balances due from related parties | 577 214 | – | – | – | 40 011 | 617 225 |
| Financial assets held for trading | 150 | 518 754 | – | – | – | 518 904 |
| Derivative financial assets | 406 | – | – | – | – | 406 |
| Loans and advances to customers | 5 715 399 | – | – | – | – | 5 715 399 |
| Other assets | – | – | – | – | 23 209 | 23 209 |
| Deferred tax asset | – | – | – | – | 3 936 | 3 936 |
| Intangible assets | – | – | – | – | 17 887 | 17 887 |
| **Total assets** | **7 273 994** | **518 754** | **–** | **–** | **170 078** | **7 962 826** |
| **Liabilities** | | | | | | |
| Deposits from banks | 379 660 | – | – | – | – | 379 660 |
| Deposits from customers | 2 840 500 | 1 276 497 | 2 096 572 | 653 | – | 6 214 222 |
| Balances due to related parties | 12 | 35 | 153 | 2 460 | 305 074 | 307 734 |
| Other liabilities | – | – | – | – | 68 291 | 68 291 |
| Borrowed funds | 218 | 656 | 6 405 | 227 920 | – | 235 199 |
| Derivative financial liabilities | 680 | – | – | – | – | 680 |
| **Total liabilities** | **3 221 070** | **1 277 188** | **2 103 130** | **231 033** | **373 365** | **7 205 786** |
| **Total interest repricing gap** | **4 052 924** | **(758 434)** | **(2 103 130)** | **(231 033)** | **(203 287)** | **757 040** |

**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.

**Consolidated**

| Sensitivity of net interest income | 2017 | 2016 | 2015 |
|---|---|---|---|
| Change in net interest income arising from a shift in yield curves of +50 basis points (P'000) | 5 327 | 3 785 | 3 173 |
| As a percentage of total Shareholders equity | 0.50% | 0.41% | 0.42% |
| Change in net interest income arising from a shift in yield curves of -50 basis points (P'000) | (5 322) | (3 785) | (3 173) |
| As a percentage of total shareholders equity | (0.50%) | (0.41%) | (0.42%) |

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 2017. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency:

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

**All amounts in thousands of pula**
**Consolidated**

| 31 December 2017 | EUR | USD | BWP | ZAR | Other | Total |
|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 990 | 11 594 | 354 313 | 2 382 | 288 | 369 567 |
| Balances due from related parties | – | 594 658 | 28 656 | 5 090 | – | 628 403 |
| Balances with other banks | 63 874 | 240 929 | 102 010 | 17 088 | 1 137 | 425 038 |
| Derivative financial assets | – | – | 63 967 | – | – | 63 967 |
| Financial assets held for trading | – | – | 632 673 | – | – | 632 673 |
| Loans and advances to customers | – | 14 254 | 5 781 117 | 1 | – | 5 795 372 |
| Other assets | – | 4 081 | 33 224 | – | – | 37 305 |
| Current tax asset | – | – | 17 020 | – | – | 17 020 |
| Property and equipment | – | – | 68 033 | – | – | 68 033 |
| Intangible assets | – | – | 90 341 | – | – | 90 341 |
| **Total** | **64 864** | **865 516** | **7 171 354** | **24 560** | **1 425** | **8 127 719** |
| Deposits from banks | – | 2 316 | 128 387 | – | – | 130 703 |
| Deposits from customers | 6 845 | 452 599 | 5 516 314 | 30 830 | 53 347 | 6 059 935 |
| Balances due to related parties | – | 30 424 | 2 228 | 34 | – | 32 686 |
| Other liabilities | – | – | 79 707 | – | – | 79 707 |
| Borrowed funds | – | 495 362 | 188 544 | – | – | 683 906 |
| Deferred tax liability | – | – | 13 900 | – | – | 13 900 |
| Derivative financial liabilities | – | – | 61 577 | – | – | 61 577 |
| **Total** | **6 845** | **980 701** | **5 990 657** | **30 864** | **53 347** | **7 062 414** |
| **Net on-balance sheet position** | **58 019** | **(115 185)** | **1 180 697** | **(6 304)** | **(51 922)** | **1 065 305** |
| **Net off-balance sheet position** | **–** | **3 445** | **15 184** | **(18 629)** | **–** | **–** |
| **Net position** | **58 019** | **(111 740)** | **1 195 881** | **(24 933)** | **(51 922)** | **1 065 305** |

3.3.2 **Foreign exchange risk (continued)**

**All amounts in thousands of pula**
**Consolidated**

| **31 December 2016** | **EUR** | **USD** | **BWP** | **ZAR** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 609 | 8 311 | 441 171 | 1 590 | 101 | 451 782 |
| Balances due from related parties | – | 638 051 | 18 298 | 2 345 | – | 658 694 |
| Balances with other banks | 117 355 | 73 514 | – | 67 555 | 23 487 | 281 911 |
| Derivative financial assets | – | – | 64 445 | – | – | 64 445 |
| Financial assets held for trading | – | – | 1 027 132 | – | – | 1 027 132 |
| Loans and advances to customers | – | 22 584 | 5 655 448 | 1 | – | 5 678 033 |
| Other assets | 1 378 | 1 854 | 9 449 | 215 | – | 12 896 |
| Current tax asset | – | – | 3 003 | – | – | 3 003 |
| Deferred tax asset | – | – | 3 735 | – | – | 3 735 |
| Property and equipment | – | – | 76 848 | – | – | 76 848 |
| Intangible assets | – | – | 59 126 | – | – | 59 126 |
| **Total** | **119 342** | **744 314** | **7 358 655** | **71 706** | **23 588** | **8 317 605** |
| Deposits from banks | – | – | 97 599 | – | – | 97 599 |
| Deposits from customers | 115 988 | 537 552 | 6 073 601 | 21 717 | 22 753 | 6 771 611 |
| Balances due to related parties | – | 97 591 | 5 292 | 6 659 | – | 109 542 |
| Other liabilities | 494 | 412 | 51 512 | 466 | 343 | 53 227 |
| Borrowed funds | 89 357 | 106 752 | 100 694 | – | – | 296 803 |
| Current income tax liability | – | – | – | – | – | – |
| Derivative financial liabilities | – | – | 61 510 | – | – | 61 510 |
| **Total** | **205 839** | **742 307** | **6 390 209** | **28 842** | **23 096** | **7 390 292** |
| **Net on-balance sheet position** | **(86 498)** | **2 007** | **968 446** | **42 865** | **492** | **927 313** |
| **Net off-balance sheet position** | **(1)** | **8 853** | **5 601** | **(14 453)** | **–** | **–** |
| **Net position** | **(86 498)** | **10 860** | **974 047** | **28 412** | **492** | **927 313** |

3.3.2 **Foreign exchange risk (continued)**

**All amounts in thousands of pula**
**Consolidated**

| 31 December 2015 | EUR | USD | BWP | ZAR | Other | Total |
|---|---|---|---|---|---|---|
| Cash and balances with the Central Bank | – | – | 511 812 | – | – | 511 812 |
| Balances due from related parties | | 611 737 | 5 189 | 299 | – | 617 225 |
| Balances with other banks | 101 496 | 192 932 | 130 761 | 22 644 | 21 180 | 469 013 |
| Derivative financial assets | – | – | – | 406 | – | 406 |
| Financial assets held for trading | – | – | 518 904 | – | – | 518 904 |
| Loans and advances to customers | 1 | 171 265 | 5 544 019 | 114 | – | 5 715 399 |
| Deferred tax asset | – | | 3 936 | – | – | 3 936 |
| Other assets | – | 3 410 | 19 618 | 181 | – | 23 209 |
| Property and equipment | – | – | 84 610 | – | – | 84 610 |
| Current tax asset | – | – | 425 | – | – | 425 |
| Intangible assets | – | – | 17 887 | – | – | 17 887 |
| **Total** | **101 497** | **979 344** | **6 837 161** | **23 644** | **21 180** | **7 962 826** |
| Deposits from banks | – | – | 379 660 | – | – | 379 660 |
| Deposits from customers | 185 809 | 464 477 | 5 524 968 | 17 734 | 21 234 | 6 214 222 |
| Balances due to related parties | – | 295 916 | 5 324 | 6 494 | – | 307 734 |
| Other liabilities | 229 | 49 468 | 18 324 | 233 | 37 | 68 291 |
| Borrowed funds | – | 112 636 | 122 563 | – | – | 235 199 |
| Derivative financial liabilities | 241 | 439 | – | – | – | 680 |
| **Total** | **186 279** | **922 936** | **6 050 839** | **24 461** | **21 271** | **7 205 786** |
| **Net on-balance sheet position** | **(84 782)** | **56 408** | **786 322** | **(817)** | **(91)** | **757 040** |
| **Net off-balance sheet position** | **85 854** | **(64 952)** | **(18 035)** | **(2 867)** | **–** | **–** |
| **Net position** | **1 072** | **(8 544)** | **768 287** | **(3 684)** | **(91)** | **757 040** |

**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.

| | **2017 Impact on profit or loss and equity** | **2016 Impact on profit or loss and equity** | **2015 Impact on profit or loss and equity** |
|---|---|---|---|
| 5% movement in US Dollar/BWP exchange rate (P'000) | (5 587) | 543 | (427) |
| As a percentage of total Shareholders equity | (0.5%) | (0.5%) | (0.05%) |
| 5% movement in ZAR/BWP exchange rate (P'000) | (1 247) | 1 421 | (184) |
| As a percentage of total Shareholders equity | (0.00%) | 0.00% | (0.02%) |
| 5% movement in EURO/BWP exchange rate (P'000) | 2 901 | (4 325) | 54 |
| As a percentage of total Shareholders equity | 0.27% | (0.5%) | (0.0%) |

3.3.3 **Fair value of financial assets and liabilities**

(d) **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 2017** | **Carrying amount P'000** | **Fair value determined using internal valuation techniques based on market quoted inputs P'000** |
|---|---|---|
| **Fair value of borrowed funds recognised at amortised cost** | | |
| Borrowed funds | 678 843 | 678 843 |
| **Total borrowed funds** | **678 843** | **678 843** |
| The estimated fair value of borrowed funds is the amount repayable on demand. | | |
| **Fair value of deposits and other liabilities recognised at amortised cost** | | |
| Deposits from banks | 130 703 | 130 703 |
| Deposits from customers | 6 059 935 | 6 059 935 |
| Balances due to related parties | 32 686 | 32 686 |
| Other liabilities | 79 707 | 79 707 |
| **Total deposits and other liabilities** | **6 303 031** | **6 303 031** |
| **Fair value of loans and advances and other assets recognised at amortised cost** | | |
| Cash and balances with the Central Bank | 369 567 | 369 567 |
| Balances due from related parties | 628 403 | 628 403 |
| Balances with other banks | 425 038 | 425 038 |
| Loans and advances (Gross) | 5 899 757 | 5 899 757 |
| **Total loans and advances and other assets** | **7 322 765** | **7 322 765** |

(d) **Financial instruments not measured at fair value (continued)**

**Consolidated**

| **31 December 2016** | **Carrying amount P'000** | **Fair value determined using internal valuation techniques based on market quoted inputs P'000** |
|---|---|---|
| Borrowed funds | 296 803 | 296 803 |
| **Total borrowed funds** | **296 803** | **296 803** |

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

**Fair value of deposits and other liabilities recognised at amortised cost**

| | **Carrying amount P'000** | **Fair value determined using internal valuation techniques based on market quoted inputs P'000** |
|---|---|---|
| Deposits from banks | 97 599 | 97 599 |
| Deposits from customers | 6 771 611 | 6 771 611 |
| Balances due to related parties | 109 542 | 109 542 |
| Other liabilities | 53 227 | 53 227 |
| **Total deposits and other liabilities** | **7 031 979** | **7 031 979** |
| **Fair value of loans and advances and other assets recognised at amortised cost** | | |
| Cash and balances with the Central Bank | 451 782 | 451 782 |
| Balances due from related parties | 658 694 | 658 694 |
| Balances with other banks | 281 911 | 281 911 |
| Loans and advances (Gross) | 5 828 210 | 5 828 210 |
| **Total loans and advances and other assets** | **7 220 597** | **7 220 597** |

3.3.3 **Fair value of financial assets and liabilities (continued)**

(d) **Financial instruments not measured at fair value (continued)**

**Consolidated**

| **31 December 2015** | **Carrying amount P'000** | **Fair value determined using internal valuation techniques based on market quoted inputs P'000** |
|---|---|---|
| **Fair value of borrowed funds recognised at amortised cost** | | |
| Borrowed funds | 235 199 | 235 199 |
| **Total borrowed funds** | **235 199** | **235 199** |
| 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 | 379 660 | 379 660 |
| Deposits from customers | 6 214 222 | 6 214 222 |
| Balances due to related parties | 307 734 | 307 734 |
| Other liabilities | 68 291 | 68 291 |
| **Total deposits and other liabilities** | **6 969 907** | **6 969 907** |
| **Fair value of loans and advances and other assets recognised at amortised cost** | | |
| Cash and balances with the Central Bank | 511 812 | 511 812 |
| Balances due from related parties | 617 225 | 617 225 |
| Balances with other banks | 469 013 | 469 013 |
| Loans and advances (Gross) | 5 842 676 | 5 842 676 |
| **Total loans and advances and other assets** | **7 440 726** | **7 440 726** |

3.4 **Financial instruments measured at fair value**

**Fair value hierarchy**

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

3.4 **Financial instruments measured at fair value (continued)**

**Consolidated**

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

| **31 December 2016** | **Level 1 P'000** | **Level 2 P'000** | **Level 3 P'000** | **Total P'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets held for trading | – | 1 027 132 | – | 1 027 132 |
| Forward foreign exchange contracts | – | 215 | – | 215 |
| Collateralised default swap | – | – | 64 230 | 64 230 |
| | **–** | **1 027 347** | **64 230** | **1 091 577** |
| **Liabilities** | | | | |
| Forward foreign exchange contracts | – | 393 | – | 393 |
| Collateralised default swap | – | – | 61 117 | 61 117 |
| | **–** | **393** | **61 117** | **61 510** |

| **31 December 2015** | **Level 1 P'000** | **Level 2 P'000** | **Level 3 P'000** | **Total P'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets held for trading | – | 518 904 | – | 518 904 |
| Forward foreign exchange contracts | – | 680 | – | 680 |
| Cross-currency swap | – | – | – | – |
| | **–** | **519 584** | **–** | **519 584** |
| **Liabilities** | | | | |
| Forward foreign exchange contracts | – | 406 | – | 406 |
| Cross-currency swap | – | – | – | – |
| | **–** | **406** | **–** | **406** |

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

**Level 3 Fair value movements**

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

**Level 3 Fair value movements (continued)**

**Consolidated**

| 31 December 2017 | Trading derivatives P'000 | Total assets at fair value P'000 | Derivative financial liabilities P'000 | Total liabilities at fair value P'000 |
|---|---|---|---|---|
| **Opening balance** | **64 230** | **64 230** | **61 117** | **61 117** |
| – in profit and loss | (263) | (263) | (862) | (862) |
| **Closing balance** | **63 967** | **63 967** | **60 255** | **60 255** |

**Consolidated**

| 31 December 2016 | Trading derivatives P'000 | Total assets at fair value P'000 | Derivative financial liabilities P'000 | Total liabilities at fair value P'000 |
|---|---|---|---|---|
| **Opening balance** | – | – | – | – |
| – in profit and loss | 6 153 | 6 153 | 3 593 | 3 593 |
| Issues | 58 077 | 58 077 | 57 524 | 57 524 |
| **Closing balance** | **64 230** | **64 230** | **61 117** | **61 117** |

There were no derivatives in the 2015 financial year.

**Consolidated**

| Categories of financial assets at 31 December 2017 | Designated at fair value through profit or loss | Loans and receiv-ables P'000 | Held for trading P'000 | Amortised cost P'000 | Total P'000 |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | – | 369 567 | – | – | 369 567 |
| Balances due from related parties | – | 628 403 | – | – | 628 403 |
| Balances with other banks | – | 425 038 | – | – | 425 038 |
| Financial assets held for trading | – | – | 632 673 | – | 632 673 |
| Derivative financial assets | 63 967 | – | - | – | 63 967 |
| Loans and advances to customers | – | 5 795 372 | – | – | 5 795 372 |
| **Total financial assets** | **63 967** | **7 218 380** | **632 673** | **–** | **7 915 020** |
| **Categories of financial liabilities at 31 December 2017** | | | | | |
| Deposits from customers | – | – | – | 6 059 935 | 6 059 935 |
| Deposits from banks | – | – | – | 130 703 | 130 703 |
| Balances due to related parties | – | – | – | 32 686 | 32 686 |
| Borrowed funds | – | – | – | 683 906 | 683 906 |
| Other liabilities | – | – | – | 79 707 | 79 707 |
| Derivative financial liabilities | 60 255 | – | 1 322 | – | 61 577 |
| **Total financial liabilities** | **60 255** | **–** | **1 322** | **6 986 937** | **7 048 514** |

3.4 **Financial instruments measured at fair value (continued)**

**Consolidated**

| **Categories of financial assets at 31 December 2016** | **Designated at fair value through profit or loss** | **Loans and receivables P'000** | **Held for trading P'000** | **Amortised cost P'000** | **Total P'000** |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | – | 451 782 | – | – | 451 782 |
| Balances due from related parties | – | 658 694 | – | – | 658 694 |
| Balances with other banks | – | 281 911 | – | – | 281 911 |
| Financial assets held for trading | – | – | 1 027 132 | – | 1 027 132 |
| Derivative Financial assets | 64 230 | – | 215 | – | 64 445 |
| Loans and advances to customers | – | 5 678 033 | – | – | 5 678 033 |
| **Total financial assets** | **64 230** | **7 070 420** | **1 027 347** | **–** | **8 161 997** |

| **Categories of financial liabilities at 31 December 2016** | **Designated at fair value through profit or loss** | **Loans and receivables P'000** | **Held for trading P'000** | **Amortised cost P'000** | **Total P'000** |
|---|---|---|---|---|---|
| Deposits from customers | – | – | – | 6 771 611 | 6 771 611 |
| Due to banks | – | – | – | 97 599 | 97 599 |
| Balances due to related parties | – | – | – | 109 542 | 109 542 |
| Borrowed funds | – | – | – | 296 803 | 296 803 |
| Other liabilities | – | – | – | 53 227 | 53 227 |
| Derivative financial liabilities | 61 117 | – | 393 | – | 61 510 |
| **Total financial liabilities** | **61 117** | **–** | **393** | **7 328 782** | **7 390 292** |

**Consolidated**

| **Categories of financial assets at 31 December 2015** | **Designated at fair value through profit or loss** | **Loans and receivables P'000** | **Held for trading P'000** | **Amortised cost P'000** | **Total P'000** |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | – | 511 812 | – | – | 511 812 |
| Balances due from related parties | – | 617 225 | – | – | 617 225 |
| Balances with other banks | – | 469 013 | – | – | 469 013 |
| Financial assets held for trading | – | – | 518 904 | – | 518 904 |
| Derivative Financial assets | – | – | 406 | – | 406 |
| Loans and advances to customers | – | 5 715 399 | – | – | 5 715 399 |
| **Total financial assets** | **–** | **7 313 449** | **519 310** | **–** | **7 832 759** |
| **Categories of financial liabilities at 31 December 2015** | | | | | |
| Deposits from customers | – | – | – | 6 214 222 | 6 214 222 |
| Due to banks | – | – | – | 379 660 | 379 660 |
| Balances due to related parties | – | – | – | 307 734 | 307 734 |
| Borrowed funds | – | – | – | 235 199 | 235 199 |
| Other liabilities | – | – | – | 68 291 | 68 291 |
| Derivative financial liabilities | – | – | 680 | – | 680 |
| **Total financial liabilities** | **–** | **–** | **680** | **7 205 106** | **7 205 786** |

### 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 total capital to risk weighted assets and off balance sheet transactions. The Bank's capital is divided into two tiers. Tier 1 capital comprises of shareholders funds and Tier 2 comprises qualifying subordinated debt capital and revaluation reserves. The prescribed capital adequacy ratio is 15% and Tier 1 capital should be at least 50% of total capital. Refer to note 30 for quantitative disclosures about the Group's capital position.

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

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

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

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. As at 31 December 2017, the bank complied with all externally imposed capital requirements.

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

## 4. SIGNIFICANT ESTIMATES AND JUDGMENTS

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

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

### 4.1 Impairment losses on loans and advances

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

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

4.1 **Impairment losses on loans and advances (continued)**

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

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

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

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

**Consolidated**

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

| 31 December 2016 | Existing impairment provision | Impact on changes in roll rates | | Impact on changes in recovery experience | |
|---|---|---|---|---|---|
| | | (2%) | 2% | (5%) | 5% |
| Portfolio (P'000) | **25 757** | **(515)** | **515** | **(1 288)** | **1 288** |

| 31 December 2015 | Existing impairment provision | Impact on changes in roll rates | | Impact on changes in recovery experience | |
|---|---|---|---|---|---|
| | | (2%) | 2% | (5%) | 5% |
| Portfolio (P'000) | **22 317** | **(446)** | **446** | **(1 116)** | **1 116** |

4.2 **Residual values of property and equipment**

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

4.3 **Basis for determining fair values of investments**

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

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 5. **NET INTEREST INCOME** | | | |
| **Interest and similar income** | | | |
| Cash and short-term funds | 47 969 | 49 591 | 54 485 |
| Investment securities | 9 508 | 7 591 | 13 364 |
| Loans and advances to customers | 709 704 | 755 005 | 642 732 |
| | **767 181** | **812 187** | **710 581** |
| **Interest expense and similar charges** | | | |
| Deposits from banks and customers | 227 346 | 238 625 | 315 702 |
| Borrowed funds | 50 884 | 29 651 | 19 827 |
| | **278 230** | **268 276** | **335 529** |
| **Net interest income** | **488 951** | **543 911** | **375 052** |
| 6. **LOAN IMPAIRMENT CHARGES** | | | |
| Specific impairment | 57 067 | 77 942 | 43 650 |
| Portfolio impairment | (8 370) | 3 439 | 3 991 |
| Recoveries | – | (6 482) | (42 123) |
| **Loan impairment charges** | **48 697** | **74 899** | **5 518** |
| **Movement in specific impairments** | | | |
| Balance at the beginning of the year | 114 416 | 92 762 | 114 003 |
| Impairment during the year | 57 067 | 77 942 | 43 650 |
| | **171 483** | **170 704** | **157 652** |
| Write-offs during the year | (94 789) | (56 288) | (64 890) |
| **Balance at the end of the year** | **76 694** | **114 416** | **92 762** |
| **Movement in portfolio impairments** | | | |
| Balance at the beginning of the year | 25 757 | 22 318 | 18 327 |
| Impairment during the year | (8 370) | 3 439 | 3 991 |
| Balance at the end of the year | 17 387 | 25 757 | 22 318 |
| **Total specific and portfolio impairment at end of the year** | **94 081** | **140 173** | **115 080** |
| 7. **NET TRADING INCOME** | | | |
| Forex trading profits | 37 577 | 51 832 | 37 275 |
| Currency revaluations | (1 145) | 543 | (595) |
| **Net trading income** | **36 432** | **52 375** | **36 680** |
| 8. **NET FEE AND COMMISSION INCOME** | | | |
| Fees | 22 931 | 45 573 | 51 757 |
| Commission income | 41 589 | 30 885 | 55 210 |
| Other income | 11 956 | 10 725 | 4 036 |
| **Net fee and commission income** | **76 476** | **87 183** | **111 003** |

| | | Consolidated | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 9. **PERSONNEL EXPENSES** | | | |
| Salaries and wages | 109 972 | 90 783 | 80 774 |
| Pension contributions - defined contribution plans (note 15) | 8 724 | 8 345 | 6 796 |
| Other employee expenses | 7 902 | 12 926 | 11 281 |
| | **126 598** | **112 054** | **98 851** |

The average number of persons employed by the group during the year was 392 (2016: 384) (2015: 267).

| | | | |
|---|---|---|---|
| 10. **GENERAL AND ADMINISTRATIVE EXPENSES** | | | |
| IT and software costs | 26 330 | 13 130 | 24 882 |
| Office expenses | 6 165 | 9 983 | 12 597 |
| Repairs and maintenance | 1 049 | 1 510 | 1 069 |
| Operating lease rentals | 11 150 | 6 707 | 6 544 |
| Marketing and public relations | 10 143 | 8 665 | 5 224 |
| Travel and entertainment | 2 599 | 3 030 | 3 344 |
| Telecommunication and postage | 14 811 | 9 776 | 7 893 |
| Stationery | 6 680 | 5 989 | 3 660 |
| Management fees | 55 877 | 70 552 | 38 008 |
| Other administrative expenses | 2 777 | 13 100 | 25 314 |
| | **137 581** | **142 442** | **128 535** |
| 11. **DEPRECIATION AND AMORTISATION EXPENSES** | | | |
| Depreciation of property, and equipment (note 29) | 12 074 | 11 910 | 12 347 |
| Amortisation of intangible assets (note 28) | 10 224 | 4 893 | 4 840 |
| | **22 298** | **16 803** | **17 187** |
| 12. **OTHER OPERATING EXPENSES** | | | |
| Audit fees | 1 760 | 1 715 | 1 196 |
| Consulting costs | 7 236 | 20 023 | 26 220 |
| Professional fees | 8 095 | 21 987 | 15 992 |
| Legal expenses | 861 | 1 963 | 386 |
| Commission expenses | 69 611 | 73 300 | 75 766 |
| | **87 563** | **118 988** | **119 560** |

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| **13. INCOME TAX EXPENSE** | | | |
| Prior year overprovision | (38) | – | – |
| Current taxes on income for the reporting period | 22 033 | 47 809 | 26 218 |
| **Total current tax** | **21 995** | **47 809** | **26 218** |
| Deferred tax (note 27.2) | 17 965 | 201 | 6 667 |
| **Tax expense per statement of comprehensive income** | **39 960** | **48 010** | **32 885** |

The effective tax rate for 2017 is 22.24% (2016: 21.95%) (2015: 21.00%).

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:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **13.1 Taxation reconciliation** | | | |
| **Profit before tax** | **179 122** | **218 283** | **153 084** |
| Taxation calculated at the rate of 22% (2016: 22%) (2015: 22%) | 39 407 | 48 022 | 33 679 |
| Non-deductible expenses | 553 | (12) | (794) |
| **Tax expense per profit or loss** | **39 960** | **48 010** | **32 885** |
| **Effective tax rate** | **22%** | **22%** | **21%** |
| **13.2 Deferred tax on gain on revaluation of property** | **330** | **–** | **620** |

## 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** | **2017** | **2016** | **2015** |
|---|---|---|---|
| Profit attributable to equity holders of the Company (P'000) | 139 162 | 170 273 | 120 199 |
| Weighted average number of ordinary shares in issue ('000) | 29 000 | 29 000 | 29 000 |
| **Basic and diluted earnings per share (thebe)** | **480** | **587** | **414** |
| Number of shares ('000s) | | | |
| Shares in issue at beginning and end of the period | 29 000 | 29 000 | 29 000 |
| **Weighted average number of ordinary shares in issue** | **29 000** | **29 000** | **29 000** |

15. **PENSIONS**

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

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 16. **CASH AND BALANCES WITH THE CENTRAL BANK** | | | |
| Notes and coins | 53 350 | 67 328 | 71 212 |
| Unrestricted bank balances | 26 817 | 82 863 | 166 298 |
| **Cash and cash equivalent** | **80 167** | **150 191** | **237 510** |
| Restricted balance: statutory reserve | 289 400 | 301 591 | 274 302 |
| | **369 567** | **451 782** | **511 812** |

Balances with Central Bank includes the statutory reserve account of P289 400 (2016: P301 591) (2015: P274 302) 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 wholly 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 | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 17.1 **Balances due from related parties:** | | | |
| ABC Holdings Ltd | 477 241 | 507 215 | 520 382 |
| African Banking Corporation Zimbabwe Ltd | 49 195 | 55 077 | 74 184 |
| African Banking Corporation Zambia Ltd | 376 | 29 | – |
| African Banking Corporation Mozambique Ltd | 292 | – | – |
| Banque Populaire du Rwanda Ltd (BPR) | 1 911 | – | |
| African Banking Corporation Tanzania Ltd | 99 386 | 96 371 | 22 659 |
| Atlas Mara Ltd | 2 | 2 | – |
| | **628 403** | **658 694** | **617 225** |
| **Interest income** | | | |
| ABC Holdings Ltd | 28 027 | 35 738 | 28 816 |
| African Banking Corporation Mozambique Ltd | – | 100 | 4 108 |
| African Banking Corporation Zimbabwe Ltd | 1 109 | 1 908 | – |
| African Banking Corporation Zambia Ltd | 199 | 22 | – |
| African Banking Corporation Tanzania Ltd | 6 684 | 1 210 | 1 255 |
| | **36 019** | **38 978** | **34 179** |

The above balances are unsecured and carry variable interest rates.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 17.2 **Balances due to related parties:** | | | |
| ABC Holdings Ltd | 4 569 | 78 938 | 297 355 |
| African Banking Corporation Mozambique Ltd | 6 645 | 6 862 | 6 884 |
| African Banking Corporation Zimbabwe Ltd | 1 706 | 2 207 | 95 |
| African Banking Corporation Zambia Ltd | 19 766 | 21 535 | – |
| Edfund Pension Fund | | | 3 359 |
| African Banking Corporation Tanzania Ltd | | | 41 |
| | **32 686** | **109 542** | **307 734** |
| **Interest expense** | | | |
| ABC Holdings Ltd | 68 | – | 2 821 |
| African Banking Corporation Mozambique Ltd | 36 | – | 65 |
| African Banking Corporation Zambia Ltd | 76 | 215 | 2 |
| Edfund Pension Fund | | | 33 |
| African Banking Corporation Tanzania Ltd | | | – |
| | **180** | **215** | **2 922** |

The above deposits are unsecured, carry variable interest rates and are repayable within three months.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 17.3 **Loans and advances to other related parties:** | | | |
| Executive members of staff | 13 113 | 7 809 | 11 128 |
| | **13 113** | **7 809** | **11 128** |
| **Interest income** | **605** | **1 066** | **1 795** |

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 7%.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 17.4 **Other related party transactions** | | | |
| Deposits held by BancABC directors and their entities: | | | |
| Deposits held by directors | **196** | **–** | **11 685** |
| **Interest expense** | **–** | **–** | **29** |
| 17.5 **Key management compensation** | | | |
| **Salaries and other short term employee benefits** | **14 846** | **14 979** | **13 615** |
| 17.6 **Directors' fees** | | | |
| Fees paid to directors during the year | | | |
| Mrs Doreen Khama | – | 525 | 160 |
| Mr Adams Chilisa Dambe | 454 | 406 | 252 |
| Mr Leonard Musa Makwinja | 286 | 474 | 390 |
| Mrs Lorato Nthando Mosetlhanyane | 490 | 473 | 308 |
| Mr Jacob Mooketsi Motlhabane | 470 | 366 | 391 |
| Mr Elias Magosi | 111 | – | – |
| Ms Boitumelo Molefe | – | – | 127 |
| | **1 811** | **2 244** | **1 628** |

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 18. **BALANCES WITH OTHER BANKS** | | | |
| Cash and short-term funds | **425 038** | **281 911** | **469 013** |

| | | | |
|---|---|---|---|
| 19. **FINANCIAL ASSETS HELD FOR TRADING** | | | |
| Bank of Botswana Certificates | 149 762 | 571 890 | 299 619 |
| Government Bonds | 15 593 | 6 423 | – |
| Treasury Bills | 467 318 | 448 819 | 219 285 |
| | **632 673** | **1 027 132** | **518 904** |
| 19.1 **Financial assets qualifying to be included as part of cash and cash equivalents** | | | |
| Bank of Botswana Certificates | 149 762 | 571 890 | 299 619 |
| Treasury Bills | 219 068 | 448 819 | 219 285 |
| | **368 830** | **1 027 132** | **518 904** |

At 31 December 2017, Treasury bills amounting to P219 100 000 (2016: P217 400 000) (2015: P217 400 000) were pledged as security for the use of secured and Intraday Lending facilities. Government Bonds have a maturity of more than three months and therefore do not qualify to be included as part of cash and cash equivalents.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 20. **LOANS AND ADVANCES TO CUSTOMERS** | | | |
| Loans and advances | 5 859 148 | 5 782 069 | 5 763 379 |
| Instalment sales and finance leases (note 20.1) | 40 609 | 46 141 | 79 297 |
| | **5 899 757** | **5 828 210** | **5 842 676** |
| Less: Specific and portfolio impairments (note 6) | (94 081) | (140 173) | (115 080) |
| | **5 805 676** | **5 688 037** | **5 727 596** |
| Unearned fee income | (10 304) | (10 004) | (12 197) |
| **Loans and advances after unearned fee income** | **5 795 372** | **5 678 033** | **5 715 399** |
| **Maturity analysis:** | | | |
| On demand to one month | 412 435 | 90 900 | 312 425 |
| One month to three months | 114 380 | 7 822 | 112 924 |
| Three months to one year | 256 611 | 158 458 | 231 933 |
| Greater than one year | 5 116 331 | 5 571 030 | 5 185 394 |
| | **5 899 757** | **5 828 210** | **5 842 676** |
| Specific and non-specific impairments | (94 081) | (140 173) | (115 080) |
| | **5 805 676** | **5 688 037** | **5 727 596** |
| Unearned fee income | (10 304) | (10 004) | (12 197) |
| **Loan and advances after unearned fee income** | **5 795 372** | **5 678 033** | **5 715 399** |
| Loans and advances include the following amounts that were advanced to related parties (note 17.3) | **13 113** | **7 809** | **11 128** |

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 2017 is P427 784 285. (Refer to note 23.3).

20.1 **Instalment sales and finance lease receivables**

Gross loans and advances to customers include finance lease receivable as follows:

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Less than one year | 13 171 | 322 | 10 330 |
| More than one year but less than five years | 27 438 | 45 819 | 68 967 |
| | **40 609** | **46 141** | **79 297** |
| Unearned fee income | (71) | (79) | (151) |
| Net investment in finance leases | 40 538 | 46 062 | 79 146 |
| Less impairment allowance | (1 063) | (5 061) | (1 429) |
| | **39 475** | **41 001** | **77 717** |
| Net investment in finance leases, receivable: | | | |
| Less than one year | 13 148 | 322 | 10 330 |
| More than one year but less than five years | 27 390 | 45 740 | 68 816 |
| | **40 538** | **46 062** | **79 146** |

21. **OTHER ASSETS**

| | | | |
|---|---|---|---|
| Prepayments | 18 853 | 2 343 | 7 800 |
| Sundry debtors and deposits | 18 214 | 10 315 | 13 946 |
| Other | 238 | 238 | 1 463 |
| | **37 305** | **12 896** | **23 209** |

22. **DEPOSITS FROM BANKS AND CUSTOMERS**

| | | | |
|---|---|---|---|
| Deposits from banks | 130 703 | 97 599 | 379 660 |
| Deposits from customers | 6 059 935 | 6 771 611 | 6 214 222 |
| | **6 190 638** | **6 869 210** | **6 593 882** |
| **Maturity analysis:** | | | |
| On demand to one month | 2 710 086 | 2 649 604 | 3 220 160 |
| One month to three months | 1 980 282 | 2 831 927 | 1 276 497 |
| Three months to one year | 1 417 580 | 1 343 453 | 2 096 572 |
| Greater than one year | 82 690 | 44 226 | 653 |
| | **6 190 638** | **6 869 210** | **6 593 882** |

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| **Maturity analysis:** | | | |
| On demand to one month | 2 720 680 | 2 730 683 | 3 237 914 |
| One month to three months | 1 980 282 | 2 831 927 | 1 321 949 |
| Three months to one year | 1 507 580 | 1 343 453 | 2 102 114 |
| Greater than one year | 82 690 | 44 226 | 653 |
| | **6 291 233** | **6 950 289** | **6 662 630** |

23. **BORROWED FUNDS**

| | | | |
|---|---|---|---|
| **Balances without accrued interest** | | | |
| ABC Holdings Ltd – subordinated loan | 129 425 | 137 610 | 143 647 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 000 | 55 000 | – |
| Botswana Building Society – long-term loan | 11 790 | 13 684 | 14 581 |
| European Investment Bank (EIB) – long-term loan | 88 727 | 88 727 | 76 971 |
| Overseas Private Investment Corporation (OPIC) | 393 901 | – | – |
| | **678 843** | **295 021** | **235 199** |
| **Accrued interest** | | | |
| ABC Holdings Ltd – subordinated loan | 689 | 948 | 161 |
| Kgori Capital Proprietary Limited – subordinated debt | 355 | – | – |
| Botswana Building Society – long-term loan | 403 | 204 | 255 |
| European Investment Bank (EIB) – long-term loan | 643 | 630 | 516 |
| Overseas Private Investment Corporation (OPIC) | 2 973 | – | |
| | **5 063** | **1 782** | **932** |
| **Balances with accrued interest** | | | |
| ABC Holdings Ltd – subordinated loan | 130 114 | 138 558 | 143 808 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 355 | 55 000 | – |
| Botswana Building Society – long-term loan | 12 193 | 13 888 | 14 836 |
| European Investment Bank (EIB) – long-term loan | 89 370 | 89 357 | 77 487 |
| Overseas Private Investment Corporation (OPIC) | 396 874 | – | – |
| | **683 906** | **296 803** | **236 131** |
| **Fair value** | | | |
| ABC Holdings Ltd – subordinated loan | 130 114 | 138 558 | 143 647 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 355 | 55 000 | – |
| Botswana Building Society – long-term loan | 12 193 | 13 888 | – |
| European Investment Bank (EIB) – long-term loan | 89 370 | 89 357 | 14 581 |
| Overseas Private Investment Corporation (OPIC) | 396 874 | – | 76 971 |
| | **683 906** | **296 803** | **235 199** |
| **Maturity analysis:** | | | |
| On demand to one month | 150 | 150 | 137 |
| One to three months | 5 087 | 504 | 415 |
| Three months to one year | 420 546 | 1 637 | 1 134 |
| Over one year | 258 123 | 294 512 | 233 513 |
| | **683 906** | **296 803** | **235 199** |

23.1 **ABC Holdings Ltd shareholders' loan**

The bank currently holds two instruments with ABC Holdings Limited, one denominated in Pula for P31 million and the other in US Dollar (USD) for USD10 million (P98 million). The Pula denominated borrowing has perpetual maturity at a fixed interest rate of 12.5% per annum, while the US Dollar denominated borrowing has perpetual maturity at a fixed interest rate of 12% per annum. Interest is paid bi-annually.

23.2 **Kgori Capital Proprietary Limited**

The bond with Kgori Capital Proprietary Limited was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenor of seven years. Interest is paid bi-annually.

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 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 seven year tenor with a three year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year three. The rate is three month Libor plus a margin of 4.45%. The value of loans pledged as security as at 31 December 2017 is P427,784,285 (Refer to note 20).

**Qualification for Tier II Capital inclusion**

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

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

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

(iii) Maturity:

– Their original maturity is more than five years.

– All the instruments have no step ups or other incentives to redeem.

(iv) The instruments are not callable at the initiative of the issuer before five years:

– The Group will not exercise a call option on the instruments prior to Bank of Botswana approval

– the Group will not do anything that creates an expectation that the call on the instruments will be exercised;

– the Group will not exercise a call option unless :

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

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

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

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

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

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

23.4 **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 6.5% (2016: 6.25%) (2015: 7.50%). The loan is secured by land and buildings with a market value of P29 100 000 (note 29). Principal plus interest are repayable monthly. The loan matures on 30 December 2022. (Refer to note 29).

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Less than one year | 1 953 | 1 803 | 451 |
| More than one year but less than five years | 7 211 | 9 014 | 8 563 |
| More than five years | 3 029 | 3 071 | 5 568 |
| | **12 193** | **13 888** | **14 582** |
| Net investment in finance leases, receivable: | | | |
| Less than one year | 1 953 | 1 803 | 451 |
| More than one year but less than five years | 7 211 | 9 014 | 8 563 |
| More than five years | 3 029 | 3 071 | 5 568 |
| | **12 193** | **13 888** | **14 582** |

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.

## 24. STATED CAPITAL

| | | | |
|---|---|---|---|
| **29 000 000 Ordinary shares issued and fully paid at the start and end of the year: (2016: 29 000 000) (2015: 29 000 000)** | **222 479** | **222 479** | **222 479** |

## 25. RESERVES AND RETAINED EARNINGS

| | | | |
|---|---|---|---|
| 25.1 **Other reserves** | | | |
| As at 31 December 2017 | **6 091** | **6 091** | **6 091** |
| 25.2 **Revaluation reserve** | | | |
| At 1 January | 6 152 | 6 152 | 3 950 |
| Gain/(Loss) on revaluation of property | (1 500) | – | 2 822 |
| Income tax on gain/(loss) on revaluation of property | 330 | – | (620) |
| **At 31 December** | **4 982** | **6 152** | **6 152** |

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.

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 25.3 **Retained earnings** | | | |
| At 1 January | 692 591 | 522 318 | 402 119 |
| Profit for the year | 139 162 | 170 273 | 120 199 |
| Dividends | – | – | |
| **At 31 December** | **831 753** | **692 591** | **522 318** |
| **Company** | | | |
| At 1 January | 613 710 | 452 241 | 364 014 |
| Profit for the year | 139 162 | 161 469 | 88 227 |
| Dividends | – | – | |
| **At 31 December** | **752 872** | **613 710** | **452 241** |

| | | | |
|---|---|---|---|
| 26. **OTHER LIABILITIES** | | | |
| Accruals | 57 541 | 41 205 | 50 096 |
| Deferred lease liabilities | 1 053 | – | – |
| Clearing accounts | 2 306 | 1 281 | 1 627 |
| Unclaimed funds | 548 | 538 | 567 |
| Settlement accounts | 3 498 | 2 488 | 1 302 |
| Other | 14 761 | 7 715 | 9 772 |
| | **79 707** | **53 227** | **68 291** |

| | | | |
|---|---|---|---|
| 27. **TAXATION** | | | |
| 27.1 **Current tax (assets)/liabilities** | | | |
| Current tax assets (to be recovered within 12 months) | (17 020) | (3 003) | (425) |
| **Net current tax (assets)/liabilities** | **(17 020)** | **(3 003)** | **(425)** |
| Income tax brought forward | (3 003) | (425) | 3 257 |
| Over provision in prior years | (38) | – | – |
| Charge for the year | 22 033 | 47 809 | 26 218 |
| Tax paid | (36 012) | (50 387) | (29 900) |
| **Net income tax carried forward** | **(17 020)** | **(3 003)** | **(425)** |

27.2 **Deferred tax liabilities/(assets)**

Deferred taxes are calculated on all temporary differences using a principal tax rate of 22% (2016: 22%) (2015: 22%). The movements in the deferred tax account, which are attributable to timing differences are as follows:

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| Deferred tax brought forward | (3 735) | (3 936) | (11 223) |
| Gain on revaluation of property | (330) | – | 620 |
| Charge per profit or loss (note 13.1) | 17 965 | 201 | 6 667 |
| **Deferred tax liabilities/(assets)** | **13 900** | **(3 735)** | **(3 936)** |

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

| | **Net balance as at 1 January 2016 P'000** | **Recognised in profit or loss P'000** | **Recognised in equity P'000** | **Closing balance as at 31 December 2016 P'000** |
|---|---|---|---|---|
| Property and equipment | 4 214 | 5 757 | – | 9 971 |
| Financial instruments | (137) | (2) | – | (139) |
| Prepayments and doubtful debts | (8 097) | (5 492) | – | (13 589) |
| Other | 84 | (62) | – | 22 |
| | **(3 936)** | **201** | **–** | **(3 735)** |

| | **Net balance as at 1 January 2015 P'000** | **Recognised in profit or loss P'000** | **Recognised in equity P'000** | **Closing balance as at 31 December 2015 P'000** |
|---|---|---|---|---|
| Property and equipment | 5 666 | (2 072) | 620 | 4 214 |
| Financial instruments | 179 | (316) | – | (137) |
| Prepayments and doubtful debts | (17 182) | 9 085 | – | (8 097) |
| Other | 114 | (30) | – | 84 |
| | **(11 223)** | **6 667** | **620** | **(3 936)** |

| | Consolidated | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 28. **INTANGIBLE ASSETS** | | | |
| Software | 59 126 | 17 887 | – |
| **Software** | | | |
| **Cost** | | | |
| Balance at the beginning of the year | 94 802 | 48 670 | 43 398 |
| Work in progress | 5 996 | 29 651 | 5 272 |
| Additions | 35 443 | 16 481 | – |
| **Balance at the end of the year** | **136 241** | **94 802** | **48 670** |
| **Accumulated amortisation** | | | |
| Balance at the beginning of the year | (35 676) | (30 783) | (25 943) |
| Amortisation charge | (10 224) | (4 893) | (4 840) |
| **Balance at the end of the year** | **(45 900)** | **(35 676)** | **(30 783)** |
| **Carrying amount at the end of the year** | **90 341** | **59 126** | **17 887** |

29. **PROPERTY AND EQUIPMENT**

**Consolidated**

| | Land and buildings P'000 | Motor vehicles P'000 | Furniture P'000 | Computer and office equipment P'000 | Capital work in progress P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Cost/revaluation** | | | | | | |
| At 1 January 2017 | 30 600 | 1 710 | 59 794 | 43 911 | – | 136 015 |
| Additions | | – | 1 447 | 3 312 | – | 4 759 |
| Revaluation | (1 500) | – | – | – | – | (1 500) |
| Disposals | – | – | – | (313) | – | (313) |
| **At 31 December 2017** | **29 100** | **1 710** | **61 241** | **46 910** | **–** | **138 961** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2017 | – | (1 255) | (26 249) | (31 663) | – | (59 167) |
| Disposals during the period | | | | 313 | – | 313 |
| Charge for year | – | (230) | (6 128) | (5 716) | – | (12 074) |
| **At 31 December 2017** | – | (1 485) | (32 377) | (37 066) | – | (70 928) |
| **Net book value at 31 December 2017** | **29 100** | **225** | **28 864** | **9 844** | **–** | **68 033** |

**Consolidated**

| | Land and buildings P'000 | Motor vehicles P'000 | Furniture P'000 | Computer and office equipment P'000 | Capital work in progress P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Cost/revaluation** | | | | | | |
| At 1 January 2016 | 30 600 | 1 688 | 57 999 | 39 779 | 1 801 | 131 867 |
| Additions | – | 22 | 549 | 2 274 | 1 303 | 4 148 |
| Transfers | – | – | 1 246 | 1 858 | (3 104) | – |
| **At 31 December 2016** | **30 600** | **1 710** | **59 794** | **43 911** | **–** | **136 015** |
| At 1 January 2016 | – | (990) | (20 323) | (25 944) | – | (47 257) |
| Charge for year | – | (265) | (5 926) | (5 719) | – | (11 910) |
| **At 31 December 2016** | – | (1 255) | (26 249) | (31 663) | – | (59 167) |
| **Net book value at 31 December 2016** | **30 600** | **455** | **33 545** | **12 248** | **–** | **76 848** |

| | Land and buildings P'000 | Motor vehicles P'000 | Furniture P'000 | Computer and office equipment P'000 | Capital work in progress P'000 | Total P'000 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Cost/revaluation** | | | | | | |
| At 1 January 2015 | 29 200 | 1 732 | 56 333 | 28 214 | – | 115 479 |
| Revaluation | 1 400 | – | – | – | – | 1 400 |
| Additions | – | 290 | 1 666 | 11 565 | 1 801 | 15 322 |
| Disposal | – | (334) | – | – | – | (334) |
| **At 31 December 2015** | **30 600** | **1 688** | **57 999** | **39 779** | **1 801** | **131 867** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2015 | (711) | (1 028) | (14 402) | (20 525) | – | (36 666) |
| Adjustments | 1 422 | – | – | | – | 1 422 |
| Charge for the year | (711) | (296) | (5 921) | (5 419) | – | (12 347) |
| Disposal | – | 334 | – | – | – | 334 |
| **At 31 December 2015** | – | (990) | (20 323) | (25 944) | – | (47 257) |
| **Net book value at 31 December 2015** | **30 600** | **698** | **37 676** | **13 835** | **1 801** | **84 610** |

The Group's commercial Land and buildings situated at Plot 62433, Fairgrounds Gaborone were revalued on the 31 December 2017 by Knight Frank Botswana Proprietary Limited, 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 P29.1 million (2016: P30.6 million) (2015: P30.6 million).

Land and building with a market value of P29.1 million (2016: P30.6 million) (2015: P30.6 million) has been pledged as security for the Botswana Building Society loan (note 23.3).

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:**

| Valuation technique | Significant observable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|---|---|---|
| • Market capitalisation method (investment method)<br>• Comparable method | Market yield of between 8 – 10%<br>• Prime rentals of office space between P75/sq.m to P100/sq.m | The estimated fair value with increase/(decrease) if:<br>• Higher/lower market yields<br>• Increase/decrease in rental per sq.m |

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

| | Capital composition under Basel II Framework | | Capital composition under Basel I Framework |
|---|---|---|---|
| | Consolidated | | |
| | 2017<br>P'000 | 2016<br>P'000 | 2015<br>P'000 |
| 30. **CAPITAL ADEQUACY** | | | |
| **Core capital (Tier 1)** | | | |
| Stated capital | 222 479 | 222 479 | 222 479 |
| Statutory credit risk reserve and other reserves | 11 073 | 6 091 | 6 091 |
| Retained earnings | 831 753 | 692 591 | 522 318 |
| Regulatory adjustments applied in the calculation of CET 1 Capital (intangible asset) | (36 137) | – | – |
| | **1 029 168** | **921 161** | **750 888** |
| **Supplementary capital (Tier 2)** | | | |
| Revaluation reserve (50% in 2016) (50% in 2015) | – | 3 076 | 3 076 |
| General provision/ general loan-losses reserves eligible for inclusion in Tier II | 17 387 | 25 757 | 22 317 |
| Subordinated loan | 184 425 | 192 610 | 143 231 |
| | **201 812** | **221 443** | **168 624** |
| **Total capital (Tier 1 and Tier 2)** | **1 230 980** | **1 142 604** | **919 512** |
| Market risk | 114 438 | 7 972 | – |
| Operational risk | 595 765 | 552 430 | – |
| On Balance sheet assets/ credit risk weighted assets | 5 192 446 | 4 957 881 | 5 846 469 |
| Off Balance sheet assets | 322 562 | 130 614 | 16 331 |
| **Total risk weighted assets** | **6 225 212** | **5 648 897** | **5 862 800** |
| Core capital ratio | 16.53% | 16.31% | 12.81% |
| Capital adequacy ratio | 19.77% | 20.23% | 15.68% |
| Bank of Botswana preferred minimum risk asset ratio | 15% | 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 capital to the risk weighted value of assets and off balance sheet items. The ratio as at 31 December 2017 meets the minimum requirement of 15% set by Bank of Botswana.

31. **SUBSIDIARY**

Kaleu Proprietary Limited 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.

| | **Consolidated** | | |
|---|---|---|---|
| | **2017 P'000** | **2016 P'000** | **2015 P'000** |
| 32. **CONTINGENT LIABILITIES AND LOAN COMMITMENTS** | | | |
| Financial guarantees | 149 851 | 28 374 | 33 951 |
| Loan commitments and other credit related liabilities | 588 591 | 191 199 | 483 526 |
| | **738 442** | **219 573** | **517 477** |
| 33. **CAPITAL COMMITMENTS** | | | |
| Commitments in respect of capital expenditure: | | | |
| Approved but not contracted for | 35 647 | 29 651 | 61 422 |
| Operating lease commitments | 32 625 | 16 505 | 16 423 |
| **Total commitments** | **68 272** | **46 156** | **77 845** |
| 33.1 **Operating leases** | | | |
| Long-term accrual | 627 | – | – |
| Short-term accrual | 426 | – | – |
| **Total commitments** | **1 053** | **–** | **–** |
| Minimum lease payments | | | |
| Cashflow within 1 year | 6 545 | 9 960 | 9 911 |
| Cashflow between 2 – 5 years | 26 389 | 6 545 | 6 512 |
| **Future expenses** | **32 934** | **16 505** | **16 423** |

34. **DERIVATIVE FINANCIAL INSTRUMENTS:**

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

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

| | **Consolidated** | | |
|---|---|---|---|
| **Derivative financial instruments 31 December 2017** | **Assets P'000** | **Liabilities P'000** | **Notional amount P'000** |
| **Derivatives held for trading** | | | |
| Foreign exchange contracts | – | 1 322 | (1 322) |
| **Derivatives designated at fair value through profit or loss** | | | |
| Collateralised default swap | 63 967 | 60 255 | 3 712 |
| | **63 967** | **61 577** | **2 390** |

| Derivative financial instruments 31 December 2016 | Consolidated<br>Assets<br>P'000 | <br>Liabilities<br>P'000 | <br>Notional amount<br>P'000 |
|---|---|---|---|
| **Derivatives held for trading** | | | |
| Foreign exchange contracts | 215 | 393 | (178) |
| **Derivatives designated at fair value through profit or loss** | | | |
| Collateralised default swap | 64 230 | 61 117 | 3 113 |
| | **64 445** | **61 510** | **2 935** |

There were no derivative financial instruments in 2015 financial year.

34.1 **Derivative financial instruments – cash flows:**

| Derivative financial liabilities-cash flows 31 December 2017 | Up to 1 month P'000 | 1 – 3 months P'000 | 3 – 12 months P'000 | Consolidated<br>Greater than 1 year P'000 | Total P'000 |
|---|---|---|---|---|---|
| **Value on initial recognition** | | | | | |
| Collateralised default swap | 1 322 | – | – | 60 255 | 61 577 |
| | **1 322** | **–** | **–** | **60 255** | **61 577** |

| Derivative financial liabilities-cash flows 31 December 2016 | Up to 1 month P'000 | 1 – 3 months P'000 | 3 – 12 months P'000 | Consolidated<br>Greater than 1 year P'000 | Total P'000 |
|---|---|---|---|---|---|
| Value on initial recognition | | | | | |
| Foreign exchange contracts | 393 | – | – | 61 117 | 61 510 |
| | **393** | **–** | **–** | **61 117** | **61 510** |

There were no derivative financial instruments in 2015 financial year.

## 35. STANDARDS ISSUED BUT NOT YET EFFECTIVE – IFRS 9 IMPLEMENTATION

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

**Classification and measurement**

The classification and measurement of financial assets depend on how these are managed (the Group's business model) and the contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL") . The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared to IAS 39. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue to exist.

**Impairment**

The impairment requirements apply to financial assets measured at amortised costs and FVOCI, lease receivables, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-months ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-months ECL is recognised in "stage 1; financial assets that are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, are considered to be in default or otherwise credit impaired, are in "stage 3".

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions, reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than IAS 39, and the resulting impairment charge may be more volatile. IFRS 9 may also result in an increase in the total impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

**Hedge accounting**

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

**Transitional impact**

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018.The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirements to restate comparative periods. The Group does not intend to restate comparatives, being 2016 numbers. For the Group's consolidated financial statements, adoption is expected to reduce net assets by approximately P78 million, net of deferred tax of approximately P17 million. Capital Adequacy Ratio is expected to decrease by approximately 2% on a fully loaded basis. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 31 December 2018.

36. **EVENTS AFTER REPORTING DATE**

The directors are not aware of any post reporting date events at the date of signing these financial statements.

# INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF BANCABC

Private and confidential
The Directors
African Banking Corporation of Botswana Limited
Private Bag 00303
Gaborone
Botswana

2 November 2018

Dear Members of the Board

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED (THE "COMPANY")**

**Opinion**

The Audited Historical Financial Information of the Company which is marked as **Annexure 1** to the Pre-Listing Statement dated 5 November 2018 ("the Pre-Listing Statement"), which comprise the summary consolidated statement of the financial position as at 31 December 2015, 31 December 2016 and 31 December 2017, the summary consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of African Banking Corporation of Botswana Limited ("the Company") for the years ended 31 December 2015, 31 December 2016 and 31 December 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited financial statements, on the basis described by the BSE listing requirements and Companies Act of Botswana.

**Summary consolidated financial statements**

The summary of consolidated financial statements do not contain all the disclosures required by International Financial Reporting Framework applied in the preparation of the audited consolidated financial statements of the Company. Reading the summary consolidated financial statements and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and our report thereon.

**The audited consolidated financial statements and our report thereon**

We expressed an unmodified audit opinion on the audited consolidated financial statements in our reports dated for the years then ended 31 December 2015, 31 December 2016 and 31 December 2017.

**Management's responsibility for the summary consolidated financial statements**

Management is responsible for the preparation of the summary financial consolidated statements on the basis described by BSE Listing Requirements and Companies Act.

**Independent Reporting Accountants' responsibility**

Our responsibility is to express an opinion on whether the summary financial consolidated statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), "Engagements to Report on Summary Financial Statements."

**KPMG**
Certified Auditors
Practising member: AG Devlin, 19960060

2 November 2018

Gaborone

# REVIEWED INTERIM FINANCIAL STATEMENTS OF BANCABC

The consolidated statements of financial position as at 30 June 2018 and 31 December 2017 and consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended 30 June 2018 and 30 June 2017, together with the related accounting policies and notes, have been extracted, from the reviewed financial statements of BancABC.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
for the six months ended 30 June 2018

| *In thousands of pula* | **Notes** | **30 June 2018** | **30 June 2017** |
|---|---|---|---|
| Interest and similar income | | 368 132 | 375 555 |
| Interest expense and similar charges | | (151 039) | (131 453) |
| **Net interest income** | **3** | **217 093** | **244 102** |
| Changes in expected credit losses and other credit impairment charges | | 16 686 | – |
| Loan impairment charges and other credit risk provisions | | – | (24 430) |
| **Net interest income after loan impairment charges** | | **233 779** | **219 672** |
| Net trading income | **4** | 12 000 | 15 757 |
| Net fee and commission income | **5** | 60 019 | 32 549 |
| **Total net revenue** | | **305 798** | **267 978** |
| Total operating expenses | **6** | (180 575) | (179 130) |
| **Profit before tax** | | **125 223** | **88 848** |
| Income tax expense | **7** | (27 644) | (19 715) |
| **Profit for the period** | | **97 579** | **69 133** |
| **Other comprehensive income for the period** | | **–** | **–** |
| **Total comprehensive income for the period** | | **97 579** | **69 133** |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (thebe) | **8** | 336 | 238 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
as at 30 June 2018

| *In thousands of pula* | Notes | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank | | 527 680 | 369 567 |
| Balances with other banks | | 406 591 | 425 038 |
| Balances due from related parties | **13** | 689 284 | 628 403 |
| Derivative financial assets | | 67 517 | 63 967 |
| Financial assets held for trading | **12** | N/A | 632 673 |
| Financial assets held at amortised cost | **12** | 682 713 | N/A |
| Loans and advances to customers | **9** | 5 757 152 | 5 795 372 |
| Other assets | | 71 643 | 37 305 |
| Current tax assets | | 15 340 | 17 020 |
| Deferred tax asset | | 39 599 | – |
| Intangible assets | | 98 953 | 90 341 |
| Property and equipment | | 65 938 | 68 033 |
| **Total assets** | | **8 422 410** | **8 127 719** |
| **LIABILITIES** | | | |
| Deposits from banks | **10** | 240 684 | 130 703 |
| Deposits from customers | **10** | 6 317 226 | 6 059 935 |
| Derivative financial liabilities | | 61 407 | 61 577 |
| Balances due to related parties | **13** | 41 392 | 32 686 |
| Other liabilities | | 81 253 | 79 707 |
| Deferred tax liabilities | | – | 13 900 |
| Borrowed funds | **11** | 711 068 | 683 906 |
| **Total liabilities** | | **7 453 030** | **7 062 414** |
| **EQUITY** | | | |
| Stated capital | | 222 479 | 222 479 |
| Retained earnings | | 735 828 | 831 753 |
| Revaluation reserve | | 4 982 | 4 982 |
| Other reserves | | 6 091 | 6 091 |
| **Total equity** | | **969 380** | **1 065 305** |
| **Total equity and liabilities** | | **8 422 410** | **8 127 719** |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
for the six months ended 30 June 2018

| *In thousands of pula* | **Stated capital** | **Other reserves** | **Revaluation reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|
| **At 1 January 2017** | **222 479** | **6 091** | **6 152** | **692 591** | **927 313** |
| Profit for the period | – | – | – | 69 133 | 69 133 |
| **At 30 June 2017** | **222 479** | **6 091** | **6 152** | **761 724** | **996 446** |
| **At 31 December 2017** | **222 479** | **6 091** | **4 982** | **831 753** | **1 065 305** |
| Change on initial application of IFRS 9 at 1 January 2018 | | | | (249 226) | **(249 226)** |
| Deferred tax on IFRS 9 adjustment at 1 January 2018 | | | | 54 829 | **54 829** |
| **Net impact on IFRS 9 application at 1 January 2018** | | | | **(194 397)** | **(194 397)** |
| Re-measurement of financial instruments from fair value to amortised cost | – | – | – | 893 | **893** |
| **At 1 January 2018** | **222 479** | **6 091** | **4 982** | **638 249** | **871 801** |
| Profit for the period | – | – | – | 97 579 | 97 579 |
| **Total comprehensive income** | **–** | **–** | **–** | **97 579** | **97 579** |
| **At 30 June 2018** | **222 479** | **6 091** | **4 982** | **735 828** | **969 380** |

## CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2018

| *In thousands of pula* | Notes | 30 June 2018 | 30 June 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 125 223 | 88 848 |
| **Adjusted for:** | | | |
| Depreciation | | 6 145 | 6 127 |
| Amortisation of intangible assets | | 7 089 | 4 198 |
| Loan impairment charges | | (16 686) | 24 430 |
| Movement in deferred lease liability | | 425 | – |
| Tax paid | | (24 634) | (19 971) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **97 562** | **103 632** |
| **Movement in operating assets/liabilities:** | | | |
| Loans and advances to customers | | (194 320) | (72 597) |
| Other assets | | (133 922) | (282 458) |
| Deposits from customers and banks | | 367 272 | (215 175) |
| Other liabilities | | 9 657 | (67 988) |
| **Net cash from operating activities** | | **146 249** | **(534 586)** |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | (4 050) | (2 527) |
| Purchase of intangibles assets | | (15 701) | (27 685) |
| **Net cash used in investing activities** | | **(19 751)** | **(30 212)** |
| **Cash flows from financing activities** | | | |
| Movement in borrowed funds | | 27 162 | 407 558 |
| **Net cash from financing activities** | | **27 162** | **407 558** |
| Net (decrease) increase in cash and cash equivalents | | 153 660 | (157 240) |
| Cash and cash equivalents at beginning of year | | 874 035 | 1 459 234 |
| **Cash and cash equivalents at end of the period** | | **1 027 695** | **1 301 994** |
| **Cash and cash equivalents comprised of:** | | | |
| Balances with other banks | | 406 591 | 631 668 |
| Financial assets held at amortised cost | **12** | 368 130 | 397 933 |
| Cash and balances with the Central Bank | | 252 974 | 272 393 |
| | | **1 027 695** | **1 301 994** |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
for the six months ended 30 June 2018

**GENERAL INFORMATION**

African Banking Corporation of Botswana Limited (trading as BancABC) provides corporate banking retail and investment banking services. 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 Proprietary Limited 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. The ultimate holding company is Atlas Mara Co-Nvest Limited incorporated in the British Virgin Islands and assumed control of ABC Holdings on 31 August 2014.

## 1. BASIS OF PREPARATION

The Group's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and should be read in conjunction with the Group's last annual consolidated financial statements as at 31 December 2017. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

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.

This is the first set of the Group's financial statements where IFRS 9 has been applied. Changes to significant accounting policies are described in note 2.

These interim financial statements were authorised for issue by the Group's board of directors on 18 September 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at 31 December 2018.

IFRS 15 Revenue from contracts with customers contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The standard is applicable to the entity in terms of revenue recognition, however, the implementation of the standard does not materially affect revenue recognition.

### 1.1 Standards and Interpretations in issue but not yet effective:

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

**IFRS 16 Leases**

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

## 2. CHANGE IN ACCOUNTING POLICIES: FINANCIAL ASSETS

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group consolidated financial statements as at 31 December 2017. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the group.

The Group's approach to transition is discussed and the resultant net impact on opening reserves on 1 January 2018 is provided below.

(i) **Transition**

As permitted by the transitional provisions of IFRS 9, the Group has elected not to restate comparative figures.

Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition have been recognised in opening retained earnings and other reserves at 1 January 2018.

| | **Movement in balances as at 30 June 2018** | | |
|---|---|---|---|
| *In thousands of pula* | **Balance as at 31 December 2017 (Audited)** | **IFRS 9 transitional adjustments** | **Adjusted Balance as at 1 January 2018 (Unaudited)** |
| Ordinary share capital and share premium | 222 479 | – | 222 479 |
| Retained earnings | 831 753 | – | 831 753 |
| **Movement as a result of IFRS 9 Day 1 adjustments:** | | | |
| Financial instruments | – | 878 | 878 |
| Balances due from related parties | – | (115) | (115) |
| Loans and advances to customers | – | (241 959) | (241 959) |
| Off balance sheet items | – | (7 137) | (7 137) |
| Deferred tax asset arising from the impairment impact | – | 54 829 | 54 829 |
| **Net total impact on retained earnings** | **831 753** | **(193 504)** | **638 249** |
| Other reserves | 11 073 | – | 11 073 |
| **Total equity position after IFRS 9 transition** | **1 065 305** | **(193 504)** | **871 801** |

(ii) **Classification and measurement**

Financial assets are classified based on:

– the business model for managing the financial assets.

– the contractual cash flow characteristics of the financial assets.

A debt instrument is generally measured at amortised cost if both the following conditions are met

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Financial assets are being held to meet Central bank liquidity requirements with no intention of trading, and have not been traded in the last 18 months.

A debt instrument is measured at Fair Value Through Other Comprehensive Income (FVOCI) if both of the following conditions are met.

- The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The above requirements should be applied to an entire financial asset, even if it contains an embedded derivative.

A debt instrument that is not measured at amortised cost or at FVOCI must be measured at FVTPL (Fair value through profit and loss).

The Group's Financial Instruments which were initially held at Fair Value Through Profit and Loss (FVTPL), have been reclassified to Financial assets at amortised cost. Financial Instruments are being held to meet Central bank liquidity requirements with no intention of trading, and have not been traded in the last 18 months.

The Group's derivatives which are either financial assets or financial liabilities will continue to be classified as held for trading and measured at FVTPL. Accounting for the other financial assets remain unchanged.

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

| *In thousands of pula* | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| **Financial asset** | **Measurement Category** | **Carrying amount** | **Measurement Category** | **Carrying amount** |
| Cash and short-term funds | Loans and receivables – amortised cost | 794 605 | Amortised cost | 794 605 |
| Financial asset assets held for trading | Held for trading – FVPL | 632 673 | Amortised cost | 633 281 |
| Loans and advances | Loans and receivables – amortised cost | 5 795 372 | Amortised cost | 5 546 275 |
| Intercompany receivables | Loans and receivables – amortised cost | 628 403 | Amortised cost | 628 391 |
| **Total financial assets** | | **7 851 053** | | **7 602 552** |

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

| *In thousands of pula* | | | | | | **FVTPL** |
|---|---|---|---|---|---|---|
| **Financial assets** | **Carrying amount 31 December 2017** | **IFRS 9 ECL re-measurement** | **IFRS 9 Classification and measurement** | **Carrying amount 1 January 2018** | **Amortised cost** | **Mandatory at fair value value** |
| Cash and balances with Central bank | 369 567 | – | – | 369 567 | 369 567 | – |
| Balances due from related parties | 628 403 | (115) | – | 628 288 | 628 288 | – |
| Balances with other banks | 425 038 | – | – | 425 038 | 425 038 | – |
| Financial instruments | 632 673 | (15) | 893 | 633 551 | 633 551 | – |
| Derivative financial assets | 63 967 | – | – | 63 967 | – | 63 967 |
| Loans and advances to customers | 5 795 372 | (249 097) | – | 5 546 275 | 5 546 275 | – |
| **Total assets** | **7 915 020** | **(249 227)** | **893** | **7 666 686** | **7 602 719** | **63 967** |
| **Financial liabilities** | | | | | | |
| Deposits from customers | 6 059 935 | – | – | 6 059 935 | 6 059 935 | – |
| Deposits from banks | 130 703 | – | – | 130 703 | 130 703 | – |
| Balances due to related parties | 32 686 | – | – | 32 686 | 32 686 | – |
| Borrowed funds | 683 906 | – | – | 683 906 | 683 906 | – |
| Derivative financial liabilities | 61 577 | – | – | 61 577 | – | 61 577 |
| **Total liabilities** | **6 968 807** | **–** | **–** | **6 968 807** | **6 907 230** | **61 577** |

(iii) **Impairments**

Impairments in terms of IFRS 9 are determined based on an Expected Credit Loss (ECL) model, as opposed to an incurred loss model in terms of IAS 39. The ECL model applies to financial assets measured at amortised cost and lease receivables and certain loan commitments as well as financial guarantee contracts.

Under IFRS 9 loss allowances are measured on either of the following bases:

– twelve-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ELCs that result from all possible default events over the expected life of a financial instrument.

The Group is required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Indicators of a SICR for customers in the retail portfolios may include any of the following:

- Short-term forbearance
- Direct debit cancellation
- Extension of terms granted
- Previous arrears within the past months

Indicators of a significant increase in credit risk in corporate business portfolio may include:

- Significant increase in credit spread
- Significant adverse changes in business
- Actual or expected forbearance or restructuring
- Significant changes in collateral value
- Early signs of liquidity and cash flow problems

(iv) **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Overview of the Group's credit risk by stage and industry, and the associated ECL coverage is as follows:

The financial assets recorded in each stage have the following characteristics:

**Stage 1:** Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

**Stage 2:** A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

**Stage 3:** Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

(v) **Loans and advances at amortised cost by stage**

The table below presents an analysis of loans and advances at amortised cost by gross exposure, impairment allowance and coverage ratio by stage allocation and business segment as at 30 June 2018. Also included are off-balance sheet items and financial guarantee contracts, intercompany receivables and financial assets at amortised cost by gross exposure.

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

| In thousands of Pula | 30 June 2018 balance | | | | 30 June 2018 impairment | | | | Net exposure | | | | 30 June 2018 ECL Cove-rage Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | |
| Corporate loans | 830 277 | 3 722 | 59 017 | 893 016 | 14 986 | 21 | 18 271 | 33 278 | 815 291 | 3 701 | 40 746 | 859 738 | 3.7% |
| Corporate – overdrafts | 27 883 | – | 3 327 | 31 210 | 1 165 | – | 2 378 | 3 543 | 26 718 | – | 949 | 27 667 | 11.4% |
| Retail secured loans | 564 486 | 15 456 | 66 477 | 646 419 | 3 683 | 72 | 13 573 | 17 328 | 560 803 | 15 384 | 52 904 | 629 091 | 2.7% |
| Retail overdrafts | 11 705 | – | 9 171 | 20 876 | 3 898 | – | 6 621 | 10 519 | 7 807 | – | 2 550 | 10 357 | 50.4% |
| Retail unsecured loans | 4 286 407 | 44 288 | 165 025 | 4 495 720 | 119 924 | 2 970 | 142 527 | 265 421 | 4 166 483 | 41 318 | 22 498 | 4 230 299 | 5.9% |
| **Total loans and advances** | **5 720 758** | **63 466** | **303 017** | **6 087 241** | **143 656** | **3 063** | **183 370** | **330 089** | **5 577 102** | **60 403** | **119 647** | **5 757 152** | **5.4%** |
| **Total balances due from related parties** | 689 359 | – | – | 689 359 | 75 | – | – | 75 | 689 284 | – | – | 689 284 | 0.0% |
| **Total off balance sheet** | 629 601 | – | 7 656 | 637 257 | 2 414 | – | 3 018 | 5 432 | 627 187 | – | 4 638 | 631 825 | 0.9% |
| **Total financial instruments** | 682 731 | – | – | 682 731 | 18 | – | – | 18 | 682 713 | – | – | 682 713 | 0.0% |
| **Total** | **7 722 449** | **63 466** | **310 673** | **8 096 588** | **146 163** | **3 063** | **186 388** | **335 614** | **7 576 286** | **60 403** | **124 285** | **7 760 974** | **4.1%** |

| In thousands of Pula | 01 January 2018 Balance | | | | 01 January 2018 Impairment | | | | Net exposure | | | | 01 Jan 2018 ECL Cove-rage Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | |
| Corporate loans | 740 466 | 8 066 | 117 454 | 865 986 | 7 016 | 207 | 33 762 | 40 985 | 733 450 | 7 859 | 83 692 | 825 001 | 4.7% |
| Corporate – overdrafts | 88 675 | 1 487 | 1 187 | 91 349 | 12 531 | 902 | 1 157 | 14 590 | 76 144 | 585 | 30 | 76 759 | 16.0% |
| Retail secured loans | 536 804 | 18 874 | 68 486 | 624 164 | 8 514 | 165 | 22 906 | 31 585 | 528 290 | 18 709 | 45 580 | 592 579 | 5.1% |
| Retail overdrafts | 15 421 | 101 | 10 132 | 25 654 | 5 707 | 98 | 9 570 | 15 375 | 9 714 | 3 | 562 | 10 279 | 59.9% |
| Retail unsecured loans | 4 091 751 | 41 228 | 149 321 | 4 282 300 | 106 801 | 3 153 | 132 561 | 242 515 | 3 984 950 | 38 075 | 16 760 | 4 039 785 | 5.7% |
| **Total loans and advances** | **5 473 117** | **69 756** | **346 580** | **5 889 453** | **140 569** | **4 525** | **199 956** | **345 050** | **5 332 548** | **65 231** | **146 624** | **5 544 403** | **5.9%** |
| **Total balances due from related parties** | 628 403 | – | – | 628 403 | 90 | – | – | 90 | 628 313 | – | – | 628 313 | 0.0% |
| **Total off balance sheet** | 736 861 | – | 1 581 | 738 442 | 6 223 | – | 914 | 7 137 | 730 638 | – | 667 | 731 305 | 1.0% |
| **Total financial instruments** | 632 673 | – | – | 632 673 | 15 | – | – | 15 | 632 658 | – | – | 632 658 | 0.0% |
| **Total** | **7 471 054** | **69 756** | **348 161** | **7 888 971** | **146 897** | **4 525** | **200 870** | **352 292** | **7 324 157** | **65 231** | **147 291** | **7 536 679** | **4.5%** |

Impairment allowance under IFRS 9 considers both the drawn and the undrawn counterparty exposure. For retail portfolios, the total impairment allowance is allocated to the drawn exposure to the extent that the allowance does not exceed the exposure as ECL is not reported separately. Any excess is reported on the liability side of the balance sheet as a provision. For wholesale portfolios the impairment allowance on the undrawn exposure is reported on the liability side of the balance sheet as a provision.

**Movement in total impairment allowance and provision**

Changes in impairment 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 impairment allowance as at 30 June 2018:

| *In thousands of Pula* | **Impairment provision** | | | |
|---|---|---|---|---|
| **Loans and advances** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Opening balance** | **140 569** | **4 525** | **199 956** | **345 050** |
| New loans | 36 461 | 8 335 | (12 611) | 32 185 |
| Liquidated loans | (21 899) | (149) | (25 106) | (47 154) |
| Transfer from stage 2 to 1 | (398) | 398 | – | – |
| Transfer to stage 3 | (11 077) | (10 046) | 21 123 | – |
| **Closing balance** | **143 656** | **3 063** | **183 370** | **330 089** |
| **Impairment charge for the period** | **3 087** | **(1 462)** | **(16 594)** | **(14 969)** |
| **Off balance sheet and financial assets** | | | | |
| **Opening balance** | **6 328** | **–** | **914** | **7 242** |
| Liquidated off balance sheet items | (816) | – | (889) | (1 705) |
| Financial assets impairment movement | (12) | – | – | (12) |
| Transfer from stage 3 | (2 993) | – | 2 993 | – |
| **Closing balance** | **2 507** | **–** | **3 018** | **5 525** |
| **Impairment charge for the period** | **(3 821)** | **–** | **2 104** | **(1 717)** |
| **Total impairment charge for the period (income statement)** | | | | **(16 686)** |

## 3. NET INTEREST INCOME

| | **June 2018 P'000** | **June 2017 P'000** |
|---|---|---|
| **Interest and similar income** | | |
| Cash and short-term funds | 22 482 | 23 940 |
| Investment securities | 5 184 | 4 214 |
| Loans and advances to customers | 340 466 | 347 401 |
| | **368 132** | **375 555** |
| **Interest expense and similar charges** | | |
| Deposits from banks and customers | 124 000 | 119 457 |
| Borrowed funds | 27 039 | 11 996 |
| | **151 039** | **131 453** |
| **Net interest income** | **217 093** | **244 102** |

## 4. NET TRADING INCOME

| | | |
|---|---|---|
| Forex trading profits | 11 060 | 14 304 |
| Currency revaluations | 940 | 1 453 |
| **Net trading income** | **12 000** | **15 757** |

## 5. NET FEE AND COMMISSION INCOME

| | June 2018 P'000 | June 2017 P'000 |
|---|---|---|
| Fees | 25 410 | 10 230 |
| Commission income | 27 015 | 17 261 |
| Other income | 7 594 | 5 058 |
| **Net fee and commission income** | **60 019** | **32 549** |

## 6. OPERATING EXPENSES

| | | |
|---|---|---|
| Personnel expense | 64 438 | 57 106 |
| General and admin expenses | 80 023 | 91 500 |
| Other operating expenses | 36 114 | 30 524 |
| | **180 575** | **179 130** |

## 7. INCOME TAX EXPENSE

| | | |
|---|---|---|
| Prior year (over)/under provision | 133 | – |
| Current taxes on income for the reporting period | 26 181 | 14 108 |
| **Total current tax** | **26 314** | **14 108** |
| Deferred tax | 1 330 | 5 607 |
| **Tax expense per statement of profit and loss and other comprehensive income** | **27 644** | **19 715** |
| **Effective tax rate** | **22.1%** | **21.8%** |

The effective tax rate of 22.1% has been calculated using a statutory rate of 22% based on revenue and expenses earned or accrued on 30 June 2018. Revenues and expenses which relate to the full reporting period have been pro-rated. Similarly capital allowances have been pro-rated based on opening income tax values and capital expenditure to date.

## 8. 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 period.

| | June 2018 P'000 | June 2017 P'000 |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| Profit attributable to equity holders of the Company (P'000) | 97 579 | 69 133 |
| Weighted average number of ordinary shares in issue ('000) | 29 000 | 29 000 |
| **Basic and diluted earnings per share (thebe)** | **336** | **238** |
| **Number of shares ('000s)** | | |
| Shares in issue at beginning and end of the period | 29 000 | 29 000 |
| **Weighted average number of ordinary shares in issue** | **29 000** | **29 000** |

## 9. LOANS AND ADVANCES TO CUSTOMERS

| | June 2018 P'000 | December 2017 P'000 |
|---|---|---|
| Loans and advances | 6 060 076 | 5 859 148 |
| Installment sales and finance leases | 35 018 | 40 609 |
| | **6 095 094** | **5 899 757** |
| Expected credit loss as at 30 June 2018/Impairment Allowance | (330 089) | (94 081) |
| | **5 765 005** | **5 805 676** |
| Unearned fee income | (7 853) | (10 304) |
| **Loans and advances after unearned fee income** | 5 757 152 | 5 795 372 |
| **Maturity analysis:** | | |
| On demand to one month | 307 767 | 412 435 |
| One month to three months | 131 935 | 114 380 |
| Three months to one year | 270 982 | 256 611 |
| Greater than one year | 5 384 410 | 5 116 331 |
| | **6 095 094** | **5 899 757** |
| Expected credit loss as at 30 June 2018/Impairment Allowance | (330 089) | (94 081) |
| | **5 765 005** | **5 805 676** |
| Unearned fee income | (7 853) | (10 304) |
| **Loan and advances after unearned fee income** | **5 757 152** | **5 795 372** |

## 10. DEPOSITS FROM BANKS AND CUSTOMERS

| | | |
|---|---|---|
| Deposits from banks | 240 684 | 130 703 |
| Deposits from customers | 6 317 226 | 6 059 935 |
| | **6 557 910** | **6 190 638** |
| **Maturity analysis:** | | |
| On demand to one month | 1 665 535 | 2 710 086 |
| One month to three months | 1 233 006 | 1 980 282 |
| Three months to one year | 2 504 861 | 1 417 580 |
| Greater than one year | 1 154 508 | 82 690 |
| | **6 557 910** | **6 190 638** |

## 11. BORROWED FUNDS

| | June 2018 P'000 | December 2017 P'000 |
|---|---|---|
| **Balances with accrued interest** | | |
| ABC Holdings Ltd – subordinated loan | 134 781 | 130 114 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 440 | 55 355 |
| Botswana Building Society – long-term loan | 11 256 | 12 193 |
| European Investment Bank (EIB) – long-term loan | 89 357 | 89 370 |
| Overseas Private Investment Corporation (OPIC) | 420 234 | 396 874 |
| | **711 068** | **683 906** |
| **Maturity analysis:** | | |
| On demand to one month | 3 274 | 150 |
| One to three months | 7 698 | 5 087 |
| Three months to one year | 25 387 | 420 546 |
| Over one year | 674 709 | 258 123 |
| | **711 068** | **683 906** |
| **Balances without accrued interest** | | |
| ABC Holdings Ltd – subordinated loan | 133 709 | 129 425 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 000 | 55 000 |
| Botswana Building Society – long-term loan | 10 780 | 11 790 |
| European Investment Bank (EIB) – long-term loan | 88 727 | 88 727 |
| Overseas Private Investment Corporation (OPIC) | 416 884 | 393 901 |
| | **705 100** | **678 843** |
| **Accrued interest** | | |
| ABC Holdings Ltd – subordinated loan | 1 072 | 689 |
| Kgori Capital Proprietary Limited – subordinated debt | 440 | 355 |
| Botswana Building Society – long-term loan | 476 | 403 |
| European Investment Bank (EIB) – long-term loan | 630 | 643 |
| Overseas Private Investment Corporation (OPIC) | 3 350 | 2 973 |
| | **5 968** | **5 063** |
| **Fair value** | | |
| ABC Holdings Ltd – subordinated loan | 134 781 | 130 114 |
| Kgori Capital Proprietary Limited – subordinated debt | 55 440 | 55 355 |
| Botswana Building Society – long-term loan | 11 256 | 12 193 |
| European Investment Bank (EIB) – long-term loan | 89 357 | 89 370 |
| Overseas Private Investment Corporation (OPIC) | 420 234 | 396 874 |
| | **711 068** | **683 906** |

### 11.1 ABC Holdings Ltd shareholders' loan

The bank currently holds two instruments with ABC Holdings Limited, one denominated in Pula for P31 million and the other in US Dollar (USD) for USD10 million (P101 million). The Pula denominated borrowing has perpetual maturity at a fixed interest rate of 12.5% per annum, while the US Dollar denominated borrowing has perpetual maturity at a fixed interest rate of 12% per annum. Interest is paid bi-annually.

### 11.2 Kgori Capital Proprietary Limited

The bond with Kgori Capital Proprietary Limited was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenor of seven years. Interest is paid bi-annually.

### 11.3 Overseas Private Investment Corporation ("OPIC")

On 7 March 2017 BancABC Botswana finalised a USD40 million Fintech and Financial Inclusion Debt Facility provided by the 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 seven-year tenor with a three-year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year three. The rate is three month Libor plus a margin of 4.45%. The value of loans pledged as security as at 30 June 2018 is P453 673 017.

### 11.4 Botswana Building Society

The term loan from Botswana Building Society was obtained on 31 December 2008. The loan bears interest at prime (6.5%) less 0.75%. The loan is secured by land and buildings with a market value of P29 100 000. Principal plus interest are repayable monthly. The loan matures on 30 December 2022.

### 11.5 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.

## 12. FINANCIAL ASSETS

| | June 2018 P'000 | December 2017 P'000 |
|---|---|---|
| Bank of Botswana Certificates | 149 430 | 149 762 |
| Government Bonds | 15 384 | 15 593 |
| Treasury Bills | 517 917 | 467 318 |
| | **682 731** | **632 673** |
| IFRS 9 impact | (18) | – |
| | **682 713** | **632 673** |
| **Financial assets qualifying to be included as part of cash and cash equivalents** | | |
| Bank of Botswana Certificates | 149 430 | 149 762 |
| Treasury Bills | 218 700 | 248 171 |
| | **368 130** | **397 933** |

## 13. BALANCES DUE FROM RELATED PARTIES

| | | |
|---|---|---|
| ABC Holdings Ltd | 526 095 | 477 241 |
| African Banking Corporation Zimbabwe Ltd | 54 403 | 49 195 |
| African Banking Corporation Zambia Ltd | 938 | 376 |
| African Banking Corporation Mozambique Ltd | 513 | 292 |
| Banque Populaire du Rwanda Ltd (BPR) | 2 041 | 1 911 |
| African Banking Corporation Tanzania Ltd | 105 292 | 99 386 |
| Atlas Mara Ltd | 2 | 2 |
| | **689 284** | **628 403** |
| **Interest income** | | |
| ABC Holdings Ltd | 14 537 | 28 027 |
| African Banking Corporation Zimbabwe Ltd | 571 | 1 109 |
| African Banking Corporation Zambia Ltd | – | 199 |
| African Banking Corporation Tanzania Ltd | 3 442 | 6 684 |
| | **18 550** | **36 019** |

The above balances are unsecured and carry variable interest rate.

## 13. BALANCES DUE TO RELATED PARTIES

| | June 2018 P'000 | December 2017 P'000 |
|---|---|---|
| ABC Holdings Ltd | 6 779 | 4 569 |
| African Banking Corporation Mozambique Ltd | 7 200 | 6 645 |
| African Banking Corporation Zimbabwe Ltd | 6 471 | 1 706 |
| African Banking Corporation Zambia Ltd | 20 942 | 19 766 |
| | **41 392** | **32 686** |
| **Interest expense** | | |
| ABC Holdings Ltd | – | 68 |
| African Banking Corporation Mozambique Ltd | – | 36 |
| African Banking Corporation Zambia Ltd | 30 | 76 |
| | **30** | **180** |
| ABC Holdings Ltd – Subordinated loan | 136 733 | 131 358 |
| | **136 733** | **131 358** |
| Shared services costs | 25 596 | 55 877 |
| | **25 596** | **55 877** |

Shared services costs above relates to services rendered based on fair value or cost plus a mark up not exceeding 10% between BancABC Botswana and ABC Holdings Limited and Atlas Mara Limited. These services are shared support services such as executive management time, Information Technology support, Risk and Credit governance, and Internal audit, Compliance and Corporate governance and other administrative services for the benefit of BancABC Botswana.

## 14. CONTINGENT LIABILITIES AND LOAN COMMITMENTS

| | June 2018 P'000 | December 2017 P'000 |
|---|---|---|
| Financial guarantees | 86 268 | 149 851 |
| Loan commitments and other credit related liabilities | 550 989 | 588 591 |
| | **637 257** | **738 442** |
| Change in expected credit losses | (5 432) | – |
| | **631 825** | **738 442** |

## 15. CAPITAL COMMITMENTS

| | | |
|---|---|---|
| Commitments in respect of capital expenditure: | | |
| Approved and contracted for | 51 306 | 35 647 |
| Approved but not contracted for | 38 404 | 17 714 |
| Operating lease commitments | 32 933 | 32 625 |
| **Total commitments** | **122 643** | **85 986** |

## 16. SEGMENTAL REPORTING JUNE 2018

| | Retail Banking P'000 | Corporate Banking P'000 | Treasury P'000 | Total P'000 |
|---|---|---|---|---|
| ***Statement of comprehensive income*** | | | | |
| Net interest income | 161 350 | 16 711 | 39 032 | 217 093 |
| Non-interest income | 55 955 | 4 064 | 12 000 | 72 019 |
| **Total income** | **217 305** | **20 775** | **51 032** | **289 112** |
| Movement in impairment | (928) | 17 565 | 49 | 16 686 |
| **Net income** | **216 377** | **38 340** | **51 081** | **305 798** |
| Operating expenses | (144 640) | (21 331) | (14 604) | (180 575) |
| **Profit before taxation** | **71 737** | **17 009** | **36 477** | **125 223** |
| Taxation | – | – | – | (27 644) |
| **Profit after taxation** | **71 737** | **17 009** | **36 477** | **97 579** |
| ***Statement of financial position*** | | | | |
| Loans and advances to customers | 4 869 747 | 887 405 | – | 5 757 152 |
| **Total assets for reportable segments** | **4 869 747** | **887 405** | **–** | **5 757 152** |
| Deposits from banks | – | – | 240 684 | 240 684 |
| Deposits from customers | 963 876 | 4 146 367 | 1 206 983 | 6 317 226 |
| **Total liabilities for reportable segments** | **963 876** | **4 146 367** | **1 447 667** | **6 557 910** |

**SEGMENTAL REPORTING JUNE 2017**

| | Retail Banking P'000 | Corporate Banking P'000 | Treasury P'000 | Total P'000 |
|---|---|---|---|---|
| ***Statement of comprehensive income*** | | P'000 | P'000 | P'000 |
| Net interest income | 173 821 | 44 688 | 25 593 | 244 102 |
| Non-interest income | 28 090 | 4 459 | 15 757 | 48 306 |
| **Total income** | **201 911** | **49 147** | **41 350** | **292 408** |
| Movement in impairment | (19 638) | (4 792) | – | (24 430) |
| **Net income** | **182 273** | **44 355** | **41 350** | **267 978** |
| Operating expenses | (145 016) | (18 377) | (15 737) | (179 130) |
| **Profit before taxation** | **37 257** | **25 978** | **25 613** | **88 848** |
| Taxation | – | – | – | (19 715) |
| **Profit after taxation** | **37 257** | **25 978** | **25 613** | **69 133** |
| ***Statement of financial position December 2017 (pre-IFRS 9 adjustment)*** | | | | |
| Loans and advances to customers | 4 815 409 | 979 963 | – | 5 795 372 |
| **Total assets for reportable segments** | **4 869 747** | **887 405** | **–** | **5 757 152** |
| Deposits from banks | – | – | 130 703 | 130 703 |
| Deposits from customers | 1 052 084 | 3 984 766 | 1 023 085 | 6 059 935 |
| **Total liabilities for reportable segments** | **1 052 084** | **3 984 766** | **1 153 788** | **6 190 638** |

## 17. EVENTS AFTER REPORTING DATE

The group concluded a Tier 2 capital re finance agreement with Botswana Development Corporation Ltd (BDC) for BWP150 million. The facility is for 10 years at an interest rate of prime rate (currently 6.5% and a margin of 2.5%) and a margin of 4%. The facility qualifies as tier 2 capital. The proceeds were used to re-pay the two ABC holdings Ltd tier 2 capital instruments of USD10 million and BWP31 million. The balance was applied to grow the bank's loan book.

# INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE INTERIM FINANCIAL STATEMENTS OF BANCABC

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

To the shareholders of African Banking Corporation of Botswana Limited

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of African Banking Corporation of Botswana Limited as at 30 June 2018, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes ("the condensed interim financial information"), as set out in Annexure 3 to the Pre-Listing Statement.

Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*'.

**KPMG**
Certified Auditors
Practising member: AG Devlin, 19960060

2 November 2018

Gaborone

# INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE PROFIT FORECAST OF BANCABC

**Private and confidential**

The Directors

African Banking Corporation of Botswana Limited
Private Bag 00303
Gaborone
Botswana

2 November 2018

Dear Members of the Board

## INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE PROFIT FORECAST AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED (THE "COMPANY")

We have undertaken a reasonable assurance engagement in respect of the profit forecasts of African Banking Corporation of Botswana Limited ("the Company") for the 12 months ending 31 December 2018 and the 12 months ending 31 December 2019, as set out in Paragraph 17 of the Pre-Listing Statement dated 5 November 2018 ("the Pre-Listing Statement"), comprising the forecast income statement and balance sheet items (the "Forecast Information"), as required the BSE Listings Requirements ("Listing Requirements").

We have also undertaken a limited assurance engagement in respect of the directors of the Company ("Director's") assumptions used to prepare and present the Forecast Information, disclosed in the notes to the Forecast Information presented in Paragraph 17 of the Pre-Listing Statement, as required by the Listings Requirements.

*Directors' responsibility for the Forecast Information and for the assumptions used to prepare the Forecast Information*

The directors are responsible for the preparation and presentation of the Forecast Information and for the reasonableness of the assumptions used to prepare the Forecast Information as set out in the notes to the Forecast Information presented in Paragraph 17 of the Pre-Listing Statement in accordance with the Listings Requirements ("Listings Requirements relating to Forecast Information"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Forecast Information on the basis of those assumptions that is free from material misstatement, whether due to fraud or error.

*Inherent limitations*

Actual results are likely to be different from the Forecast Information since anticipated events frequently do not occur as expected and the variation may be material. Consequently, readers are cautioned that the Forecast Information may not be appropriate for purposes other than described in the purpose of the report paragraph below.

*Our independence and quality control*

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our responsibilities in accordance with the IESBA Code.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

***Part A – Reasonable assurance engagement on the Forecast Information***

*Independent Reporting Accountants' Responsibilities*

Our responsibility is to express an opinion based on the evidence we have obtained about whether the Profit Forecast Information is properly prepared and presented on the basis of the directors' assumptions disclosed in the notes to the Forecast Information presented in Paragraph 17 of the Pre Listing Statement (the assumptions) and in accordance with the Listings Requirements for forecast information. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE 3400), *The Examination of Prospective Financial Information* (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether such Forecast Information is properly prepared and presented on the basis of the Directors' assumptions disclosed in the notes to the Forecast Information presented in Paragraph 17 of the Pre Listing Statement and in accordance with the Listings Requirements for forecast information.

A reasonable assurance engagement in accordance with ISAE 3400 involves performing procedures to obtain evidence that the Forecast Information is properly prepared and presented on the basis of the assumptions and in accordance with the Listings Requirements for forecast information. The nature, timing and extent of procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, of the forecast information. In making those risk assessments, we considered internal control relevant to African Banking Corporation of Botswana Limited's preparation and presentation of the Forecast Information.

Our procedures included:

- inspecting whether the Forecast Information is properly prepared on the basis of the assumptions;
- inspecting whether the Forecast Information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions; and
- inspecting whether the forecast statement of profit or loss and other comprehensive income is prepared on a consistent basis with the historical financial statements, using appropriate accounting policies.

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

*Unqualified opinion on the Forecast Information*

In our opinion, the Forecast Information, for the 12 months ending 31 December 2018 and the 12 months ending 31 December 2019, is properly prepared and presented on the basis of the assumptions and in accordance with the Listings Requirements for forecast information.

***Part B – Limited assurance engagement on the reasonableness of the directors' assumptions***

*Reporting accountant's responsibility*

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation and presentation of the Forecast Information in accordance with the Listings Requirements for forecast information, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE 3400), *The Examination of Prospective Financial Information* (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the directors' assumptions provide a reasonable basis for the preparation and presentation of the Forecast Information.

A limited assurance engagement undertaken in accordance with ISAE 3400 involves assessing the source and reliability of the evidence supporting the directors' assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included inquiries, observations of processes performed, inspection of documents, analytical procedures, evaluating the reasonableness of best-estimate assumption and agreeing or reconciling with underlying records.

Our procedures included evaluating the directors' best-estimate assumptions on which the Forecast Information is based for reasonableness.

The procedures performed in a limited assurance engagement are less in extent than for, and vary in nature from, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the directors' assumptions provide a reasonable basis for the preparation and presentation of the Forecast Information.

*Limited assurance conclusion on the reasonableness of the directors' assumptions*

Based on the procedures we have performed and evidence we have obtained, nothing has come to our attention that causes us to believe that the directors' assumptions do not provide a reasonable basis for the preparation and presentation of the Forecast Information.

*Purpose of the report*

This report has been prepared for the purpose of satisfying the requirements the Listings Requirements and for no other purpose.

**KPMG**
Certified Auditors
Practising member: AG Devlin, 19960060

2 November 2018

Gaborone

# EXTRACTS FROM THE CONSTITUTION

1. **QUALIFICATION, APPOINTMENT AND REMUNERATION OF DIRECTORS**

The relevant provisions of the Constitution concerning the qualification, appointment and remuneration of the Directors are as follows:

1.1 The current Directors of the Company shall be persons whose names appear in Part F of this PLS.

1.2 At any time the number of Directors of the Company shall not be less than 4 (four) and subject to this limitation, the number of Directors to hold office shall be fixed from time to time by ordinary resolution.

1.3 If the number of directors falls below four, the remaining directors are only permitted to act for the purpose of filling vacancies and calling general meetings of holders of shares.

1.4 The Directors in office at the date of adoption of this constitution shall continue in office subject to the provisions of this constitution.

1.5 Subject to the Listings Requirements and clause 2.3, a Director may be appointed by Ordinary resolution. All Directors shall be subject to removal from office as director, by Ordinary Resolution.

1.6 Nominations for persons to be elected as directors at an Annual General Meeting may be submitted in writing to the Company Secretary up to five days before the Meeting. Such nominations shall be signed by two holders of Shares or any one holder of Shares who holds 5% or more of the Shares of the Company, and proposer and seconder, and signed by the nominee indicating consent to act as director and accompanied by the nominees. The Company shall circulate to Security holders the list of nominees and their curriculum vitae on the 5th day preceding the Annual General Meeting.

1.7 Subject to clause 1.8 at every Annual General Meeting at least one third of the Directors for the time being shall retire from office. The Directors so to retire in each year shall be those who have been longest in office since their last appointment or election.

1.8 Notwithstanding anything to the contrary contained in clause 1.7, any person employed under a contract, or who has any other contract with the Company, which contract has as a condition thereof that the person shall be a director of the Board, that person shall not be subject to retirement by rotation as envisaged in clause 1.7, but the period for which that person shall be a Director and hold office as such shall be determined by the terms and conditions of his contract with the Company.

1.9 The Board may, exercise the power conferred by the Act to authorise remuneration and other benefits to and for Directors.

2. **PROCEEDINGS OF DIRECTORS**

2.1 **Chairperson**

The Directors may elect one of their number as chairperson and another of their number to be deputy chairperson of the Board and determine the period for which the chairperson and deputy chairperson is to hold office. If at any meeting the chairperson is not present within five minutes after the time appointed for the commencement of the meeting, the deputy chairperson shall chair the meeting. If the deputy chairperson is not so present the Directors present may choose one of their number to be chairperson of the meeting.

2.2 **Notice of meetings**

A Director or any other person, if requested by a Director to do so, may convene a meeting of the Board by giving notice in accordance with clause 2.2 and clause 2.3. Each Director must be given not less than seven days' notice of a meeting of the Board, unless in the opinion of the chairperson or of Directors who would together constitute a quorum at the meeting, the meeting is necessary as a matter of urgency, in which event shorter notice of the meeting may be given so long as at least 48 hours' notice is given provided that attendance by telephonic or electronic means to enable attendance by means of audio or audio and visual communication is arranged and such being available to each Director. Notice may be given to a Director in any of the following ways:

2.2.1 by delivery of the notice to the Director, in which case the notice will be deemed to be given when delivered; or

2.2.2 by sending the notice by facsimile or email transmission to the facsimile number or email address(s) given by the Director to the Company for the purpose of receiving notices, in which case the notice will be deemed to be given when sent; or

2.2.3 by posting the notice to the address given by the Director for the purpose of receiving notices, in which case the notice will be deemed to be given three days after it is posted, provided that in the case of any Director who does not reside in Botswana the notice is also delivered in accordance with paragraph (c) above; or

2.2.4 by sending by electronic means in accordance with any request made by the Director from time to time for such purpose.

If a Director, who is for the time being absent from Botswana, or who does not ordinarily reside in Botswana, supplies the Company with a facsimile number or address or email address or another form of electronic mail address to which notices are to be sent during his or her absence, then notice must be so given to that Director. If a Director who is absent from Botswana has an alternate Director who is in Botswana, then notice must be given to that person.

A notice of a meeting must specify the date, time and place of the meeting and, if the meeting is to be by means of audio and visual communication, the manner in which the Director will be contacted to participate at the time of the meeting, and details of how the Director can attend or participate in the meeting.

2.3 **Quorum**

Unless otherwise determined by the Board, a quorum for a meeting of the Board shall be a majority of the Directors appointed as such at the time, and provided that all Directors have received proper notice of the meeting. The number of Directors required for a quorum may be amended by Ordinary Resolution. No business may be transacted at a meeting of the Board unless a quorum is present.

2.4 **No qualification for directors**

There is no qualification in respect of the holding shares issued by the Company, for Directors.

# MATERIAL BORROWINGS AND ENCUMBRANCES

| Borrower Botswana | Name of lender | Facility amount | Terms and conditions | Interest rate | Security |
|---|---|---|---|---|---|
| African Banking Corporation of Botswana Limited | Botswana Building Society | BWP21 600 000 | The Loan is for a period of 15 years and is subject to a monthly payment of BWP290 040.00. | 14% per annum | First Covering Mortgage Bond over Lot 62443, Gaborone. |
| African Banking Corporation of Botswana Limited | The European Investment Bank | EUR20 000 000 | The loan is to be used exclusively by the Borrower towards financing projects to be carried out by private sector companies and commercially run public entities through the execution of sub-financing agreements.<br>The Borrower may not exceed EUR 5 500 000.00 in respect of each sub-financing agreement.<br>The loan is to be disbursed in eight tranches each tranche shall be a minimum amount of the equivalent of EUR750 000. | Not less than 10 days before the proposed disbursement date, the Bank shall issue a disbursement notice setting out the interest rate basis for the tranche being:<br>Fixed rate tranche or in the case of a non-tranche only, a floating rate tranche.<br>For a non-BWP tranche a margin of 0.29% shall apply<br>For a BWP tranche, a margin per annum fixed for the life of the relevant tranche equal to 0.29% plus a currency risk premium shall apply. | The loan is not secured, however, the Borrower shall not create of permit to subsist any security over any of its assets.<br>The above does not apply to any security granted by the Borrower to any other financial creditor to secure the indebtedness of the principal amount which does not exceed EUR30 000 000 (or its equivalent) provided that the security is by way of<br>(a) security of the Borrower's loan receivable portfolio<br>(b) a pledge of the parent's equity shares in the Borrower and subject to the condition that the Bank is granted equivalent security for its loan as the Borrower grants to such other creditor including providing the Bank with guarantees for the loan. |

| Borrower Botswana | Name of lender | Facility amount | Terms and conditions | Interest rate | Security |
|---|---|---|---|---|---|
| African Banking Corporation of Botswana Limited – Issuer of a medium-term note programme for BWP500 000 000 ("the Issuer") | | Tranche 1 for BWP250 000 000 | The material terms governing the notes issued in terms the Programme Memorandum dated 7 April 2016 are as follows:<br>(a) There was a minimum subscription of BWP100 000 and integral multiples of BWP100 000<br>(b) The maturity date for the notes is 19 October 2023 however the Issuer may redeem the notes by giving not less than 30 and not more than 60 days' notice.<br>(c) There is no step up or other incentives that can be exercised to result in payment of the notes.<br>(d) The Issuer may exercise a call option to repay the notes five years after the advance date. | Interest rate is 8% per annum and shall be payable on 19 October and 19 April of each year. | The notes are unsecured and are subordinated in favour of the depositors and general creditors of the Issuer. |
| African Banking Corporation of Botswana Limited | Overseas Private Investment Corporation | An amount not exceeding USD40 000 000 | The loan was issued to the Borrower, to fund the expansion of the Borrower's:<br>(a) SME loan portfolio<br>(b) Financial inclusion loan portfolio<br>(c) Invest in upgrades in information technology<br>(d) To develop and introduce retail and corporate banking product technology provided that no more than 5,000,000 of the loan proceeds will be used for purposes described in items (c) and (d).<br>The funds shall be disbursed through the issuance of a disbursement notice by the Borrower during the commitment period.<br>The Borrower shall repay the Loan in 16 approximately equal instalments beginning on the first payment date after the third anniversary of the date of the agreement, being 23 December 2016 and ending no later than the payment date that occurs prior to the fourth anniversary of the last day of the grace period.<br>The Borrower shall also, *inter alia,* pay the Lender:<br>A commitment fee of 0.25% per annum calculated for each day during the commitment period, on the amount of the commitment<br>Annual maintenance fee to cover administrative costs etc in amount of USD40 000 | Interest in respect of any note shall be (a) three-month LIBOR and (b) 4.45% per annum | The Guaranty Agreement between ABC Holdings Limited and the Lender.<br>The Loan Portfolio Cession Agreement in respect of eligible loans made by the Borrower that are collateral under the agreement.<br>The Account Charge Agreement among the Borrower and the Lender for the creation of a *Lien* in favour of the Lender on the dollar denominated account established in London by the Borrower in a US financial institution and pledged to the Lender. |

| **Borrower Botswana** | **Name of lender** | **Facility amount** | **Terms and conditions** | **Interest rate** | **Security** |
|---|---|---|---|---|---|
| African Banking Corporation of Botswana Limited | Botswana Development Corporation | BWP150 000 000 | The loan was issued to the Borrower for purposes of raising tier 2 capital and shall be utilised towards growth and expansion of the Borrower's loan book and payment of the existing loan with ABC Holdings Limited, the details of which appear above. | 7.5 % per annum | The loan is not secured and is subordinated against the claims of general creditors and depositors of the Bank. |

# PROPERTY LEASE AGREEMENTS

| No. | Property | Landlord | Term of lease | Date of commencement | Expiry date | Use of the premises | Termination provisions | Rent (BWP)/escalation | Renewal provisions |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Game City Shopping Complex | Turnstar Holdings Limited | five years | 1 October 2016 | 30 September 2021 | Commercial | Each party may terminate the lease by giving the other party six months written notice. | P19 500 base rental.<br>P5 490.00 operating costs.<br>P1 545.00 levy charge<br>All charges escalate at the rate of 8% per annum. | There is an option to renew for a further period of five years at the open market rental by written notice 90 days before commencement of the renewal period. |
| 2. | Plot 54516, Gaborone | Tlamo Proprietary Limited | five years | 1 September 2016 | 31 August 2021 | Commercial | Either party may terminate the agreement by giving 60 days' notice in writing to the other party. | BWP42 000 plus VAT for 1 November 2016 to 30 October 2017;<br>BWP 45,750 plus VAT for 1 November 2017 to 30 October 2018; BWP49 900 plus VAT for 1 November 2018 to 30 October 2019; BWP54 391.22 plus VAT for 1 November 2019 to 30 October 2020; and BWP59 286.43 plus VAT for 1 November 2010 to 30 October 2021.<br>On 1 November 2017 and thereafter the monthly rental shall increase by 7.5%. | The lessee has an option to renew for a further period of five years, which option shall be exercised in writing no less than four months prior to the expiry of the initial period. The rental shall be the open market rental. |

| No. | Property | Landlord | Term of lease | Date of commencement | Expiry date | Use of the premises | Termination provisions | Rent (BWP)/escalation | Renewal provisions |
|---|---|---|---|---|---|---|---|---|---|
| 3. | Tribal Lot 731, Old Mall Extension, Maun | Maun Photolab Proprietary Limited | five years | 1 December 2016 | 1 December 2021 | Commercial | Either party may terminate the lease on eight calendar months' notice. | BWP27 900, exclusive of VAT, for the first year. The rental shall escalate at 8% on each anniversary of the commencement date. | The lessee has an option to renew the lease on the same terms, save for rental, for a further five years.<br>This shall be in writing no later than three months prior to the date on which the renewal period is to commence. |
| 4. | Plot 64518, Deloitte House, Fairgrounds, Gaborone | East Coast Investor Proprietary Limited | three years | 1 June 2016 | | Commercial | The landlord may terminate the lease by six months' notice.<br>If the landlord commits a breach and fails to remedy the breach within 10 days of receiving notice, the tenant shall be entitled to cancel the lease and claim specific performance or damages. | BWP100 per square metre plus BWP400 per space for the basement car space and BWP200 per space for the surface, amounting to BWP33 050 plus VAT for the first year.<br>The rent shall escalate at a rate of 5% on each anniversary of the commencement date. | The tenant has an option to renew the lease for an additional period of three years, by written notice at least six months prior to the end of the initial period.<br>The rental shall be based on the current commercial lease property market trends existing at the renewal date. |
| 5. | Plot 838 – 841, Blue Jacket Street, Francistown | EDS Proprietary Limited | five years | 1 April 2015 | 31 March 2020 | Commercial | The lessor is entitled to cancel the lease if the lessee fails to pay on the due date, commits breach of any terms of the lease and fails to remedy such breach within 14 days of written notice, or becomes liquidated. | BWP80 797.28 plus VAT, payable by 12 equal monthly instalments, for the first year. The rental shall escalate at 7.5% effective from the anniversary of the commencement date. | The lessee has an option to renew the lease for a period of five years by notice not less than six months prior to the expiry of the initial period. |

| No. | Property | Landlord | Term of lease | Date of commencement | Expiry date | Use of the premises | Termination provisions | Rent (BWP)/escalation | Renewal provisions |
|---|---|---|---|---|---|---|---|---|---|
| 6. | Plot 70665, Block 10, Airport Junction Shopping Centre, Gaborone | Feune Proprietary Limited | five years | 1 May 2017 | 30 April 2022 | Commercial | The tenant shall have no claim by reason of the leased premises falling into a state of despair and/or by reason of the interruption of any services.<br>Should the tenant (a) fail to pay; and (b) breach any term of the lease and fail to remedy within 14 days after written notice, the landlord shall be entitled to claim damages, cancel the lease, resume possession and claim arrear amounts owing together with the present value of each unpaid but not yet due and payable monthly rentals for the unexpired portion of the lease. | Basic monthly rental of BWP95 890, escalating at 7% per annum compounded.<br>Municipal rates at a *pro rata* and management agent's administration fee at the rate of 10%. | |

| No. | Property | Landlord | Term of lease | Date of commencement | Expiry date | Use of the premises | Termination provisions | Rent (BWP)/escalation | Renewal provisions |
|---|---|---|---|---|---|---|---|---|---|
| 7. | Plot 543381, The Square, CBD, Gaborone | GH Group Proprietary Limited | five years | 1 February 2014 | 31 January 2019 | Commercial | The tenant shall have no claim by reason of the leased premises falling into a state of despair and/or by reason of the interruption of any services.<br>Should the tenant (a) fail to pay; and (b) breach any term of the lease and fail to remedy within 14 days after written notice, the landlord shall be entitled to claim damages, cancel the lease, resume possession and claim arrear amounts owing together with the present value of each unpaid but not yet due and payable monthly rentals for the unexpired portion of the lease. | BWP79 603.63 for 1 February 2014 to 31 January 2015; BWP84 379.85 for 1 February 2015 to 31 January 2016; BWP89 442.64 for 1 February 2016 to 31 January 2017; BWP97 809.20 for 1 February 2017 to 31 January 2018; and BWP 110 497.75 for 1 February 2018 to 31 January 2019. | The tenant has an option to renew the lease for a further five years or such lessor period by written notice no later than six months prior to the termination date. The rental shall be market related. |

| No. | Property | Landlord | Term of lease | Date of commencement | Expiry date | Use of the premises | Termination provisions | Rent (BWP)/escalation | Renewal provisions |
|---|---|---|---|---|---|---|---|---|---|
| 8. | Plot 4716, Rail Park Mall, Gaborone | JTTM Properties Proprietary Limited | five years | 1 June 2017 | 31 May 2022 | Commercial | The tenant shall have no claim by reason of the leased premises falling into a state of despair and/or by reason of the interruption of any services.<br>Should the tenant (a) fail to pay; and (b) breach any term of the lease and fail to remedy within 14 days after written notice, the landlord shall be entitled to claim damages, cancel the lease, resume possession and claim arrear amounts owing together with the present value of each unpaid but not yet due and payable monthly rentals for the unexpired portion of the lease. | BWP 2,492 escalating at 8% per annum compounded.<br>Managing agent's administration fee at 10%.<br>Tenant's *pro rata* share of municipal charges at 0.25%. | |

# OTHER MATERIAL CONTRACTS

| Parties | Type of contract | Signature/effective date | Salient terms |
|---|---|---|---|
| African Banking Corporation of Botswana Limited ("the Bank") and the Government of the Republic of Botswana | Guarantee Agreement | Signature date: 24 July 2017<br>Notwithstanding the signature date, the Guarantee Agreement shall commence on the date of signature by the last party and shall continue until terminated. | The Bank shall in terms of this Agreement, advance credit facilities to employees of the government, members of Parliament and Councillors of Botswana who shall be approved in writing by the government.<br>The total amount to be advanced to any debtor shall not exceed a sum equivalent to 25% of the debtor's basis annual salary times the period of repayment in years.<br>The government shall stand as surety and co-principal debtor for the repayment on demand, of 70% of all sums of money which any debtor may now of from time to time owe to the Bank, its successors or assigns, including interest accrued, provided that the Bank shall have notified the government in writing that the monies have become due and payable and owing within three months of non-receipt of payment from the debtor.<br>The terms and conditions of the Agreement shall be reviewed every seven years or either party may call for review as and when the need arises. |
| African Banking Corporation of Botswana Limited ("the Bank") and Botswana Life | Renewal and Amendment of Prepaid Card product and service Agreement for the Disbursement of Funds to clients of Botswana Life | Signature Date: 14 November 2012.<br>Notwithstanding the signature date the Agreement shall be effective from 1 April 2015.<br>The Agreement is valid for a period of five years with an option to renew on terms and conditions to be agreed. | The parties have entered into a partnership Agreement in terms of which the Bank shall issue co-branded pre-paid value cards on behalf of Botswana Life.<br>Botswana Life will make payments to claimants for, *inter alia,* death, disability or retirement benefits through the co-branded cards. |
| African Banking Corporation of Botswana Limited ("the Bank") and Orange Botswana | Renewal and Amendment Agreement for the Bank Identification Number (BIN) Sponsorship and Support Services to Orange Money Visa Programme Agreement | Signature Date: 20 February 2013.<br>Notwithstanding the signature date, the Agreement shall be effective from 1 October 2015.<br>The Agreement shall be valid for a period of three years with effect from 1 October 2015 with an option to renew on terms and conditions to be agreed. | Orange, a mobile telecommunications services provider intends to offer its orange money customers access to VISA acceptance networks.<br>The Bank as a VISA principal licence holder will sponsor Orange with a BIN and support services to enable it to offer orange money customers access to VISA networks through the issuance of co-branded cards. |

| Parties | Type of contract | Signature/effective date | Salient terms |
|---|---|---|---|
| African Banking Corporation of Botswana Limited ("the Bank") and Botswana Savings Bank (BSB) | Sponsorship Agreement | The Agreement is to commence on the date of the last signature (which is not specified in the Agreement) for an initial period of two years.<br>The Agreement will automatically renew for one year unless terminated by either party by 90 days written notice prior to the end of the initial period. | The Bank has a principal licensing Agreement with VISA international and has entered into a sponsorship Agreement allowing BSB to join VISA international as an associate member for VISA card issuing and ATM acquiring business.<br>BSB shall issue VISA cards under its own brand and the Bank shall provide it with connectivity using its own VISA access points. |
| African Banking Corporation of Botswana Limited T/A BancABC and Botswana Sectors of Education Trade Union ("BOSETU") | Agreement for the provisions of non-guaranteed group scheme loan facilities. | The Effective date of the Agreement is the date of signature by the last signing party, being 22 December 2017.<br>The Agreement is valid for a period of three years to be reviewed annually. | The Bank shall provide staff and members of BOSETU with a non-guaranteed group scheme loan facility.<br>For administration of payments by members undertaken by BOSETU on behalf of the Bank, the Bank will pay rates reckoned per annum of the outstanding balance upon successful collections by BOSETU, which payments are to be made monthly inclusive of VAT. |
| African Banking Corporation of Botswana Limited T/A BancABC and Botswana Public Employees Union ("BOPEU") | Agreement for provision of non-guaranteed group scheme loan facilities. | The Effective date of the Agreement is the date of signature by the last signing party, being 25 May 2018.<br>The Agreement is valid for a period of three years. | BancABC shall provide staff and members of BOPEU with non-guaranteed group scheme loans on terms and conditions as set out in the Agreement.<br>For administration of payments by members undertaken by BOPEU on behalf of the Bank, the Bank will pay rates reckoned per annum of the outstanding balance upon successful collections by BOPEU, which payments are to be made monthly inclusive of VAT. |
| African Banking Corporation of Botswana Limited ("BancABC") and National Amalgamated Local & Central Government And Parastatal Workers Union ("NALCGPWU") | Agreement for provision of non-guaranteed group scheme loan facilities. | The signature date of the Agreement is 22 September 2014.<br>The Agreement is valid for a period of five years reviewed annually, during which period NALCGPWU will not enter into similar Agreements with any other financial institution. | BancABC shall provide staff and members of NALCGPWU with non-guaranteed group scheme on terms and conditions as set out in the Agreement.<br>For administration of payments by members undertaken by NALCGPWU on behalf of the bank, the bank will pay gross commission of rates reckoned per annum of the outstanding loan balance for loans which have been collected for that month.<br>The Agreement is subject to termination by either party upon at least 90 days notice prior to the end of the then current contract year. |

| Parties | Type of contract | Signature/effective date | Salient terms |
|---|---|---|---|
| African Banking Corporation of Botswana Limited ("BancABC") and Botswana Land Boards Local Authorities and Health Workers Union ("BLLAHWU") | Agreement for provision of non-guaranteed group scheme loan facilities. | The signature date of the Agreement is 27 October 2014.<br>The Agreement is valid for a period of five years reviewed annually during which period BLLAHWU will not enter into similar Agreements with any other financial institution. | BancABC shall provide staff and members of BLLAHWU with non-guaranteed group scheme on terms and conditions as set out in the Agreement.<br>For administration of payments by members undertaken by BLLAHWU on behalf of the Bank, the Bank will pay gross commission of rates reckoned per annum of the outstanding loan balance for loans which have been collected for that month.<br>The Agreement is subject to termination by either party upon at least 90 days notice prior to the end of the then current contract year. |
| African Banking Corporation of Botswana Limited and Botswana Meat Commission("BMC") | Partnership Agreement | Signature Date: 20 July 2016.<br>The Agreement shall commence on the date of signature and shall, subject to the termination provisions, continue for an indefinite period. | The Bank and BMC have entered into a loan Agreement in terms of which the Bank is has advanced BWP40 000 000 to BMC and registered a deed of hypothecation as security. The funds shall be used by BMC to purchase livestock for slaughter from farmers within the Francistown area<br>BMC desires to improve its payment method to livestock suppliers by introducing electronic payment through prepaid VISA cards to be provided by the Bank.<br>BMC shall pay fees to the Bank for procurement of VISA prepaid credit cards.<br>Either party shall have the option to terminate the Agreement by giving not less than 30 days notice. |
| African Banking Corporation of Botswana Limited ("BancABC") and Kaleu Proprietary Limited ("BancABC Insurance") | Cooperation Agreement | The signature date of the Agreement is 23 September 2013. | The parties entered into a Cooperation Agreement in terms of which BancABC undertakes to avail to BancABC Insurance all information in respect of any customer or insured, that BancABC Insurance may require for the purposes of assessing and/or processing any claim by any insured in terms of any policy administered by BancABC Insurance as an agent. BancABC further undertakes to provide appropriate space and facilities to BancABC Insurance for the purpose of undertaking the business.<br>BancABC Insurance is obliged in terms of the Agreement to pay to BancABC on a monthly basis a fee in the sum of P149 924 25 which is subject to review on the first anniversary of the commencement date and thereafter annually.<br>The effective date of the Agreement is 1 January 2013.<br>The Agreement commenced on 1 June 2013 and will subsist for as long as it is not lawfully terminated.<br>The notice period for termination is three months written notice prior to the date of intended termination. |

| Parties | Type of contract | Signature/effective date | Salient terms |
|---|---|---|---|
| The Bank and VISA International Service Association | The membership and trademark licence agreement | Signature date-29 May 2009 | The membership and trademark licence agreement allows the Bank to be a member of the VISA International Service Association, to use the VISA owned trademarks and to participate in the following programmes:<br>(i)VISA and Electron card Programme, as a principal member; and (ii) plus programme, as an issuer and acquirer.<br>VISA has granted the Bank a non-exclusive, non-transferable royalty fee licence to use the licensed marks in connection with the approved programmes in Botswana.<br>The agreement became effective from 29 May 2009, and the term of the agreement shall become unlimited as long as the Bank is in good standing with the association. The agreement shall automatically terminate upon the withdrawal or expulsion of the Bank unless terminated sooner.<br>Either party may terminate the agreement upon breach by written notice specifying the effective date which must not be less than 120 days subsequent to receipt of such notice |
| The Bank and the Government of the Republic of Botswana (represented by the office of the Accountant General) | Partnership Agreement | The agreement commenced on 1 April 2017 and shall remain in force for a period of 24 months. | The Bank is to provide letters of credit and related services for the procurement of goods and services on the international market by various government ministries and departments.<br>If any party is in default and fails to remedy the default after 15 days written notice, the aggrieved party shall be entitled to claim specific performance, cancel the agreement and to claim damages.<br>The government shall be entitled to terminate the agreement by giving the Bank one month's notice. |
| The Bank and the Government of the Republic of Botswana | Partnership Agreement | The agreement shall commence on 1 April and remain in force for a period of 60 months. | The Bank is to provide pre-paid cards to the Government of Botswana for a period of five years.<br>If any party is in default and fails to remedy the default after 15 days written notice, the aggrieved party shall be entitled to claim specific performance, cancel the agreement and to claim damages.<br>The government shall be entitled to terminate the agreement by giving the Bank one month's notice. |

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REF. JOB017043

# SHARE APPLICATION FORM FOR INDIVIDUALS

**SHARE APPLICATION FORM FOR INDIVIDUALS** 0501

**African Banking Corporation of Botswana Limited**

Incorporated in accordance with the laws of Botswana on 5 June 1986
Company Number 86/384
("BancABC" or "the Company" or "the Bank")

Application form and Terms and Conditions (the "**Form**" or the "**Application**") for purchase of part of 180 525 000 Ordinary Shares offered by the Selling Shareholder, as set out in the Pre-Listing Statement issued by the Company and registered in terms of the Companies Act [Cap 42:01] on 5 November 2018.

Please complete this form in BLOCK CAPITALS and in ink.

Full names:

Residential address:

Postal address:

Nationality:

Identity/Omang No:

(Note: you must submit a copy of certificate of your umang/passport)

Passport No:

Telephone No:

Cellphone No:

Email address:

Capacity: adult/minor

Applications must reach the Company by no later than 17:00 on 23 November 2018. The directors of the Company ("**the Directors**") reserve the right to reject an application if the conditions contained in the Pre-Listing Statement and instructions on this Form are not complied with. Multiple applications in the same name will be rejected.

I irrevocably apply to purchase for purchase (the "**Application Shares**"):

(Number of Ordinary Shares in figures)

( ) (Number of Ordinary Shares in words)

In the capital of the Company, at a price of BWP 2.00 per Ordinary Share on the terms and conditions set out in the Pre-Listing Statement.

I shall pay to the Company, an amount (the "**Payment**") equal to the number of shares allotted to me multiplied by BWP P2.00 (the "**Price**") with delivery of this Application Form.

The Shares allotted and paid for by me shall be transferred to me on 10 December 2018 ("**the Transfer Date**").

I acknowledge that the Shares allotted to me shall be registered in my name, within the book entry system of the Central Securities Depository of Botswana, following payment on the Transfer Date.

Payment shall be made:

(a) by bank guaranteed cheque expressed payable to "BancABC Share Offer" delivered with the application or

(b) by EFT/cash or cheque deposit to the following bank account:

| | |
|---|---|
| Bank: | BancABC Botswana |
| Account Name: | BancABC IPO Account |
| Account Number: | 3027214 390700 |
| Branch: | Head Office |
| Branch Number: | 550067 |
| SWIFT Code: | FMBZBWGA |

marked with the four digit number appearing on this application form as reference and your name inserted. If the reference number is not stated your payment and your application will be rejected with proof of EFT submitted with the application.

I acknowledge that I will be advised by the Company of the number of shares allotted to and purchased by me on or before 29 November 2018.

In the event there is a refund due to us, that refund is to be paid to me on or before 10 December 2018 to the following Bank Account:

A/C Name:

A/C No:

Bank

Branch:

Swift No;

The Company shall be entitled to change these dates, on notice to us, at our addresses set out herein.

All shares issued will be in a dematerialised form only. I acknowledge that if I do not have a securities account with the Central Securities Depository Botswana ("**CSDB**"), I shall be required to open such an account with the CSDB, and provide the Company with details of such account with the CSDB.

Broker name/Custodian name: CSDB A/C number:

STATUS: LC/LI/FC/FI/FR/JR/FJ:

Bank account details for refunds, if applicable, and payment of any future dividends:

Name: Account name:

Branch code: Branch name:

Account number:

**TERMS AND CONDITIONS**

1. I acknowledge that:
   - 1.1 this application constitutes an offer by me to be allotted and purchase the Shares the subject hereof;
   - 1.2 (and, if applicable, on behalf of each person on whose behalf I am contracting) that this offer is subject to rejection, acceptance or allotment by the Company on behalf of the Selling Shareholder in whole or in part.
   - 1.3 that the Shares to applied for by me (or if applicable, on behalf of each person on whose behalf I am contracting) hereunder form part of a larger sale by the Selling Shareholder of up to 180 525 000 shares at a price of BWP 2.00 per share (the "**Offer**" or the "**Offer Shares**") in terms of a Offer as defined in the Pre-Listing Statement to which this Application is attached, but that completion of the Offer of the Offer Shares is subject to the Company obtaining approval from the BSE Committee to list on the Main Board of the BSE.
2. I (and if applicable, on behalf of each person on whose behalf I am contracting) acknowledge that the Offer consists of a limited number of shares available in terms of the Offer, being 180 525 000 shares, available at a price of BWP 2.00 per share, and that the Selling Shareholder may allot such Shares to applicants who applied for such shares before me, or in accordance with this Form to any other applicant other than me.
3. I (and if applicable, I on behalf of each person on whose behalf I am contracting) represent, warrant and covenant to the Company (and acknowledges that the Selling Shareholder, Company and its counsel, are relying thereon) that both at the date hereof and at the Settlement Date: I have been independently advised as to restrictions with respect to the Offer and trading in the Offer Shares or any Purchased Shares in terms thereof, imposed by applicable laws, that no representation (written or oral) has been made to me by or on behalf of the Company with respect thereto, that I am aware of the characteristics of the Offer Shares applied for by me in terms of the Offer, the risks relating to an investment therein and of the fact that I may not be able to resell any Purchased Shares as may be allocated

to me from the Offer Shares in terms of the Offer, except in compliance with requirements of applicable laws and I further acknowledge that I have been advised to consult my own advisor for full particulars of any resale restrictions applicable to me; and that I understand that the and any Purchased Shares allocated to me in terms of the Offer out of the Offer Shares, will be purchased by me on a Placement basis only, and on the basis of terms set out in the Pre-Listing Statement issued on 5 November 2018.

4. I (and if applicable, on I behalf of each person on whose behalf I am contracting) acknowledge that:
   - 4.1 neither the Companies and Intellectual Property Authority nor the Botswana Stock Exchange Committee or similar regulatory authority has reviewed or passed on the merits of the Offer Shares; and
   - 4.2 there is no government or other insurance covering the Offer Shares; and
   - 4.3 there are risks associated with the purchase of the Offer Shares; and
   - 4.4 there may be restrictions on our ability to resell the Offer Shares and it is our responsibility to find out what those restrictions are and to comply with them before selling the Offer Shares; and
   - 4.5 I have the legal capacity to make, enter into and be bound by this Application and further certify that all necessary approvals of directors, trustees, fiduciaries, shareholders, partners, stakeholders, holders of voting Shares or otherwise have been given and obtained; and
   - 4.6 the entering into of this Application and the transactions contemplated hereby will not result in a violation of any of the terms or provisions of any law applicable to me (or any person on whose behalf I am contracting), or if I (or any person on whose behalf I am contracting) is not a natural person, any of such person's contracting documents, or any agreement to which such person is a party or by which it is bound; and
   - 4.7 this Application has been duly and validly authorised, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation on me; and
   - 4.8 in the case of our acting as agent for a principal, I am duly authorised to execute and deliver this Application and all other necessary documentation in connection with such Application on behalf of such principal and this Application has been duly authorised, executed and delivered by or on behalf of, and constitutes a legal, valid and binding agreement of, such principal; and
   - 4.9 I have such knowledge and experience in financial and business affairs as to be capable of evaluating the merits and risks of its investment in the Offer Shares and, are able to and agree to bear the economic risk of loss of its investment or, where I am not purchasing as principal, each beneficial purchaser is able to and agree to bear the economic risk of loss of its investment; and
   - 4.10 I have relied solely upon publicly available information set forth in the Pre-Listing Statement and not upon any verbal or written representation as to fact or otherwise made by or on behalf of the Selling Shareholder or the Company.
5. I acknowledge that the Company's advisors are acting as advisors to the Company and not as advisors to me (or any person on whose behalf I am contracting).
6. I undertake that if I am required by applicable legislation, regulations, rules, policies or orders or by any stock exchange or other regulatory authority, I will execute, deliver, file and otherwise assist the Company in filing, such reports, undertakings and other documents with respect to the issue of the Purchased Shares ("the Purchased Shares") including, without limitation this Application;
7. I declare that:
   - 7.1 the acquisition of the Purchased Shares hereunder by me (and each person on whose behalf I am contracting) will not result in me (or any such person) becoming a "control person" in respect of the Company, as defined under applicable laws; and
   - 7.2 no person has made to me (or any person on whose behalf I am contracting) any written or oral representations
     - (i) that any person will resell or repurchase the Purchased Shares (except in accordance with the Constitution of the Company), or
     - (ii) that any person will refund the purchase price of the Purchased Shares, or
     - (iii) as to the future price or value of the Purchased Shares; and
   - 7.3 the Payment which will be advanced by me to the Selling Shareholder or the Company hereunder will not represent proceeds of crime for the purposes of the Proceeds of Serious Crime Act Cap 08;03 (Botswana) (the "PSCA") and I acknowledge that the Selling Shareholder or the Company may in the future be required by law to disclose my/our name and other information relating to this Application and our purchase hereunder, on a confidential basis, pursuant to the PSCA; and to the best of our knowledge
     - (i) none of the purchase funds to be provided by me (A) have been or will be derived from or related to any activity that is deemed criminal under the laws of Botswana, or any other jurisdiction, or (B) are being tendered on behalf of a person or entity who has not been identified to me, and
     - (ii) I shall promptly notify the Selling Shareholder and the Company if I discover that any of such representations ceases to be true, and to provide the Selling Shareholder and the Company with appropriate information in connection therewith; and
   - 7.4 I (including any person on whose behalf I am contracting) have been encouraged to obtain independent legal, income tax and investment advice with respect to the Offer and the Offer Shares available to be applied for in terms thereof, and this Application and the purchase of Purchased Shares hereunder, and accordingly, have had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to me (and each person on whose behalf I am contracting) for purposes of giving representations, warranties and covenants under this Application; and
   - 7.5 I am duly authorised to enter into this Application.
8. I acknowledge that my Application and my offer to purchase any Purchased shares as may be allocated to me is irrevocable and may not be withdrawn.
9. I acknowledge that the directors on behalf of the Selling Shareholders may accept or reject the whole or any part of our Application, for whatever reason, in their absolute discretion.
10. I agree to accept and purchase the same or smaller number of Shares in respect of which this Application is made, as may be allotted to me by the Company on behalf of the Selling Shareholder, (being the Purchased Shares) in accordance with this application and the terms of and subject to the Pre-Listing Statement and the Constitution of the Company;
11. I declare that if I make the Payment due by cheque that the cheque will be honoured on first presentation;
12. I confirm that I have read and understood all the conditions of the Placement as set out in the Pre-Listing Statement, upon which our Application and offer is based and that all the information supplied by me is true and correct.
13. The Selling Shareholder and the Company will, after receiving the Payment for the Purchased Shares upon the successful listing of the Company, cause our ownership of such shares to be credited in our CSDB accounts.
14. In the event that the Company does not list on the BSE within six months of obtaining approval or such later date as I and the Company may agree, then this Application will be deemed terminated by mutual consent.
15. The Selling Shareholder and the Company shall be entitled to rely on an executed copy of this Application delivered via facsimile or electronically (including email), and acceptance by the Company on behalf of the Selling Shareholder of such executed copy of this Application shall be legally effective to create a valid and binding agreement between me and the Company in accordance with the terms hereof.

16. This Application may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document. If less than a complete copy of this Application is delivered to the Company, it will be deemed that I accept and agree with all of the terms and conditions of this Application on the pages not delivered, and the Company shall accordingly be entitled to assume the same.
17. I, and (if applicable) I on behalf of others for whom I am contracting hereunder, agree and covenant that the representations, warranties and covenants I make in terms of this Application are true and correct both as of our execution of this Application and as of the Settlement Date and will survive the completion of the issuance of the Purchased Shares. The representations, warranties and covenants herein are made with the intent that they be relied upon by the Selling Shareholder and the Company and its counsel in determining the eligibility of a purchaser of the Purchased Shares and I (and if applicable, on I behalf of each person on whose behalf I am contracting) agree to indemnify and hold harmless the Selling Shareholder and the Company and its affiliates, shareholders, directors, officers, employees, counsel and agents against all losses, claims, costs, expenses and damages or liabilities which any of them may suffer or incur which are caused or arise from a breach thereof.
18. I undertake to immediately notify the Company at, sales@motswedi.co.bw Attention: Martin Makgatlhe, Telephone: +267 3188629, Email: of any change in any statement or other information relating to me set forth herein which takes place prior to the Settlement Date.
19. I acknowledge that this Application requires me to provide certain personal information to the Company. Such information is being collected by the Company for the purposes of completing the Offer, which includes, without limitation, determining our eligibility (or that of any person on whose behalf I am contracting) to purchase the Purchased Shares under applicable laws, and causing the Purchased Shares to be issued to me and completing filings required by any stock exchange or regulatory authority. I agree that our personal information (and that of any person on whose behalf I am contracting) may be disclosed by the Company to: (a) stock exchanges or regulatory authorities (including the BSE as defined below), (b) the Company's registrar and transfer agent, (c) Botswana tax authorities, and (d) any of the other parties involved in the Offer, including legal counsel, and may be included in closing books in connection with the Offer. By executing this Application, I (and I on behalf of any person for whom I am contracting hereunder) consent to the foregoing collection, use and disclosure by the Company of such personal information. I (and I on behalf of any Disclosed Beneficial Purchaser for whom I am contracting hereunder) also consent to the filing of copies or originals of any of our documents delivered in connection with this Application as may be required to be filed with any stock exchange or regulatory authority in connection with the transactions contemplated hereby and expressly consents to the collection, use and disclosure of the personal information by the Botswana Stock Exchange for the purposes identified by such exchange, from time to time.
20. I acknowledge that I have consented to and requested that all documents evidencing or relating in any way to the sale of the Purchased Shares, be drawn up in the English language only.
21. The contract arising out of acceptance of this Application and all documents relating thereto are governed by and construed in accordance with the applicable laws of Botswana. I irrevocably submit to the exclusive jurisdiction of the courts of the Republic of Botswana.
22. This Application and its acceptance represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
23. The terms and provisions of this Application and its acceptance are binding upon and inure to our benefit and the Selling Shareholder and the Company and our/its respective heirs, executors, administrators, successors and assigns; provided that, except for as otherwise herein provided, this Application is not assignable by me without prior written consent of the Selling Shareholder and the Company.
24. I, and, if applicable, on I behalf of others for whom I am contracting hereunder, agree that this Application is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by me, and, if applicable, anyone on whose behalf I am contracting hereunder.
25. Neither this Application nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.
26. The invalidity, illegality or unenforceability of any provision of this Application does not affect the validity, legality or enforceability of any other provision hereof.
27. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.
28. In this Application, references to "BWP" are to Botswana Pula.

**Signature:**

**Date:**

**Full name:**

**Assisted by:**
**(if a minor)**

**Name:**

**Relationship**

**Date:**

Brokers/Bank stamp (if applicable)

# SHARE APPLICATION FORM FOR COMPANIES

**APPLICATION FORM FOR COMPANIES** 0001

## African Banking Corporation of Botswana Limited

Incorporated in accordance with the laws of Botswana on 5 June 1986
Company number 86/384
("the Company")

Application form and Terms and Conditions (the "**Form**" or the "**Application**") for purchase of part of 180 525 000 Ordinary Shares offered by the Selling Shareholder, as set out in the Pre-Listing Statement issued by the Company and registered in terms of the Companies Act [Cap 42:01] on 5 November 2018.

Please complete this form in BLOCK CAPITALS and in ink.

Full name of entity:

Nature of entity (association/society/company/
pension fund/other legal entity:

Registered office:

Principal place of business:

(Note: you must submit a copy of certificate of registration)

Association/society/company/pension fund/other
legal entity registration number:

Country of incorporation/registration:

Postal address (PO Box/Private Bag):

Telephone number (in case of query):

Email address:

Applications must reach the Company by no later than 17:00 on 23 November 2018. The directors of the Company ("**the Directors**") reserve the right to reject an application if the conditions contained in the Pre-Listing Statement and instructions on this Form are not complied with. Multiple applications in the same name will be rejected.

We irrevocably apply to purchase for purchase (the "**Application Shares**"):

(Number of Ordinary Shares in figures)

( ) (Number of Ordinary Shares in words)

in the capital of the Company, at a price of BWP 2.00 per Ordinary Share on the terms and conditions set out in the Pre-Listing Statement.

We shall pay an amount (the "**Payment**") equal to the number of shares allotted to us on behalf of the Selling Shareholder multiplied by BWP 2.00 (the "**Price**") with delivery of this Application Form.

The Shares allotted to and paid for by us shall be transferred to us on the 10 December 2018 ("**the Transfer Date**")

We acknowledge that the Shares allotted to us shall be registered in our name, within the book entry system of the Central Securities Depository of Botswana, following payment on the Transfer Date.

Payment shall be made:

(a) by bank guaranteed cheque expressed payable to “BancABC Share Offer” delivered with this application, or

(b) by EFT/cash or cheque deposit to the following bank account:

| | |
|---|---|
| Bank: | BancABC Botswana |
| Account Name: | BancABC IPO Account |
| Account Number: | 3027214 390700 |
| Branch: | Head Office |
| Branch Number: | 550067 |
| SWIFT Code: | FMBZBWGA |

marked with the four digit number appearing on this application form, as reference and your name inserted, if the reference number is not stated your payment and your application will be rejected with proof of EFT submitted with the application.

We acknowledge that we will be advised by the Company of the number of shares allotted to and purchased by us on or before 29 November 2018.

In the event there is a refund due to us, that refund is to be paid to us on or before 10 December 2018 to the following Bank Account:

A/C Name:

A/C No:

Bank

Branch:

Swift No;

The Company shall be entitled to change these dates, on notice to us, at our addresses set out herein.

We acknowledge that the Shares allotted to and to be purchased by us shall be registered in our name, within the book entry system of the Central Securities Depository of Botswana (“CSDB”), on the Transfer Date.

All shares issued will be in a dematerialised form only. We acknowledge that if we do not have a securities account with the CSDB, we shall be required to open such an account with the CSDB, and provide the Company with details of such account with the CSDB.

Broker name/Custodian name: CSDB A/C number:

STATUS: LC/LI/FC/FI/FR/JR/FJ:

Bank account details for refunds, if applicable, and payment of any future dividends:

Name: Account name:

Branch code: Branch name:

Account number:

## TERMS AND CONDITIONS

1. We acknowledge that:

   1.1 this application constitutes an offer by us to be allotted and purchase the Shares the subject hereof;

   1.3 (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) that this offer is subject to rejection, acceptance or allotment by the Company on behalf of the Selling Shareholder in whole or in part.

   1.3 (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) that the Shares applied to be purchased by us hereunder form part of a larger sale by the Selling Shareholder of up to 180 525 000 shares at a price of BWP 2.00 per share (the "**Offer**" or the "**Offer Shares**") in terms of an Offer as defined in the Pre-Listing Statement to which this Application is attached, but that completion of the Offer of the Offer Shares is subject to the Company obtaining approval from the BSE Committee to list on the Main Board of the BSE.

2. We (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) acknowledge that the Offer consists of a limited number of shares available in terms of the Offer, being 180 525 000 shares, available at a price of BWP 2.00 per share, and that the Selling Shareholder may allot such Shares to applicants who applied for such shares before us, or in accordance with this Form to any other applicant other than us.

3. We (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) represent, warrant and covenant to the Company (and acknowledges that the Selling Shareholder, Company and its counsel, are relying thereon) that both at the date hereof and at the Settlement Date: we have been independently advised as to restrictions with respect to the Offer and trading in the Offer Shares or any Purchased Shares in terms thereof, imposed by applicable laws, that no representation (written or oral) has been made to us by or on behalf of the Selling Shareholder or the Company with respect thereto, that we are aware of the characteristics of the Offer Shares applied for by us in terms of the Offer, the risks relating to an investment therein and of the fact that we may not be able to resell any Purchased Shares as may be allocated to us from the Offer Shares in terms of the Offer, except in compliance with requirements of applicable laws and we further acknowledge that we have been advised to consult our own advisor for full particulars of any resale restrictions applicable to us; and that we understand that any Purchased Shares allocated to us in terms of the Offer out of the Offer Shares, will be purchased by us on a "Placement" basis only, and on the basis of terms set out in the Pre-Listing Statement issued on 5 November 2018.

4. We (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) acknowledge that:

   4.1 neither the Companies and Intellectual Property Authority nor the Botswana Stock Exchange Committee or similar regulatory authority has reviewed or passed on the merits of the Offer Shares; and

   4.2 there is no government or other insurance covering the Offer Shares; and

   4.3 there are risks associated with the purchase of the Offer Shares; and

   4.4 there may be restrictions on our ability to resell the Offer Shares and it is our responsibility to find out what those restrictions are and to comply with them before selling the Offer Shares; and

   4.5 as a Company, partnership, trust, unincorporated association or other entity, we have the legal capacity to make, enter into and be bound by this Application and further certify that all necessary approvals of directors, trustees, fiduciaries, shareholders, partners, stakeholders, holders of voting Shares or otherwise have been given and obtained; and

   4.6 the entering into of this Application and the transactions contemplated hereby will not result in a violation of any of the terms or provisions of any law applicable to us (or any person on whose behalf we are contracting), or if we (or any person on whose behalf we are contracting) is not a natural person, any of such person's contracting documents, or any agreement to which such person is a party or by which it is bound; and

   4.7 this Application has been duly and validly authorised, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation on us; and

   4.8 in the case of our acting as agent for a principal, we are duly authorised to execute and deliver this Application and all other necessary documentation in connection with such Application on behalf of such principal and this Application has been duly authorised, executed and delivered by or on behalf of, and constitutes a legal, valid and binding agreement of, such principal; and

   4.9 we have such knowledge and experience in financial and business affairs as to be capable of evaluating the merits and risks of its investment in the Offer Shares and, are able to and agree to bear the economic risk of loss of its investment or, where we are not purchasing as principal, each beneficial purchaser is able to and agree to bear the economic risk of loss of its investment; and

   4.10 we have relied solely upon publicly available information set forth in the Pre-Listing Statement and not upon any verbal or written representation as to fact or otherwise made by or on behalf of the Selling Shareholder or the Company.

5. We acknowledge that the Company's advisors are acting as advisors to the Company and not as advisors to us (or any person on whose behalf we are contracting).

6. We undertake that if we or the Company are required by applicable legislation, regulations, rules, policies or orders or by any stock exchange or other regulatory authority, we will execute, deliver, file and otherwise assist the Company in filing, such reports, undertakings and other documents with respect to the issue of the Shares allotted to us ("the Purchase Shares") including, without limitation this Application;

7. We declare that:

   7.1 the acquisition of the Purchased Shares hereunder by us (and each person on whose behalf we are contracting) will not result in us (or any such person) becoming a "control person" in respect of the Company, as defined under applicable laws; and

   7.2 no person has made to us (or any person on whose behalf we are contracting) any written or oral representations;

      (i) that any person will resell or repurchase the Purchased Shares (except in accordance with the Constitution of the Company), or

      (ii) that any person will refund the purchase price of the Purchased Shares, or

      (iii) as to the future price or value of the Purchased Shares; and

   7.3 the Payment which will be advanced by us to the Selling Shareholder or the Company hereunder will not represent proceeds of crime for the purposes of the Proceeds of Serious Crime Act Cap 08;03 (Botswana) (the "PSCA") and we acknowledge that the Selling Shareholder or the Company may in the future be required by law to disclose our name and other information relating to this Application and our purchase hereunder, on a confidential basis, pursuant to the PSCA; and to the best of our knowledge:

      (i) none of the purchase funds to be provided by us (A) have been or will be derived from or related to any activity that is deemed criminal under the laws of Botswana, or any other jurisdiction, or (B) are being tendered on behalf of a person or entity who has not been identified to us;

      (ii) we shall promptly notify the Selling Shareholder and the Company if we discover that any of such representations ceases to be true, and to provide the Selling Shareholder and Company with appropriate information in connection therewith; and

   7.4 we (including any person on whose behalf we are contracting) have been encouraged to obtain independent legal, income tax and investment advice with respect to the Offer and the Offer Shares available to be applied for in terms thereof, and this Application and the purchase of the Purchased Shares hereunder, and accordingly, have had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to us (and each person on whose behalf we are contracting) for purposes of giving representations, warranties and covenants under this Application; and

   7.5 we are duly authorised to enter into this Application.

8. We acknowledge that our Application and our offer to purchase any Shares as may be allocated to us is irrevocable and may not be withdrawn.
9. We acknowledge that the directors on behalf of the Selling Shareholder may accept or reject the whole or any part of our Application, for whatever reason, in their absolute discretion.
10. We agree to accept and purchase the same or smaller number of Shares in respect of which this Application is made, as may be allotted to us by the Company on behalf of the Selling Shareholder, (being the Purchased Shares) in accordance with this application and the terms of and subject to the Pre-Listing Statement and the Constitution of the Company;
11. We declare that if we make the Payment due by cheque that the cheque will be honoured on first presentation;
12. We confirm that we have read and understood all the conditions of the Placement as set out in the Pre-Listing Statement, upon which our Application and offer is based and that all the information supplied by us is true and correct.
13. The Selling Shareholder and the Company will, after receiving the Payment for the Purchased Shares upon the successful listing of the Company, cause our ownership of such shares to be credited in our CSDB accounts.
14. In the event that the Company does not list on the BSE within six months of obtaining approval or such later date as we and the Company may agree, then this Application will be deemed terminated by mutual consent.
15. The Selling Shareholder and the Company shall be entitled to rely on an executed copy of this Application delivered via facsimile or electronically (including email), and acceptance by the Company on behalf of the Selling Shareholder of such executed copy of this Application shall be legally effective to create a valid and binding agreement between us and the Company in accordance with the terms hereof.
16. This Application may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document. If less than a complete copy of this Application is delivered to the Company, it will be deemed that we accept and agree with all of the terms and conditions of this Application on the pages not delivered, and the Company shall accordingly be entitled to assume the same.
17. We, on our own behalf and (if applicable) on behalf of others for whom we are contracting hereunder, agree and covenant that the representations, warranties and covenants we make in terms of this Application are true and correct both as of our execution of this Application and as of the Settlement Date and will survive the completion of the issuance of the Purchased Shares. The representations, warranties and covenants herein are made with the intent that they be relied upon by the Selling Shareholder and the Company and its counsel in determining the eligibility of a purchaser of the Purchased Shares and we (on our own behalf and, if applicable, on behalf of each person on whose behalf we are contracting) agree to indemnify and hold harmless the Selling Shareholders and the Company and its affiliates, shareholders, directors, officers, employees, counsel and agents against all losses, claims, costs, expenses and damages or liabilities which any of them may suffer or incur which are caused or arise from a breach thereof.
18. We undertake to immediately notify the Company at, Attention: Martin Makgatlhe, Telephone: +267 3188629, Email: sales@motswedi.co.bw of any change in any statement or other information relating to us set forth herein which takes place prior to the Settlement Date.
19. We acknowledge that this Application requires us to provide certain personal information to the Company. Such information is being collected by the Company for the purposes of completing the Offer, which includes, without limitation, determining our eligibility (or that of any person on whose behalf we are contracting) to purchase the Purchased Shares under applicable laws, and causing the Purchased Shares to be issued to us and completing filings required by any stock exchange or regulatory authority. We agree that our personal information (and that of any person on whose behalf we are contracting) may be disclosed by the Company to: (a) stock exchanges or regulatory authorities (including the BSE as defined below), (b) the Company's registrar and transfer agent, (c) Botswana tax authorities, and (d) any of the other parties involved in the Offer, including legal counsel, and may be included in closing books in connection with the Offer. By executing this Application, we (on its own behalf and on behalf of any person for whom we are contracting hereunder) consent to the foregoing collection, use and disclosure by the Company of such personal information. We (on our own behalf and on behalf of any Disclosed Beneficial Purchaser for whom we are contracting hereunder) also consent to the filing of copies or originals of any of our documents delivered in connection with this Application as may be required to be filed with any stock exchange or regulatory authority in connection with the transactions contemplated hereby and expressly consents to the collection, use and disclosure of the personal information by the Botswana Stock Exchange for the purposes identified by such exchange, from time to time.
20. We acknowledge that we have consented to and requested that all documents evidencing or relating in any way to the sale of the Purchased Shares, be drawn up in the English language only.
21. The contract arising out of acceptance of this Application and all documents relating thereto is governed by and construed in accordance with the applicable laws of Botswana. We irrevocably submit to the exclusive jurisdiction of the courts of the Republic of Botswana.
22. This Application and its acceptance represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
23. The terms and provisions of this Application and its acceptance are binding upon and inure to our benefit and the Selling Shareholder and the Company and our/its respective heirs, executors, administrators, successors and assigns; provided that, except for as otherwise herein provided, this Application is not assignable by us without prior written consent of the Company.
24. We, on our own behalf and, if applicable, on behalf of others for whom we are contracting hereunder, agree that this Application is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by us, on our own behalf and, if applicable, on behalf of others for whom we are contracting hereunder.
25. Neither this Application nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.
26. The invalidity, illegality or unenforceability of any provision of this Application does not affect the validity, legality or enforceability of any other provision hereof.
27. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.
28. In this Application, references to "BWP" are to Botswana Pula.

**Signature of authorised person:**

**Date:**

**Full name:**

**Capacity:**

Brokers/Bank stamp (if applicable)