Standard Chartered
Here for good

Leading the way
in Asia, Africa and the Middle East

About us

Standard Chartered Bank Botswana first opened for business in 1897 in Francistown, making it the country's oldest bank. In 1956, the office was given a full branch status and this was followed by the opening of branches in Lobatse (1958), Mahalapye (1963) and Gaborone (1964).

The Bank was locally incorporated in 1975 with a full board. 25% of its shares are listed on the Botswana Stock Exchange.

Today, the Bank operates a network of 17 branches and agencies supported by a Loan Centre and Customer Call Centre. With a wide branch network and large force of Direct Sales Representatives (DSRs), the Bank is able to provide excellent service to both its retail and wholesale customers across the country.

The Bank's consumer banking business offers a wide range of products and services and is regarded as a market leader in this segment comprising of 3 businesses; Wealth Management, SME Banking and Lending. These portfolios are supported by our distribution network (Branches & ATMs) as well as robust credit risk management, sales and marketing teams.

The wholesale bank offers a wide range of products and services for local corporates as well as for multi-national corporations (MNCs). Product portfolios comprise cash management, trade services, syndications and lending as well as treasury services; Foreign Exchange, Currency Options, Government Bonds, High Yield Deposits as well as other liquidity management products. It also offers a wide range of corporate finance advisory, hedging and transactional services. Supported by the Bank's global network, it is able to provide financial expertise in cross-border structured transactions, fixed income and economic research.

Standard Chartered Bank Botswana is highly respected in the country for its adherence to corporate governance standards, enthusiasm for excellent service and dedication to talent development, as well as for diversity and inclusion. It has a highly active community programme and is committed towards building a sustainable business in Botswana in support pf the country's Vision 2016 aspiration.

Online

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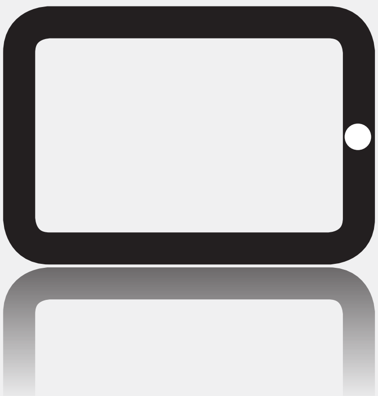


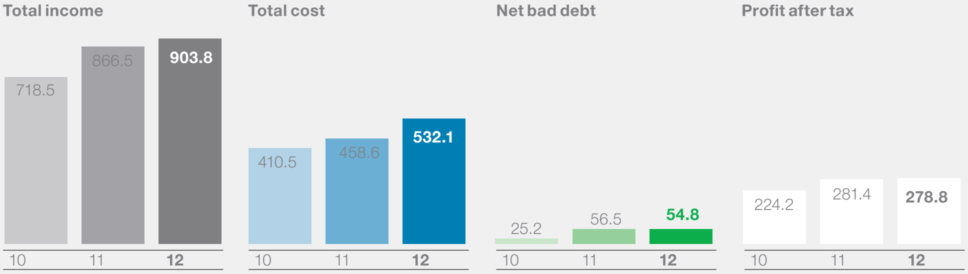
What's inside this report

Performance highlights

Delivering sustainable growth year on year

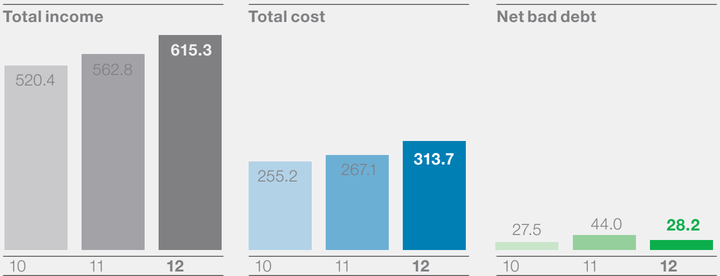
In Millions of Pula

Consolidated bank



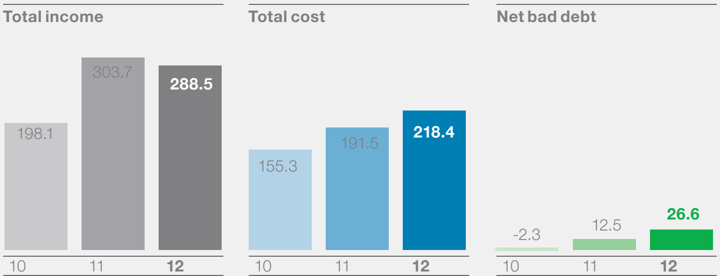
In Millions of Pula

Consumer banking

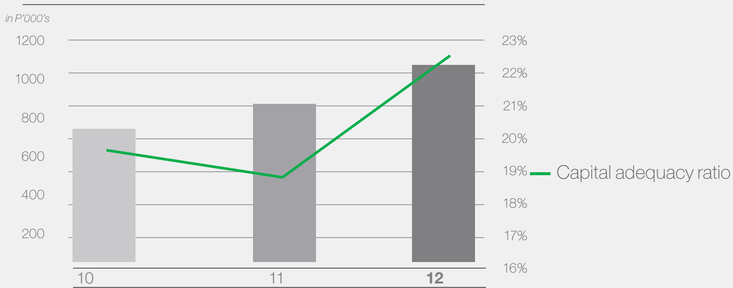


In Millions of Pula

Wholesale banking

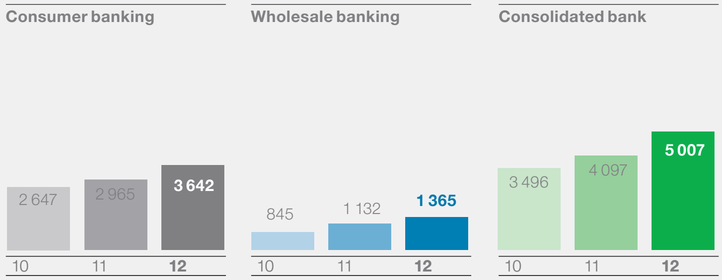


Total equity vs Capital adequacy ratio



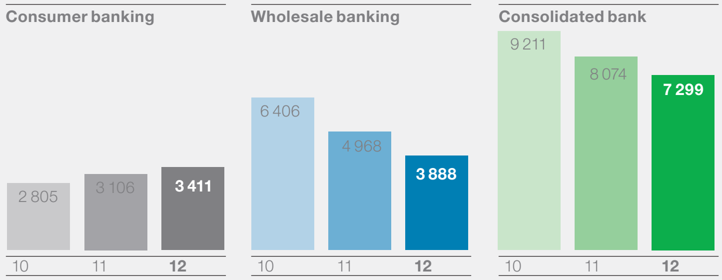
In Millions of Pula

Loans and advances



In Millions of Pula

Deposits



Net revenue

P903.8m

2011: P866.5m

Cost to income ratio

59%

2011: 53%

Profit before taxation

P316.9m

2011: P351.4m

Profit after taxation

P278.8m

2011: P281.4m

Dividend per share

30.17thebe

2011: 53.63thebe

Our strategy
Leading the way in Asia, Africa and the Middle East

Our strategic intent

To be the world's best international bank, leading the way in Asia, Africa and the Middle East

We have a disciplined focus on Asia, Africa and the Middle East – the markets where we have built deep local knowledge, have a competitive advantage and a commitment for the long term

Our brand promise

Here for good

Here for good underpins everything we do. It guides how we do business and the decisions we make, whether strategic or operational

- We aim to lead the industry in how we do business, by being profitable and sustainable while also having a social purpose
- We believe our existing culture and values put us in a good position to achieve this and we aim to protect and reinforce them at all times
- Our culture and values reassure clients and customers in a market where trust and ethics have re-emerged as critical
- Our values attract employees to the Group and strengthen our relationships with clients, customers, investors, regulators, colleagues and society

Our distinctive strengths

Collaborative network

Combining global capability and local knowledge

- We focus on the fast growing economies in Asia, Africa and the Middle East supported by superior insight and deep local relationships
- We have a long history in our markets going back more than 150 years
- Our two businesses, Consumer Banking and Wholesale Banking, work together as One Bank to create value
- Our network operates effectively across borders as well as between businesses and functions

Clients and customers

Building deep and long-term relationships

- We focus on carefully understanding our clients' and customers' immediate and future banking needs
- We develop products and services around those needs rather than taking a purely product driven approach
- By anticipating industry trends, we aim to be innovative and are increasingly digitising our services

Disciplined growth

Delivering results without compromising balance sheet strength or control of risks and costs

- Balance sheet strength is a cornerstone of our strategy: building a sustainable business and creating confidence with our clients and customers through our ability to continue lending in times of scarce liquidity
- As we grow, we aim to increase productivity and the scalability of our business so we can invest even more in growth opportunities
- We believe that organic growth, rather than acquisitions, drives the greatest value creation for our shareholders

Our values

Our five core values are at the heart of our culture and what we expect of our people

We have measured and rewarded our employees on the extent to which their behaviour at work supports the Group's values since 2003

We believe behaviour that reflects the values creates long-term value for our shareholders, clients and customers while having a positive social and economic impact on society

Courageous – We take measured risks and stand up for what is right
International – We value diversity and work as One Bank
Trustworthy – We are reliable, open and honest
Responsive – We deliver relevant timely solutions for clients and customers
Creative – We innovate and adapt, continuously improving the way we work


Standard Chartered
Since 1853

Chairman's statement

Strong foundations, steady growth

Professor Bojosi Otlhogile
Chairman of the Board

"We remain committed to providing our customers with innovative solutions and growing market share. The business fundamentals are strong and we are confident that we can achieve a consistent sustainable growth trajectory."

Key financial highlights

Normalised earnings per share

93.45 thebe
2011: 94.31 thebe

Declared Dividend

P90m
2011: P160m

I am pleased to report that Standard Chartered Bank has once again recorded another year of good financial performance in 2012 despite the challenging macroeconomic environment. This performance continues to exhibit that we have in place the right strategy and the right leadership to deliver consistent value for our shareholders and customers.

Challenges in the global economy continued to impact economic recovery for Botswana. The mining sector in particular was affected by subdued global demand, which saw diamond production decline by 39% during Q3 of 2012. Other sectors of the economy however, performed well, especially construction. Despite these factors, Botswana's GDP growth rate exceeded that of the Global Economy and the SADC region, which is a very positive sign for the country.

Government continued to be cautious about spending, announcing that there would be no new projects undertaken during National Development Plan (NDP) 10. However, the government continued to invest in initiatives that promote economic diversification in an effort to try to move away from the strong reliance on mineral revenue.

The relocation of DTC International to Botswana commenced in earnest during 2012 and efforts to further develop the downstream sector continued through the issuance of six more sight holder licenses. In addition, government established a wholly owned subsidiary, Okavango Diamonds. With the new sales agreement, 10% of diamond production will be set aside for purchase by this new company, which will sell diamonds directly to the market on behalf of the government of Botswana.

The real GDP growth rate came out at 3.7 percent for 2012 and government anticipates a GDP growth rate of 5.9 percent for 2013. We continue to monitor global economic recovery with great interest as this has a significant bearing on mining sector performance. Mining continues to account for over 30% of the country's GDP.

On an annual basis (twelve months to February 2013), the Pula depreciated against the US Dollar (11.1%) , Euro (9.0%) and the Pound Sterling (6.7%) while it appreciated against the Rand (5.2%) and the Yen (2.1%).

Earnings and growth continue to soar every year for the Bank, posting in 2012 a strong set of results given the microeconomic and currency headwinds. This demonstrates the resilience of the Bank's balance sheet and income streams as denoted by our superior customer oriented products and sustained rewards for shareholders and staff.

We continue to focus on the basics of banking, growing clients' businesses while maintaining our balance sheet strength. Loans and advances to retail customers grew by 23% with the Bank sustaining its market share in this sector, whilst pursuing a strategy into SME and mortgage markets.

We saw opportunities driven by growth of loans and advances to customers, funded through less expensive deposits and we envisage this to become increasingly the pillar of our business in the future. As we increase our appetite for risks in both retail and corporate segments, through responsible lending, innovative products and customer solutions we demonstrate the Bank's brand promise of being 'Here for good'.

The Bank's balance sheet is in excellent shape and we continue to be highly liquid, well capitalised and remain deposit funded. We are also committed to meet Basel II implementation timelines as advised by Bank of Botswana. We are disciplined and proactive in our approach to risk management.

We continue to pursue our Group aspiration to be The World's Best International Bank – Leading the Way in Asia, Africa and The Middle East. Africa is at the centre of this strategic intent and of the Group's investment, and Botswana is a major part of the African franchise.

On behalf of the board of directors I would like to thank every member of our staff, our customers and stakeholders for partnering with us to deliver the outstanding financial results we saw in 2012 emerging out of a challenging period in both the Botswana and the global economy.

Professor Bojosi Otlhogile
Chairman
14 March 2013

Key financial highlights

Net interest income	Cost to income ratio
13%	59%
Operating income	**Bad debt impairment**
4%	36%
Operating expenses	**Loans to customers**
16%	22%

Chief Executive's review

Strong investment in the business positions the bank well for future growth

Moatlhodi Lekaukau

Chief Executive Officer

"Strong investment in the business positions the bank well for future growth. The bank retains a resilient performance and balance sheet"

Key financial highlights

Operating income

P903.8m

2011: P866.5m

2012 was a year of growth and investment for Standard Chartered Bank Botswana. We improved our service delivery, increased our distribution channels, and enhanced our technology infrastructure to deliver a better customer experience. Improvements to all the critical areas of our business have been made to ensure that we have a strong sustainable business that is fit for long term growth.

Business Performance

Our Consumer Bank delivered a solid performance for the year under review. Revenue increased by 9% on the back of strong asset growth, driven by a number of initiatives to improve service and sales. We launched "SCB Way", a front line engagement program to reinvigorate service and opened two fully fledged branches at Airport Junction Mall and Nzano Centre in Francistown. The new branches feature state of the art technology with touch screen ATM's, a dedicated Priority Centre and are able to service the business needs of SME customers. The Wholesale Bank also registered significant achievements in 2012. The business was particularly successful in growing the Local Corporate Portfolio, providing support to some of our large homegrown companies in landmark transactions. Revenue however, reduced by 5% as a result of a decline in non-funded income due to fewer opportunities realised for Corporate Finance transactions in 2012 compared with the previous year.

Our People

People remain a key priority, and this year, we continued to invest in the recruitment and development of our human resources. We have been successful at attracting high calibre individuals into the organisation and have managed to localise some key positions. A strong management team is in place to drive the strategic objectives of the business.

We continue to provide opportunities for training and development of staff through short term and long term external assignments as well as on the job exposure. In addition, we have a highly competitive and intensive International Graduate Programme that offers opportunities for its graduates to work anywhere in our footprint upon completion of the programme. Last year, two of our International Graduates secured permanent positions in Wholesale Banking in Dubai and China. 2012 also saw the establishment of our Learning Academy, which supports the technical and management training of staff from Botswana and across the region. The Academy is run by qualified local personnel supported by experienced facilitators from across our footprint. To date, a number of specialised and leadership courses have been successfully conducted.

Risk Management

Standard Chartered Bank adheres to strict risk management principles. In 2012, we undertook an extensive bank wide exercise to review our controls, policies and processes in order to ensure that we maintain sound management of all risk. This is an on going priority and we will continue to invest in prudent risk management practices to ensure that the Bank is well managed and well positioned for growth.

Sustainability

Our sustainability agenda is an important part of who we are. Last year, we continued to support our communities across our branch footprint. We built on the initial work we had done with local schools through our 'Adopt a School' program, investing time and resources to not only impart classroom skills, but to also help the future leaders of tomorrow develop entrepreneurial and life skills through our sponsorship of a vegetable garden. The garden will not only help the children meet their requirements for food, but it will enable them to raise funds to meet other requirements as the harvest is sold to members of their community.

Our branches continued to support their communities by providing food and housing to the less privileged members of our society. Through the efforts of our dedicated staff, the Bank built houses for two disadvantaged families, providing shelter and safety for less fortunate parents and their children.

The Bank continued to actively support the community through various initiatives in line with key Group themes around health and education, in particular sponsoring and participating in the activities of World Sight Day, World Aids Day and the Cancer Association of Botswana.

The Future

This is an exciting time for Standard Chartered Bank. The Group recorded its tenth consecutive year of income growth in 2012 and the Botswana business is well positioned to follow suit. We are highly liquid and have the balance sheet strength to support our customers through this difficult global economic period.

The macro economic environment is likely to continue to be challenging in 2013. Global economic growth projections remain low and this is likely to impact the country's diamond exports. We will continue to deepen our relationships with our clients and provide the right solutions to help them manage the current economic volatility and uncertainty. Our global expertise and 115 years in Botswana allow us to tailor appropriate solutions to meet our customers' requirements and lead the way through innovation in this market. We have the global footprint to support our customers as they take advantage of emerging trade corridors to explore new opportunities for their business.

Conclusion

The Bank is in good shape, and has invested well for long term growth. In 2013, we will be bringing further innovation to support our customers and add value to their businesses.

I would like to thank our valued customers and clients for their support throughout the year and look forward to continuing to work together closely. I would also like to thank our Board of directors, management, and staff for their dedication and hard work. Last but certainly not least, I would like to thank our regulators and investors for their support. We look forward to many more years of collaboration.

Moatlhodi Lekaukau
Chief Executive Officer
14 March 2013

Consumer Banking
Deepening our customer relationships

Duncan Woods
Head of Consumer Banking and Cluster Head Consumer Banking Southern Africa

"Continuous improvement of our customer experience remains top of our agenda. Our Straight2Bank online banking platform has redefined banking for SMEs and is the best business Internet banking platform in Botswana."

Key financial highlights

Operating income (Consumer Banking)

P615.3m

2011: P562.8m

Loans to customers

22.8%

2011: 12%

Our strategic focus is to deepen our customer relationships. 2012 was a memorable year where the Consumer Bank posted yet another strong financial performance on the back of improvements in banking convenience, product innovation, and customer service.

We expanded our footprint by opening two new state-of-the-art branches at Airport Junction in Gaborone and Nzano Branch in Francistown. We were one of the the first banks in the country to introduce "touch screen ATMs" which we have deployed at these new branches and elsewhere in our ATM network. In addition, these new branches contain world-class Priority Banking suites to cater to the needs of our most affluent customers. We also refurbished five branches to improve the banking experience for all our customers. As well as operating late weekday hours plus weekend opening at Game City in Gaborone, we have extended our opening hours at all branches across the country until 4:30pm from Monday to Friday.

We have a clear Digitisation Agenda and in 2012 we continued to enhance our Online Banking capabilities by enabling self registration which allows customers to register for online banking without interacting with the branch. In the SME space we continued to drive penetration of our best-in-class business online banking, Straight2Bank (S2B). Our S2B online banking platform has redefined banking for SMEs and is the best business internet banking platform in Botswana, enabling business owners to conveniently and cost effectively manage their company's financial affairs remotely. Unique features include online dealing of foreign currency and two-day remittances for cross border payments.

To present holistic solutions to corporates and Governmental entities, we introduced our Employee Banking Proposition, providing a one-stop financial solution for their staff to meet their transaction banking, borrowing and savings needs.To give our customers better value on their day-to-day purchases, we introduced merchant discounts for debit and credit card users through partnerships with select retailers. At the end of the year we re-launched Auto Loans to further build out our suite of lending solutions for our customers.

Continuous improvement of customer experience remains top of our agenda. In 2012, we provided tangible service improvements to customers through our commitment to provide customers with Service Guarantees; we have implemented a "Three Day Turn-Around Time Guarantee for Personal Loans" and a "30 minute account opening Service Guarantee." For SMEs opening new accounts, cheques are now issued on the same day as the account is opened so they need not wait days to access their funds. For current account holders, we offer four free ATM cash withdrawals per month from other banks' ATMs giving them free access to over 300 ATMs in Botswana. Relentless focus on customer feedback and responding to customer needs significantly improved our overall customer satisfaction which we measure through our Net Promoter Score.


Internet Banking
JCREW

Wholesale Banking

Meeting business growth aspirations

Michael Shirley
Head of Origination and Client Coverage and Co-head of Wholesale Banking

"With ever tightening attention to regulation and governance, a key project during 2012 was to embed risk and control discipline in our operating environment. This has allowed us to earn our stripes to do business in an increasingly complex and demanding financial system"

Key financial highlights

Wholesale Banking Lending

20.06%

2011 was a difficult act to follow in 2012, with a major mining deal having realised a significant proportion of that previous year's revenue. Despite this, the Wholesale business has continued to grow on an average annualised basis in excess of 30% since 2010 with insignificant impairments over that period, underlining a robust annuity book.

Also, despite market challenges, we managed to secure a landmark deal with a prominent Botswana FMCG group evidencing teamwork across our Wholesale and Consumer banking operations with strong support from our experienced product teams – endorsing our "One Bank" strategy.

Straight2Bank, particularly, has been a strong electronic platform allowing us to provide integrated solutions to our customers. Continued enhancements keep us very competitive against international best practice.

With ever tightening attention to regulation and governance, a key project during 2012 was to embed risk and control discipline in our operating environment. This has allowed us to earn our stripes to do business in an increasingly complex and demanding financial system.

We have high quality employees and strong bench-strength and continue to ensure a transfer of skills locally by cross-border short- and long-term assignments for our people. We also use extensive Group training facilities & opportunities to provide expert formal training and our on-the-job learning is vigorous.

Focus areas for 2012 included:

- Deepening client relationships.
- Disciplined growth
- Further product penetration in our areas of competence

Markets

On the global economic front, uncertainty prevails as efforts in place to turn around global growth have proven inadequate. Recovery in the US remains anaemic while Europe has been dogged by problems in Greece, Spain and Italy among others. China continues to enjoy high growth levels but concerns are increasing regarding sustainability. All these hot spots have contributed to impact commodity and diamond demand leading the government of Botswana to maintaining a cautious budgetary expenditure approach. The result has been a slowdown in new government projects and with 2012 GDP number coming in lower than expected at 3.7% (compared to projection of 6.1%), the markets could tighten more.

The local interest rate environment remained subdued as the perennial excess market liquidity conditions continue unabated. Governments' plans to regularly issue bonds into the market are yet to bear fruit as this would go a long way in keeping liquidity levels lower thereby positively influencing deposit rates for investors.

Our balance sheet remains strong with good capital levels and structural liquidity to meet business growth aspirations.

Nathan Manyika
Head of Global Markets and
Co-Head of Wholesale Banking

"Our balance sheet remains strong with good capital levels and structural liquidity to meet business growth aspirations"

Key financial highlights

Capital Adequacy Ratio

22.50%

2011: 18.80 %

Assets/Deposit ratio

68.60%

2011: 50.70 %

People
Living the brand

Our highlights in 2012

- Strengthened the link between our values and our brand promise by recognizing our employees as key assets to the business through the loyalty award programme
- Improved the employee relations environment by cultivating a culture of engagement and commitment across the organisation
- Grew staff complement over the course of the year, resulting in a total workforce of 895, and in the process filling critical roles. We have also ensured that key positions are localised
- Increased investment in employee development through the establishment of the Learning Academy and training of our employees. Our employees remain a key priority as we continue to invest in the recruitment, retention and development of our human resources.
- Strengthened relations with the Botswana Bank Employees Union

Our priorities in 2013

- Reinforce "Here for good" as the Bank's core purpose through helping our people to live by and use the brand promise as the standard by which they behave and make decisions
- Grow our future leaders by constantly investing in our people through targeted development opportunities (Leadership and Management Programs)
- Refresh the capabilities needed to sustain success across the Bank and develop innovative ways to identify, manage and develop these capabilities
- Drive a culture of engagement for performance
- Strengthen the pivotal role of people managers in delivering a differentiated employee experience, and equip them with the skills they need to work in an increasingly complex and regulated environment
- Regular review of the Bank's Human Resource policies to continually strive to make Standard Chartered Bank a great place to work

Non-financial highlights

Employees

895

2011: 817

Nationalities

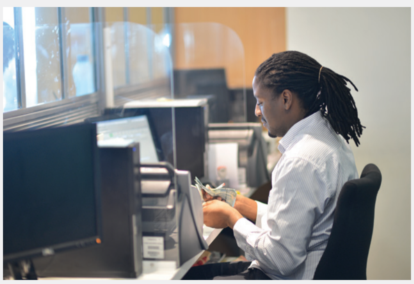
8

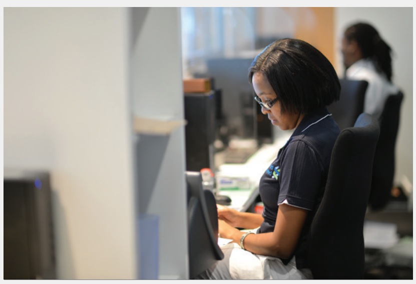
People Development

The Bank started 2012 with the quest to uphold its human resources as its most valuable asset. The year was started with a focus on ensuring that people development becomes top priority through inception of the new learning academy. During the year under review, the Bank enrolled more International Graduates as a way to develop young talent, increase skills base and also create opportunities to expose our people to other markets. More and more of our people enrolled on leadership and management programs such as Great Managers Program, Leadership Essentials and Rethinking Leadership. The Bank continued with its resolve to expose local talent to other markets as additional staff members were sent on short and long term assignments. While we sent some local talent for exposure in other markets we also managed to infuse diverse skills from other markets into our market.

Employee Relations

The Bank worked tirelessly during the year under review to improve employee relations environment. The Bank continued to hold town hall meetings where employees were updated on the Bank's performance and new initiatives. The town halls were held in an open manner where employees were free to air their views regarding any issues of concern. Further to that, focus group surveys to check organisational climate were introduced where employees were allowed to participate and give feedback on issues concerning them.





Sustainability
Being a responsible company

"Here for good is about our commitment and dedication to our customers, our communities, and ourselves. It is us at our best."

Sustainability and our business

Banks have an essential role in a prosperous and healthy society. We believe that by running our operations well, standing by our clients and customers and investing in the communities where we operate, we can be a powerful force for good.

Our approach focuses on getting the basics of banking right, making sure that we are financially stable with strong governance and good sources of capital and liquidity, so that we can create value for our shareholders and society over the long run.

Over the last decade, we have continuously delivered for our clients and customers, shareholders and communities. From 2002 to 2012, we increased our lending from around P1,5 billion to more than P5 billion, increased our corporate tax contribution almost threefold and increased our staff to about 900.

We have three key priorities: contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth

By providing finance efficiently and responsibly, we contribute to sustainable economic growth and job creation. We are committed to supporting our clients and customers; helping businesses to set up, expand and trade across borders, helping people to buy homes and grow their wealth for the future. Widening access to finance is a core tenet of our strategy, as is our commitment to providing finance that supports sustainable development in our communities.

Sustainable finance

Our main impact on people and the environment is through the business activities we finance. We work closely with our clients and customers to manage potential environmental and social risks associated with our financing decisions and to identify opportunities to finance clean technologies.

Our position statements underpin our approach to environmental and social (E&S) risk management. In 2012, we continued to review our position statements, aligning with the most recent international standards, including the International Finance Corporation (IFC) Performance Standards. In addition, we extended the application of the position statements to small and medium-sized enterprises (SMEs) with the introduction of our SME Sustainable Finance Framework, which ensures that all discretionary SME lending across our markets is subject to rigorous E&S due diligence.

Access to finance

We use our balance sheet to stand by our clients and customers through good and bad times and bad. The lending we provide to people and businesses helps to support job creation and economic development. We are also committed to extending access to finance for individuals and small businesses that have traditionally been underserved by financial institutions.

SMEs are key drivers of job creation and growth across our markets and after more than a decade of serving SMEs across Botswana, and in response to challenging SME needs, we continue to provide them with powerful and innovative electronic banking services, hired more relationship managers to support our customers and continued to expand our product offering and service guarantees. This included dedicated Chinese speaking Relationship Managers who will assist our clients who are intent on exploiting the Chinese/Africa corridor.

With appropriate access to finance, the agricultural sector in emerging economies can make a significant contribution to global food security and local economic development. In 2012, we maintained our market share by offering our clients innovative solutions and intend to grow our agribusiness portfolio by supporting the sector's development across our footprint.

Being a responsible company

We want to deliver long-term value for our shareholders and society. This means having the right culture, structures and processes in place to ensure that we practice strong governance, serve our clients and customers well and provide a great workplace for our people. Doing what we can to combat financial crime and protect the environment is also crucial to this commitment.

Financial crime

We continually work to prevent our products and services from being used for criminal financing activity. In 2012, we completed a Group-wide financial crime risk transformation programme which was launched the previous year. We introduced regional hubs to enhance regional and country monitoring, revised customer due diligence requirements in Wholesale Banking and Consumer Banking, and strengthened oversight by changing the reporting line to a more senior forum.

Responsible selling and marketing

Responsible selling and marketing is integral to how we do business. In Consumer Banking, our Customer Charter outlines our commitment to treat customers fairly at all times. In 2012, we continued to embed training on responsible selling to staff across Consumer Banking and conducted compliance reviews of our investment product approvals, marketing materials and complaints handling. To that effect we have been able to resolve almost all of the complaints registered with us within 24hrs.

In Wholesale Banking, treating customers fairly is a requirement of our Code of Conduct and our Financial Markets' Dealers Code of Conduct. In 2012, we regularly assessed our policies, procedures and controls against applicable regulatory guidelines and industry best practice.

People and values

Our distinctive culture and values guide the way we do business, allowing us to deliver on our Here for good brand promise. We encourage a collaborative leadership culture that values diversity and promotes inclusion. We focus on providing our people with learning and development opportunities so that they can grow personally and professionally. We also reward people for both what they achieve and for behaviour in line with our values and consequently we offered training opportunities on various specialised developmental programmes to our deserving staff in 2012.

Environment

We consider the environmental challenges across the countries where we operate and proactively manage the direct impact of our operations. In 2012, we improved the Water Utilisation intensity of our offices and branches by installing water saving bags in all toilet flushing systems. This campaign made a huge difference in our water consumption ration. In 2011 the rate in one of our Global Environmental Management System buildings was 5.65 and decreased by 86% to 0.81 in 2012 after the bags were installed.

1 Standard Chartered employees participating in the Annual Stiletto Walk for Breast Cancer Awareness.

2 Vegetable garden donated to Solomon Dihutso Primary School as part of the Adopt-a-School programme.

3 Spectators at the Steinmetz Gaborone Marathon at which Standard Chartered was a platinum sponsor.

Sustainability continued

Investing in communities

Our sustainability as a business is closely intertwined with the health and prosperity of the communities where we operate. Through employee volunteering and community programmes, we work with partners to deliver initiatives that promote positive social and economic outcomes for people in our markets.

Employee volunteering

We actively encourage our staff to volunteer their time and core skills to benefit their local communities and as a result we have seen employees taking part in house building initiatives in villages such as Palapye and Mmadinare. Each staff member is entitled to three days of paid volunteering leave per year. In 2012, we reached an employee volunteering days of over 395 days which helped the Standard Chartered Plc exceed our target of 70,000 days across our footprint.

Community programmes

Seeing is Believing is our global campaign to tackle avoidable blindness world wide. From 2003 to 2012, we impacted over 28 million people. In 2012, we reached a new fundraising milestone, at over $50 million, passing the half-way mark towards our goal of raising $100 million by 2020. Locally, we continue to embark on fund raising initiatives such as the annual Steinmetz Gaborone City Marathon, through which we raised funds for the Seeing is Believing initiative in Botswana.

HIV and AIDS remains a serious challenge impacting our staff, their families and the broader community. Education is the key to reducing new infections or beating the pandemic and educational sessions are run by our staff volunteers, called 'HIV Champions'. In 2012, we furthered our commitment to support awareness of HIV and AIDS through our workplace education programme, Living with HIV. We revised our comprehensive training toolkit to provide up to date information and resources to our staff and community partners. Since the inception of the Bank's Living with HIV initiative locally, over 5000 people have benefited through training including customers, staff and students. The HIV Champions also participate in national activities including the annual World Aids Day which was held in Mogoditshane in 2012.

The Bank also launched 'Adopt-a-School' campaign in which all staff across the country is able to participate. The campaign is mainly aimed at Public (Government) Schools. This initiative is focused on long term sustainability and each department makes a minimum one-year pledge to the school of their choice. As part of the Adopt-a-School initiative, Origination and Client Coverage department adopted Solomon Dihutso Primary School in Mogoditshane where the department embarked on a financial literacy week. They also donated an irrigation system which will go a long way in enabling the school to grow a vegetable garden and provide additional skills in the cultivation of fresh vegetables, skills the learners can take home to encourage their communities to grow and benefit from their own fresh produce.

Still as part of Adopt-a-School, Global Technology and Operations Botswana spent a day at their adopted school, Nkoyaphiri Primary in Mogoditshane, where they planted over 150 trees in addition to the 70 which were planted the previous year. The department has also converted one of the schools' buildings into a fully functional library. Going forward there is a plan to build a computer lab for the school.

2013

Standard Chartered will continue to play a major part in the prevention of avoidable blindness through its Seeing is Believing initiative which is now in Phase V. In 2013, the Bank's support for the prevention of Diabetes induced blindness will be enhanced through a partnership with Addenbrooke's Abroad which aims to establish effective leadership and management mechanisms including commitments by Ministry of Health (MoH) for new and improved eye services in the public sector focusing on diabetics, children and those with refractive error.

More efforts will go into raising funds for the programme by staff, and wherever possible staff will play a hands-on role in the endeavours of the Addenbrooke's Abroad and the Ministry of Health partnership.

The Bank's branch staff will also continue to be involved in community projects of their choice, taking part in the sustainable development of the communities in which they operate through the Bank's Employee Volunteer initiative, Adopt-a-School and continue to build homes for the homeless in partnership with the relevant stakeholders.

The Bank partnered with the Department of Water Affairs to highlight best practice for water conservation.

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1 Members of the public receiving free eye testing during World Sight Day.

2 Staff volunteered their time and core skills to benefit local communities by taking part in house building initiatives which resulted in two houses being donated to residents of Palapye and Mmadinare.

3 Standard Chartered, through the Steinmetz Gaborone City Marathon, raised funds for Seeing is Believing.

Corporate governance
Adhering to high standards of corporate governance

High standards of corporate governance are a key contributor to the long term success of a company thus creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is a core aspect of the Bank's strategic intent. We have clear, well understood governance policies and procedures.

Effective governance is achieved through a combination of strong processes, underpinned by the right values and culture. These must be embedded across the Bank through the behaviours displayed by our employees every day. For many years we have measured and rewarded performance both in terms of what employees achieve and the values they display. We believe that this makes a difference in how well our culture and values are embedded across the Bank.

Our Board

The Board of Standard Chartered Bank Botswana Limited is responsible for providing leadership through oversight review and providing guidance whilst setting the strategic direction and delivering value to shareholders and other stakeholders over the longer term. The Board is accountable for ensuring that, as a collective body, it has appropriate skills, knowledge and experience to perform its role effectively. The Board is not involved in the day-to-day operations of the Bank. It does however have a formal schedule of matters reserved for its own decision making.

The Board comprises of Executive and Non-Executive Directors who meet at least 4 times a year.

Executive Directors:

Moatlhodi K Lekaukau	(Appointed 01 February 2012)
Serty Leburu	(Resigned 01 July 2012)

Non Executive Directors:

Bojosi Otlhogile	
Washington Matsaira*	(Resigned 31 January 2012)
Ebeneezer Essoka*	
Reginald Motswaiso	(Resigned 01 October 2012)
Ish Handa	(Appointed 08 March 2012)

Secretary:
Thato Mmile

* Related party

Board Committees

The Board has delegated a broader range of the issues to the board committees. As a result, it is important to ensure effective linkages exist between the Board and its committees whilst mindful of the need to guard against the danger of unnecessarily duplicating effort.

Audit Committee

The role of the Audit Committee is fundamental to ensuring the financial integrity and accuracy of Standard Chartered's financial reporting. Good, open relationships between the Committee, the Chief Financial Officer, our Internal Audit Function and KPMG, our statutory auditors, are essential to adding value to the organisation. This is encouraged by holding management to account for the implementation of all audit recommendations (internal and external); inviting appropriate business heads to meetings to explain how they are delivering their agreed actions for which they are responsible; and holding separate meetings between the Committee chairman, independent non-executives, and internal and external auditors to help committee members establish open working relationships.

Risk Committee

It is the Committee's role to recommend to the Board where risk appetite should be set. It also satisfies itself that the Bank has been and plans to operate within that risk appetite, with a strong capital and liquidity position that can be shown to be resilient to stress. Risks to future earnings are demonstrated to be held well within carefully defined levels of tolerance.


Standard
Chartered

Corporate governance continued

Country Management Committee (MANCO)

MANCO provides unified leadership in the country specifically by determining and agreeing the response to cross-business challenges in particular those relating to financial management, customer and franchise management, corporate governance, people and talent.

MANCO meets at least once a month and membership comprises of Country Chief Executive Officer /(Chairman), Heads of Consumer Banking, Technology & Operations, Finance, Human Resources, Legal/ Company Secretary, Corporate Affairs, Compliance, Internal Audit and Country Chief Risk Officer (CCRO).

Assets and Liability Committee (ALCO)

ALCO ensures the efficient implementation of balance sheet management policies. It receives and reviews reports on liquidity, market risk and capital management. ALCO identifies balance sheet management issues that are leading to under-performance and reviews deposit pricing strategy for the business in order to effectively compete. ALCO meets monthly and comprises of Country Chief Executive Officer (Chairman), Heads of Consumer Banking, Wholesale Banking and Finance.

Market Risk

Market risk is the exposure created by potential changes in market prices, the interest rates and interest rate curve or the foreign exchange rate. The Asset and Liability Committee (ALCO), receives and reviews reports on market risk, identifies balance sheet management issues and reviews deposit pricing strategy for the local market.

Derivatives

Derivatives are contracts whose characteristics and value derive from underlying financial instruments, interest and exchange rates or indices. Derivatives are an important risk management tool for the Bank and its customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

Hedging

Hedges are classified into three types: fair value hedges, where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, where variable rates of interest or foreign exchange are exchanged for fixed rates, and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars. The Bank uses futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets to hedge risk.

Liquidity Risk

Liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an excessive cost. The Bank's policy is to maintain adequate liquidity at all times and for all currencies, so that the Bank is in a position to meet all obligations as they fall due. Liquidity is managed by the Assets and Liability Committee (ALCO) with the pre-defined liquidity limits in compliance with the Bank's policies and local regulatory requirements.

Operational Risk

Operational risk is the risk of loss resulting from the failure of people, processes or technology or the impact of external events.

The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, mitigate, monitor, control and report such risks. The Country Chief Executive Officer is accountable for the effective management of operational risk. The Country Operational Risk Committee (CORC) is the CEO's forum for ensuring that operational risk is being managed appropriately.

Country Operational Risk Commitee (CORC)

CORC provides a forum for the identification, assessment, mitigation and subsequent monitoring of country level Operational Risk trends and issues. This includes ensuring compliance with internal policies and relevant regulations, as well as the Bank's Operational Risk Management Framework, promoting and sustaining a high level of operational risk management culture within the country, reviewing Country Operational Risk Profile and ensuring appropriate ownership, actions and progress for all risks and reviewing overdue items. CORC meets monthly and comprises of Country Chief Executive Officer (Chairman), Heads of Consumer Banking, Wholesale Banking, Technology & Operations, Group Internal Audit, Legal and Compliance, Human Resources, Finance, Corporate Affairs and Country Chief Risk Officer.

Credit Risk

Credit risk is the risk that a customer is unable to meet their obligations in accordance with agreed terms. Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books.

In Consumer Banking, Credit risk is managed through a framework of policies and procedures. Credit origination uses standard application forms, which are processed in central units using largely automated approval processes. The repayment management process is automated to efficiently manage expected loan repayments on due dates. An account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue on loan payments are closely monitored and subject to a collections process.

In Wholesale Banking, Credit risk is also managed through a framework which sets out policies and procedures covering the measurement and management of credit risk.

There is clear segregation of duties between transaction originators and the approvers in the Risk function. Accounts are placed on Early Alert when they display signs of weakness. Such accounts are subject to a dedicated process with oversight involving senior Risk Officers and Group Special Asset Management (GSAM).

Early Alert and Credit Portfolio Committees

These committees provide overall direction and management of the credit portfolio and meet monthly. Membership comprises of Country Chief Executive Officer (Chairman), Heads of Consumer Banking, Origination & Client Coverage, Country Chief Risk Officer and various credit staff.

Group Internal Audit (GIA)

During 2012, GIA conducted a number of audits to assess the design and operating effectiveness of controls within the business. Management addressed the audit issues raised and continues to make improvements in the control environment. A robust process is in place for monitoring compliance to policies and procedures. Continuous monitoring is in place to assess sustainability of management actions.

GIA continues to maintain independence through it's reporting to the Audit Committee and functionally to Regional GIA. The GIA team engages in audits outside the country in order to share knowledge and skills with other GIA colleagues across the Group.

Audit reports are submitted to management and the Audit Committee as well as to External Auditors and Regulators upon request.

Compliance

The strategic vision of Standard Chartered Bank's Compliance function is to be a world-class compliance function, enabling sustainable growth through expert advice and independent monitoring. Compliance is a complex and rapidly evolving area.

The Compliance function has a number of roles and responsibilities which include among others; maintaining relationships with the regulators, ensuring compliance with standards, laws and regulations applicable to the banking sector and managing regulatory change. This is achieved through advising and supporting the senior management to maintain constructive relationships with the regulators, and creating solutions for business problems to monitor and mitigate compliance and regulatory risks.

As pointed out by the Basel Committee on Banking Supervision, "A bank should hold itself to high standards when carrying on business, and at all times strive to observe the spirit as well as the letter of the law. Failure to consider the impact of its actions on its shareholders, customers, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken." This is achieved through the Compliance function.

Board of directors

1. Prof Bojosi Otlhogile
Board Chairman

Bojosi Otlhogile was appointed to the Board of Standard Chartered Bank Botswana in September 2008. Otlhogile holds a law degree (LLB) from University of Botswana and Swaziland,LLM and PhD in Law from the University of Cambridge. He has held various positions in the University of Botswana including Head of Law (1993-1999), Dean Faculty of Social Sciences (1999-2003) and Vice Chancellor (2003-2011). Until recently he was a member of the University of Botswana Council and Senate, Council member of the Universities of Swaziland and Zambia; Chairman of the boards of Southern Africa Media Development Fund (SAMDEF) (1997-2008); Special Olympics Botswana; and Botswana Housing Corporation (BHC). He is a Director of Pearson Botswana and Public Universities Leadership Forum in Southern Africa (PULSAR)

2. Moatlhodi K. Lekaukau
Managing Director

Moatlhodi Lekaukau assumed the role of Chief Executive Officer for Botswana in February 2012 and was appointed as a director on the 1st February 2012. In this role, he is responsible for driving the country agenda, focusing on the strategic priorities, to ensure that the business is effectively managed and delivers superior performance.

Moatlhodi is a Chartered Accountant by profession, and is a Board member of a number of institutions, including Horizon Ogilvy and Mather and the Turnaround Management Association of Southern Africa. Prior to joining Standard Chartered Bank, Moatlhodi was a Partner at Deloitte & Touche Corporate Finance, South Africa.

3. Ebenezer Ngea Essoka
Executive Director

Mr Ebenezer Ngea Essoka was appointed to the board as a Non-Executive Director in June 2010. He holds a Bachelor of Sciences Degree in Finance, which he obtained from Seton Hall University, South Orange New Jersey. He also holds an MBA Finance and a Certificate in International Business from the same institution. He is also a director of First Africa South Africa (FASA) and of Chestnut Hills Investment company.

4. Ish Handa
Non- Executive Director

Mr Ish Handa was appointed to the board as a Non-Executive Director in March 2012. He holds a Bachelor of Arts Degree from Punjab University, India and a Degree in Textile Engineering from Germany. He holds a Diploma in Textile Technology from Punjab Institution of Textile Technology and a Diploma in Business Management from International Correspondence School. He is also a director of the Handa Group.

5. Thato Mmile
Company Secretary

Thato Mmile was appointed as Company Secretary in February 2005 and is Head of Legal at Standard Chartered Bank Botswana. Thato holds a LLB degree and sits on the Northside Primary School Council. She also chairs the Botswana Football Association Disciplinary Committee. Prior to joining the Bank, Thato worked for the Administration of Justice as a magistrate.

Senior Management


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1. Moatlhodi K Lekaukau
Chief Executive Officer

Moatlhodi Lekaukau assumed the role of Chief Executive Officer for Botswana in February 2012. In this role, he is responsible for driving the country agenda, focusing on the strategic priorities, to ensure that the business is effectively managed and delivers superior performance.
Prior to joining Standard Chartered Bank, Moatlhodi was Partner at Deloitte & Touche Corporate Finance, South Africa, where he was Head of Mergers & Acquisitions, advising major corporate clients on restructuring, project management, capital raisings, deal initiations and transaction negotiations. In this role, Moatlhodi advised major private and government related corporations on significant capital raising undertakings, including listings, privatization, restructurings, debt refinancing, and management buyouts. His remit included both South Africa, and the broader Southern African market.

Moatlhodi is a Chartered Accountant by profession, and is a Board member of a number of institutions, including Horizon Ogilvy and Mather and the Turnaround Management Association of Southern Africa.

2. Duncan Woods
Head of Consumer Banking / Cluster Head Consumer Banking Southern Africa

Duncan Woods joined Standard Chartered Bank in Singapore as a Senior Director in Group Strategy in February 2008 and became the Group Head of Strategy for the Consumer Bank in April 2011. He has worked on a range of Board level strategic issues, business strategies in Consumer Banking, as well as specific country strategies throughout our Asian, African and Middle Eastern footprint.
Duncan was then appointed to Head of Consumer Banking Botswana and Cluster Head Southern Africa in April 2012
Prior to joining the bank, Duncan was a hedge fund manager for Deutsche Bank in Tokyo and Hong Kong, where he focused on investing in equity long-short positions in non-Japan Asia. Duncan was educated in the UK and the US. He has a double first class Honours degree in Economics from Cambridge University, attended Harvard University Graduate School on a Kennedy Scholarship, and has an MSc in Economics from University College London.

3. Michael Shirley
Head of Origination Client Coverage / Co-Head Wholesale Banking

Mike joined Standard Chartered Bank in November 2008 and is currently the Head of Origination & Client Coverage, Co-Head Wholesale Bank, Botswana. He has had extensive international banking experience, having previously spent fourteen years with Societe Generale and immediately prior to joining Standard Chartered Bank, had worked for Commerzbank for a further six years, leaving that bank as the Head of Corporate Banking.
He has an in-depth exposure to a broad range of investment banking products and had prepared various strategic papers for the introduction of new product capability to the local branch operations.
Mike has obtained a Licentiate Banking Certificate, a Henley Diploma in Management and he holds a Masters degree in Business Administration from Henley (UK).

4. Nathan Manyika
Head Of Global Markets / Co-Head of Wholesale Banking

Nathan was appointed to Standard Chartered Bank Botswana on 01st February 2011 and brings to his new role a rich experience in various units of the Bank and his focus on delivery will be key to the performance of the Botswana WB business.
Nathan joined the bank as a Mid-career, in Zimbabwe in 1998 from Anglo American. In 2004 he was appointed Head of Asset and Liability Management for Zimbabwe followed by an appointment as Head of Global Markets in Cote d'Ivoire in 2005. Following a successful run in CDI, Nathan was appointed head of Asset and Liability Management for Ghana in 2007, a role that grew to covering the Western region including CDI, Gambia, Cameroon and Sierra Leone. During his time as Regional Head of ALM, Nathan transformed the ALM business in the main market of Ghana to be the number one ALM business in Africa 2010. In 2011, Nathan was appointed to his current role of head Global Markets Botswana and Zimbabwe.

5. Dayo Omolokun
Chief Financial Officer

Dayo joined Standard Chartered Bank in 2003 from Andersen and has worked at Country, Regional and Group levels in various key finance roles. Until his appointment as Chief Financial Officer of SCB Botswana in January 2010, Dayo was principal member of the London-based Central Team which managed the successful integration of American Express Bank (EAB) with SCB
Previously, Dayo held the positions of Country and Regional Financial Controller for Nigeria and Africa respectively. He also had a stint in Group Finance Systems, where he designed the governance structure for the maintenance of a Global Chart of Accounts for the Bank.
He holds a Bachelors degree in Chemical Engineering and earned an MBA from Cass Business School, City University,London. He also has professional accounting and tax qualifications.

6. Godwin Tanyongana
Senior Credit Officer & Country Chief Risk Officer

Godwin Tanyongana was appointed Senior Credit Officer & Country Chief Risk Officer, Standard Chartered Bank Botswana in April 2010.
Godwin joined the bank in Zimbabwe in 1984 and has held various roles in both Consumer and Wholesale Banking. In 2007 he was appointed Senior Credit Officer Zimbabwe where he worked closely with the Country MANCO in managing the franchise during the peak hyperinflationary period. During his career Godwin has received extensive training in Credit Risk Management with the bank and is a certified credit approver. He brings to his new role a rich experience in banking operations and credit risk management.

7. Ediretse Ramahobo
Chief Information Officer

Ediretse Ramahobo was appointed Chief Information Officer in April 2009.
His role owns all end-to-end production systems and operational processes for the country. Ediretse joined the bank in 1997 on the Bank's Graduate Development Programme, and further covered a wide variety of roles in Consumer Banking, including Branch and Head Office departments. He has successfully managed a variety of projects during his 9-year career at Standard Chartered, and played an integral part in the implementation and stabilization of eBBS in Botswana.
Ediretse graduated from the University of Botswana in 1997 where he did BA Social Sciences, majoring in Economics and Accounts.

8. Marina Rehmat Khan
Head of Audit

Marina joined the bank on 10th May 2011. She had previously been Head of Audit at Barclays Bank for 7 years after which she joined the Business as Head of Internal Control in 2009, where she was tasked with the responsibility of ensuring a robust control environment within Operations.
At Barclays, she served in various governance committees. Marina has an MSc in Strategic Management from the University of Derby, a BCom from University of Botswana and is currently enrolled for CIA (Certified Internal Auditor). She is a member of the Institute of Internal Auditors and Botswana Institute of Accountants.
She brings with her over 18 years experience in risk management.

9. Thato Mmile
Head of Legal & Company Secretary

Thato joined Standard Chartered Bank as Head of Legal and Compliance and Company Secretary in January 2005.
Prior to joining the bank she worked for the Administration of Justice where she started out as a Trainee Magistrate. She left the Judiciary after having been a Senior Magistrate in December 2004. She has presided over criminal cases – including theft, assault, as well as civil cases.
Thato Mmile graduated from UB in 1999, obtaining a degree in Law (LLB).

10. Peter Tladinyane
Acting Head of Human Resources

Peter kicked off his career in 1997 immediately after completion of his Bachelor's degree in Economic and Statistics. He joined Botswana Power Corporation Learnership Program as a Graduate Trainee in Human Resources. Prior to joining Standard Chartered Peter worked for Bank of Botswana, Eskom in South Africa (Short Term Assignment), as well as Debswana Diamond Company as HR Manager.

Peter holds a Masters of Management Degree from Wits University, Certificate in Human Resources University of Pretoria, Bachelor of Social Science degree In Economics & Statistics, University of Botswana, Diploma in Statistics, University of Botswana, and Certificate in Statistics, University of Botswana. He is also a certified Project Manager (PRINCE 2 Foundation stage Certified).

11. Umakanth R Pai
Cluster Risk Head, Southern Africa & Country Credit Head, Botswana

Umakanth joined the Bank in 1995 in India, and has moved within the Bank in various roles covering Operations, System Support, Credit Underwriting, Collections Management, Credit Policy & Analytics, Authorisation & Fraud Control etc, and has handled consumer banking lending products like Credit

Cards, Personal Loans, Revolving Credit, Mortgages, Auto Loans, Consumer Finance across India, Indonesia & Singapore. He joined SCB Botswana in Jan 2010, after a brief stint outside SCB, in Indonesia. Umakanth is a Management Graduate with background in Engineering, certified in Risk Management by GARP. He brings with him the rich experience of handling Consumer Portfolios.

12. Juliana White
Head of Compliance

Juliana White joined the bank on 1 March 2011. She previously worked as Director of Capital Markets at the Non Bank Financial Institutions Regulatory Authority. Before then she was corporate affairs manager at the Botswana Stock Exchange responsible for monitoring compliance and enforcement of the stock exchange rules and regulations.

She holds a Masters Degree in Law from University of London in Regulation of Financial Markets, Law of Finance and Investments in Emerging Markets, IP Law and International Economic Law. She practiced law for 6 years before joining the corporate world in 2003. She brings over 14 years wealth of regulatory and professional experience 12 of which were at senior executive level.

13. Itumeleng Tumie Ramsden
Head of Corporate Affairs

Itumeleng joined Standard Chartered Bank as Head of Corporate Affairs in October 2012. In this role, Tumie is responsible for the development, implementation and management of the Corporate Affairs strategy for Botswana, ensuring alignment with the overall business strategy and protection/ enhancement of the Bank's reputation. Prior to joining the Bank, Itumeleng was the Public Relations Manager at Orange Botswana where she was in charge of communications, stakeholder relations and corporate philanthropy through the Orange Foundation. Tumie has extensive experience spanning 11 years in the media industry having worked for Yarona FM, Botswana Television and Flair Magazine.
Tumie has an accounting background with an AAT qualification and completion of Part 1 of ACCA from Botswana Accountancy College.

Report of the directors

for the year ended 31 December 2012

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Bank for the year ended 31 December 2012.

Activities

The Bank continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Bank also has an insurance brokerage company, an investment services company and a custodial services company. Only the results of the insurance brokerage subsidiary have been incorporated in the Group results, as the other two are non-trading or immaterial subsidiaries for consolidation purposes.

Results

The Group results are disclosed in the statements of comprehensive income on page 33 and reflect the following:

- Profit before taxation P 317 million (a decrease of 9.8 % from 2011)
- Profit for the year P 279 million (a decrease of 0.9 % from 2011)

Dividends

A dividend of P90 million (30.2 thebe per share gross) was declared during the year of which P20 million (6.70 thebe per gross share) was unpaid as at year end.

A dividend of P140 million (46.92 thebe per gross share) was declared and paid subsequent to year end.

Stated capital

There has been no change to the Bank's stated capital during the year (2011:Nil).

Events after reporting date

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

Holding company

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

Directors

The following were directors of the Bank as at 31 December 2012.

B Otlhogile	(Chairman)
E Essoka	
W Matsaira	(Resigned 31 January 2012)
M Lekaukau	(Managing Director - Appointed 1 February 2012)
S Leburu	(Resigned 01 July 2012)
R Motswaiso	(Resigned 01 October 2012)
I Handa	(Appointed 08 March 2012)
T Mmile	(Company Secretary)

Auditors

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

By order of the Board

Thato Mmile
Secretary

Directors' responsibility statements

for the year ended 31 December 2012

The Group is required by law to prepare annual financial statements for each financial period.

The directors are responsible for the preparation and fair presentation of the Group annual financial statements and annual financial statements of Standard Chartered Bank Botswana Limited, comprising the statements of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

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

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

The directors have made an assessment of the Bank and its subsidiaries' ability to continue as going concerns and have no reason to believe these entities will not continue as going concerns in the foreseeable future.

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

Approval of the Group annual financial statements and annual financial statements of the bank:

The Group annual financial statements and annual financial statements of the Bank as identified in the first paragraph, were approved by the directors on 14 March, 2013 and are signed on their behalf by:

Bojosi Otlhogile
Chairman

Moatlhodi Lekaukau
Managing Director

Independent Auditor's Report

To the Members of Standard Chartered Bank Botswana Limited

Report on the financial statements

We have audited the accompanying consolidated annual financial statements and the annual financial statements of Standard Chartered Bank Botswana Limited, which comprise the consolidated and separate statements of financial position at 31 December 2012, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 33 to 88.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) and for such internal control as the directors determine is necessary to ensure the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of, the consolidated and separate financial position of Standard Chartered Bank Botswana Limited at 31 December 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

KPMG

KPMG
Certified auditors
Practicing member: FJ Roos
Membership number: 20010078.45

Gaborone
30 April 2013

Consolidated statements of comprehensive income

for the year ended 31 December 2012

	Notes	Group		Company	
		2012 P'000	2011 P'000	2012 P'000	2011 P'000
Interest income	5	754 421	845 913	754 421	845 913
Interest expense	6	(177 149)	(334 556)	(177 149)	(334 556)
Net interest income		577 272	511 357	577 272	511 357
Fee and commission income		183 411	208 861	143 232	178 714
Less: commission expense		(10 354)	(8 067)	(10 354)	(8 067)
Net fee and commission income		173 057	200 794	132 878	170 647
Net trading income	7	152 228	154 315	152 228	154 315
Dividend income		-	-	22 368	20 749
Other income		1 216	36	1 126	36
		153 444	154 351	175 722	175 100
Operating income		**903 773**	**866 502**	**885 872**	**857 104**
Operating expenses					
Net impairment loss on financial assets	8	(36 222)	(56 471)	(36 222)	(56 471)
Impairment charge on goodwill	19	(18 621)	-	(18 621)	-
Personnel expenses	9	(202 340)	(164 484)	(202 340)	(163 272)
Operating lease expenses		(18 779)	(20 178)	(18 778)	(20 178)
Depreciation and amortisation		(18 590)	(22 055)	(18 590)	(22 055)
Other administration and general expenses	10	(292 346)	(251 907)	(287 214)	(251 883)
Profit before taxation		316 875	351 407	304 107	343 245
Income taxation	11	(38 053)	(70 035)	(29 214)	(63 403)
Profit for the year		**278 822**	**281 372**	**274 893**	**279 842**
Other comprehensive income					
Net change in fair value of available for sale investments		(1 107)	11 975	(1 107)	11 975
Total comprehensive income for the year		**277 715**	**293 347**	**273 786**	**291 817**
Dividend per share (Thebe)	12	30.17	53. 63		
Basic and diluted earnings per share (Thebe)	13	93.45	94.31		

The notes on pages 39 to 88 are an integral part of these financial statements

Consolidated statements of financial position

at 31 December 2012

	Notes	Group		Company	
		2012	**2011**	**2012**	**2011**
		P'000	P'000	P'000	P'000
Assets					
Cash and balances with central bank	14	713 065	905 617	713 065	905 617
Loans and advances to banks	15	1 759 394	1 366 420	1 759 394	1 366 420
Investment securities	16	1 657 166	2 964 977	1 657 166	2 964 977
Loans and advances to customers	17	5 007 391	4 096 691	5 007 391	4 096 691
Property and equipment	18	40 714	28 154	40 714	28 154
Intangible asset and goodwill	19	76 760	107 164	76 760	107 164
Other assets	20	93 284	221 905	93 284	221 905
Taxation refundable	11	10 089	-	10 089	-
Total assets		**9 357 863**	**9 690 928**	**9 357 863**	**9 690 928**
Liabilities					
Deposits from other banks	21	527 262	237 346	527 262	237 346
Deposits from non bank customers	22	7 299 137	8 074 136	7 337 096	8 105 496
Senior and subordinated debt	23	372 260	245 000	372 260	245 000
Current taxation payable	24	9 089	20 428	250	13 796
Deferred taxation	25	14 346	22 062	14 346	22 062
Other liabilities	26	174 366	318 268	171 455	315 819
Total liabilities		**8 396 460**	**8 917 240**	**8 422 669**	**8 939 519**
Equity					
Stated capital		179 273	179 273	179 273	179 273
Reserves		782 130	594 415	755 921	572 136
Total equity		**961 403**	**773 688**	**935 194**	**751 409**
Total liabilities and equity		**9 357 863**	**9 690 928**	**9 357 863**	**9 690 928**

The notes on pages 39 to 88 are an integral part of these financial statements

Consolidated statements of changes in equity

for the year ended 31 December 2012

Group

	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Dividend reserve P'000	Capital contribution P'000	Available for sale reserve P'000	Total P'000
Balance at 01 January 2011	**179 273**	**6 327**	**8 223**	**396 938**	**20 705**	**28 210**	**1 367**	**641 043**
Total comprehensive income for the year								
Profit for the year	-	-	-	281 372	-	-	-	281 372
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	11 975	11 975
Transactions with owners, recorded directly in equity								
Adjustment	-	-	-	-	-	3	-	3
Dividends to equity holders – paid	-	-	-	(140 000)	(20 705)	-	-	(160 705)
Dividends to equity holders – proposed	-	-	-	(20 000)	20 000	-	-	-
Total distributions to owners	**-**	**-**	**-**	**(160 000)**	**(705)**	**-**	**-**	**(160 705)**
Balance at 31 December 2011	**179 273**	**6 327**	**8 223**	**518 310**	**20 000**	**28 213**	**13 342**	**773 688**
Total comprehensive income for the year								
Profit for the year	-	-	-	278 822	-	-	-	278 822
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(1 107)	(1 107)
Transactions with owners, recorded directly in equity								
Dividends to equity holders – paid	-	-	-	(70 000)	(20 000)	-	-	(90 000)
Dividends to equity holders – proposed	-	-	-	(20 000)	20 000	-	-	-
Total distributions to owners	**-**	**-**	**-**	**(90 000)**	**-**	**-**	**-**	**(90 000)**
Balance at 31 December 2012	**179 273**	**6 327**	**8 223**	**707 132**	**20 000**	**28 213**	**12 235**	**961 403**

The notes on pages 39 to 88 are an integral part of these financial statements

Consolidated statements of changes in equity continued...

for the year ended 31 December 2012

Company

	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Dividend reserve P'000	Capital contribution P'000	Available for sale reserve P'000	Total P'000
Balance 01 January 2011	**179 273**	**6 327**	**8 223**	**376 189**	**20 705**	**28 213**	**1 367**	**620 297**
Total comprehensive income for the year								
Profit for the year	-	-	-	279 842	-	-	-	279 842
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	11 975	11 975
Transactions with owners, recorded directly in equity								
Dividends to equity holders – paid	-	-	-	(140 000)	(20 705)	-	-	(160 705)
Dividends to equity holders – proposed	-	-	-	(20 000)	20 000	-	-	-
Total distributions to owners	**-**	**-**	**-**	**(160 000)**	**(705)**	**-**	**-**	**(160 705)**
Balance at 31 December 2011	**179 273**	**6 327**	**8 223**	**496 031**	**20 000**	**28 213**	**13 342**	**751 409**
Total comprehensive income for the year								
Profit for the year	-	-	-	274 893	-	-	-	274 893
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(1 107)	(1 107)
Transactions with owners, recorded directly in equity								
Dividends to equity holders – paid	-	-	-	(70 000)	(20 000)	-	-	(90 000)
Dividends to equity holders – proposed	-	-	-	(20 000)	20 000	-	-	-
Total distributions to owners	**-**	**-**	**-**	**(90 000)**	**-**	**-**	**-**	**(90 000)**
Balance at 31 December 2012	**179 273**	**6 327**	**8 223**	**680 924**	**20 000**	**28 213**	**12 235**	**935 194**

The notes on pages 39 to 88 are an integral part of these financial statements

Consolidated statements of changes in equity continued...

for the year ended 31 December 2012

Stated capital

Issued ordinary shares
298 350 611 ordinary shares of no par value (2011: 298 350 611).

Unissued ordinary shares
As at 31 December 2012, un-issued shares totalled 101 649 389 (2011: 101 649 389).

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

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

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

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

Statutory credit risk reserve
This reserve represents the excess of the 1.25% general provision against risk weighted assets as required by the Bank of Botswana, over the impairment provision required by International Financial Reporting Standards (IFRS). In accordance with IFRS, statutory provisions can no longer be charged to the statement of comprehensive income nor be offset against the gross value of assets.

Dividends
Dividends on ordinary shares are recognised as a liability in the period in which they are declared.
Dividends unclaimed for a period greater than 3 years are transferred to equity by way of a resolution by the Board of Directors.

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

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

Consolidated statements of cash flows

for the year ended 31 December 2012

	Notes	Group		Company	
		2012 P'000	2011 P'000	2012 P'000	2011 P'000
Cash flows from operating activities					
Profit before taxation		316 875	351 407	304 107	343 245
Adjustments for:					
- Depreciation	18	6 807	5 718	6 807	5 718
- Amortisation	19	11 783	16 337	11 783	16 338
-Impairment charge on goodwill	19	18 621	-	18 621	-
- Movement in impairment accrual (loans and advances)	8	36 222	56 471	36 222	56 471
Cash generated before changes in working capital		390 308	429 934	377 540	421 772
Change in investment securities		(216 597)	(184 989)	(216 597)	(184 989)
Change in loans and advances to customers		(946 922)	(661 168)	(946 922)	(661 168)
Change in other assets		128 621	(115 673)	128 621	(115 673)
Change in deposits from other banks		289 916	118 435	289 916	118 435
Change in deposits from non-bank customers		(774 999)	(1 137 316)	(768 400)	(1 131 826)
Change in other liabilities and provisions		(143 902)	(40 568)	(144 365)	(37 893)
		(1 273 575)	**(1 591 346)**	**(1 280 207)**	**(1 591 343)**
Taxation paid	24	(67 197)	(83 175)	(60 565)	(83 175)
Net cash used in operating activities		**(1 340 772)**	**(1 674 521)**	**(1 340 772)**	**(1 674 518)**
Cash flows from investing activities					
Acquisition of property and equipment		(19 367)	(9 558)	(19 367)	(9 558)
Cash flows from financing activities					
Subordinated debt issued	23	177 260	3 874	177 260	3 871
Senior debt paid	23	(50 000)	-	(50 000)	-
Dividends paid		(90 000)	(160 705)	(90 000)	(160 705)
Net cash generated from/ (used in) financing activities		**37 260**	**(156 831)**	**37 260**	**(156 834)**
Net decrease in cash and cash equivalents		(1 322 879)	(1 840 910)	(1 322 879)	(1 840 910)
Cash and cash equivalents at 1 January		4 790 972	6 631 882	4 790 972	6 631 882
Cash and cash equivalents at 31 December	**27**	**3 468 093**	**4 790 972**	**3 468 093**	**4 790 972**

The notes on pages 39 to 88 are an integral part of these financial statements

Notes to the financial statements

for the year ended 31 December 2012

1. Reporting entity

Standard Chartered Bank Botswana Limited (the “Company”) was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily involved in investment, corporate, retail banking, securities and in asset management services. The Bank is a subsidiary of Standard Chartered Bank PLC, London, its ultimate holding company. These financial statements represent the Group’s and Bank’s statutory financial statements.

2. Basis of preparation

(a) Statement of compliance

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

(b) Functional and presentation currency

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

(c) Basis of consolidation

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Transactions eliminated on consolidation

Intra-group balances, income and expenses (except for foreign currency transactions gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group’s primary format for segment reporting is based on business segments.

Notes to the financial statements continued...

for the year ended 31 December 2012

2. Basis of preparation (continued)

(e) Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Determining fair values

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

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities.
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation.
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date.

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all material respects to all periods presented in these financial statements, and have been applied consistently by Group entities.

(a) Interest

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

Interest income and expense presented in the statement of comprehensive income include:

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

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

(b) Fees and commission

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

(c) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(d) Dividends

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities. Dividends received are reflected as other income in the consolidated statement of comprehensive income.

(e) Loans and advances

Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is recognised in the Group's financial statements.

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.

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(f) Instalment credit agreements

Instalment credit agreements are regarded as financing transactions and the total lease and instalments receivable there under, less unearned finance charges are included in advances. Finance charges are credited to revenue in proportion to the capital balance outstanding.

(g) Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through to profit or loss; b) loans and receivables; c) held-to maturity investments, and d) available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where appropriate, at the time of reclassification.

(i)Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

(ii) Loans and receivables

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

(iii) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale

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

Initial recognition

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

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

The fair values of quoted financial assets or financial liabilities inactive markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, 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.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between categories are not permitted following their initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the `intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category, where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.
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.

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

Renegotiated loans

Loans whose original terms have been modified are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Derecognition

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

Income recognition

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognized in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

Gains and losses arising from changes in the fair value of available for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within 'Other income' when the Group's right to receive payment is established.

Impairment of financial assets

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

The following factors are considered in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- a counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation
- the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- the Group sells a credit obligation at a material credit-related economic loss; or
- there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income. 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 statement of comprehensive income.

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

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(h) Cash and cash equivalents

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

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

(i) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

(j) Property and equipment

Recognition and measurement

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

Properties are shown at valuation less related accumulated depreciation and impairment losses. Revaluations are carried out periodically by the directors using independent valuers on the open market basis. Surpluses and deficits arising on the revaluation of properties are transferred to or from a revaluation reserve.

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

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

Subsequent cost

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

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(j) Property and equipment (continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Freehold property	Nil
Leasehold property	Unexpired period of lease
Buildings	50 years
Equipment	3 - 5 years
Motor vehicles	3 years
Furniture, fixtures and fittings	7 - 10 years

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

(k) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill included in the intangible assets is assessed at each reporting date for impairment and carried at cost less any accumulated impairment losses. Gains and losses at disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Acquired intangibles

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

Amortisation

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

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

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(l) Impairment of non financial assets

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

(m) Deposits, debt securities and subordinated liabilities

Deposits, debt securities and subordinated liabilities are the Group's sources of debt funding.
When the Group sells a financial asset and simultaneously enters into an agreement to repurchase an asset (or similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying assets continues to be recognised in the Group's financial statements.

(n) Taxation

Taxation expense comprises current and deferred taxation. Current taxation and deferred taxation are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.
Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits or losses and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred taxation is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current taxation assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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

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

(o) Employee benefits

Retirement benefits

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

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

Short term employee benefits

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

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

(p) Earnings per share

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

(q) Comparative information

Where necessary comparative information has been reclassified to reflect current period presentation.

(r) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements.

Amendments to IAS 12 Income Taxes

As a result of this amendment to IAS 12, the Bank will change the rate applied for measuring deferred tax arising from the company's investment property measured using the fair value model, in accordance with IAS 40 Investment Property. Previously a blended rate was used; however in terms of the amendment a sale rate will be applied. The amendment is effective for periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Bank's 2013 financial statements.

Amendment to IAS 1 Presentation of Financial Statements

The Bank will present those items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. The related tax effects for the two sub-categories will be shown separately. This is a change in presentation and will have no impact on the recognition or measurement of items in the financial statements. The amendment is effective for periods beginning on or after 1 July 2012 and is not expected to have a significant impact on the Bank's 2013 financial statements.

IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

The adoption of IAS 27 (2011) will not have a significant impact on the company's separate financial statements. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

IAS 28 (2011) Investments in Associates and Joint Ventures

IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. The main changes include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and
- On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the company does not re-measure the retained interest.

The initial application of this amendment has no impact on the company's financial statements. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements,
IFRS 12 Disclosures of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. This control model requires entities to perform the following in determining whether control exists:

- Identify how decisions about the relevant activities are made,
- Assess whether the entity has power over the relevant activities by considering only the entity's substantive rights,
- Assess whether the entity is exposed to variability in returns, and
- Assess whether the entity is able to use its power over the investee to affect returns for its own benefit.

Control should be assessed on a continuous basis and should be reassessed as facts and circumstances change. The standard, which becomes effective for the company's 2013 financial statements, is not expected to have any impact on its financial statements

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the major factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Bank's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Bank's interest in those assets and liabilities.
- The Bank's interest in a joint venture which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

IFRS 12 brings together in a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The adoption of the new standard is not expected to have a significant impact on the Bank's 2013 financial statements.

Notes to the financial statements continued...

for the year ended 31 December 2012

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The standard, which becomes effective for the Bank's 2013 financial statements, and will increase the level of disclosure provided for the entity's fair value measurements.

IAS 19 Employee Benefits (2011)

IAS 19 (2011) changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. For defined benefit plans the removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Bank. However the Bank may need to assess the impact of the change in measurement principles of expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The adoption of the new standard is not expected to have a significant impact on the Bank's 2013 financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities

The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Bank does not apply offsetting in the financial statements. The adoption of the new standard is not expected to have a significant impact on the Bank's 2013 financial statements.

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Bank no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The standard, which becomes effective for the Bank's 2013 financial statements, is not expected to have any impact on its financial statements.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Bank will adopt this standard for the financial year commencing 1 January 2015. The adoption of IFRS 9(2010) is not expected to have any impact on its financial statements.

Notes to the financial statements continued...

for the year ended 31 December 2012

4 Financial risk management

4.1 Introduction and overview

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

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

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

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

4.2 Credit risk

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

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

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.2 Credit risk (continued)

Management of credit risk

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

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

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

Regular audits of business units and Group Credit processes are undertaken by Country Operational Risk and Assurance Management as well as Group Internal Audit Department.

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk

	Loans and advances to customers		Loans and advances to bank		Financial investments	
	2012 P'000	**2011 P'000**	**2012 P'000**	**2011 P'000**	**2012 P'000**	**2011 P'000**
Carrying amount	5 007 391	4 096 691	1 759 394	1 366 420	1 657 166	2 964 977
Assets at amortised cost						
Individually impaired:						
Grade 14: Doubtful	30 059	61 167	-	-	-	-
Allowance for impairment	(24 234)	(28 883)	-	-	-	-
Carrying amount	5 825	32 284	-	-	-	-
Collectively impaired:						
Grade 1 – 9: Good	-	-	-	-	-	-
Grade 10 – 12: Early alert	494 203	82 721	-	-	-	-
Grade 13: Substandard	-	1 583	-	-	-	-
Gross amount	494 203	84 304	-	-	-	-
Allowance for impairment	(63 773)	(56 821)				
Carrying amount	430 430	27 483	-	-	-	-
Past due but not impaired:						
Grade 1 – 9: Good	184 977	299 615	-	-	-	-
Grade 10 – 12: Early alert	102 416	55 416	-	-	-	-
Grade 13: Substandard	20	13 329	-	-	-	-
Carrying amount	287 413	368 360	-	-	-	-
Past due comprises:						
01 – 30 days	228 093	299 615	-	-	-	-
31 – 60 days	40 778	55 416	-	-	-	-
61 – 90 days	18 542	13 329	-	-	-	-
Carrying amount	287 413	368 360	-	-	-	-
Neither past due nor impaired:						
Grade 1 – 9: Good	4 283 723	3 668 564	1 759 394	1 366 420	-	-
Carrying amount – amortised cost	5 007 391	4 096 691	1 759 394	1 366 420	-	-
Available-for-sale assets						
Low to fair risk	-	-	-	-	1 657 166	2 964 977
Carrying amount – fair value	-	-	-	-	1 657 166	2 964 977
Total carrying amount	5 007 391	4 096 691	1 759 394	1 366 420	1 657 166	2 964 977

In addition to the above, the Group had entered into lending commitments of P 644 894 thousands (2011: P548 946 thousands) with counterparties graded 1 to 9. Refer to note 30 for financial guarantee contracts in respect of debtors graded 1 to 9.

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk (continued)

Impaired loans

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

Past due but not impaired loans

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

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write off policy

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

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowed activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 or 2011.

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk (continued)

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

	Group		Company	
	2012 P'000	**2011 P'000**	**2012 P'000**	**2011 P'000**
Against individually impaired				
Others	491	201	491	201
Against past due but not impaired				
Property	-	1 500	-	1 500
Against neither past due nor impaired				
Property	732 993	928 757	732 993	928 757
Debt securities	54 000	186 674	54 000	186 674
Others	604 114	142 404	604 114	142 404
	1 391 598	**1 259 536**	**1 391 598**	**1 259 536**

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

	Group		Company	
	2012 P'000	**2011 P'000**	**2012 P'000**	**2011 P'000**
Segmental analysis by industry				
Agriculture	4 144	1 733	4 144	1 733
Mining	104 503	17 054	104 503	17 054
Finance and insurance	95 028	4 707	95 028	4 707
Construction	25 788	51 312	25 788	51 312
Manufacturing	162 673	179 009	162 673	179 009
Wholesale and retail	955 131	1 305 843	955 131	1 305 843
Community, social and personal services	67 538	5 603	67 538	5 603
Transport	36 045	6 155	36 045	6 155
Consumer	3 641 598	2 610 979	3 641 598	2 610 979
Total gross loans and advances	**5 092 448**	**4 182 395**	**5 092 448**	**4 182 395**

Cash and cash equivalents

The Group held cash and cash equivalents of P 3 468 million at 31 December 2012 (2011: P4 791 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and other financial institution counterparties. The majority of the latter is held within the larger group as detailed in note 28.

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.3 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Department.

4.4 Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Bank of Botswana. These guidelines require that total liquid assets divided by total deposits must be at least 10%.

Liquidity ratio has been assessed as noted below:

	Group		Company	
	2012 P'000	**2011 P'000**	**2012 P'000**	**2011 P'000**
Total liquid assets	997 296	1 973 784	997 296	1 973 784
Total Deposits	7 786 803	8 587 965	7 786 803	8 587 965
Ratio	**13%**	**23%**	**13%**	**23%**

Financial statements and notes

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)

Maturity analysis

Group and Company 31 December 2012	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
ASSETS								
Cash and balances with the Central Bank	713 065	713 065	713 065	-	-	-	-	-
Balances due from other banks	1 759 394	1 759 394	1 070 423	283 747	-	117 188	-	288 036
Bank of Botswana Certificates	995 634	995 634	295 634	700 000	-	-	-	-
Trading securities	661 532	661 532	59 082	-	-	174 300	288 150	200 000
Loans and advances to customers	5 007 391	5 007 391	802 495	399 967	-	332 551	2 443 796	1 028 582
Total assets due from customers and banks	**9 137 016**	**9 137 016**	**2 940 700**	**1 383 714**	**-**	**624 039**	**2 671 946**	**1 516 618**
Other assets	93 284	93 284	93 284	-	-	-	-	-
Property and equipment	40 714	40 714	40 714	-	-	-	-	-
Intangible assets and goodwill	76 760	76 760	76 760	-	-	-	-	-
Taxation refundable	10 089	10 089	-	-	-	10 089	-	-
Total assets	**9 357 863**	**9 357 863**	**3 151 458**	**1 383 714**	**-**	**634 128**	**2 671 946**	**1 516 618**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)

Maturity analysis (continued)

Group and Company 31 December 2011	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
ASSETS								
Cash and balances with the Central Bank	905 617	905 617	905 617	-	-	-	-	-
Balances due from other banks	1 366 420	1 366 420	755 201	512 535	-	98 684	-	-
Bank of Botswana Certificates	2 518 935	2 518 935	1 993 935	525 000	-	-	-	-
Trading securities	446 042	446 042	21 234	3 074	-	-	319 760	101 974
Loans and advances to customers	4 096 691	4 096 691	707 811	207 324	-	349 613	2 424 943	407 000
Total assets due from customers and banks	**9 333 705**	**9 333 705**	**4 383 798**	**1 247 933**	**-**	**448 297**	**2 744 703**	**508 974**
Other assets	221 905	221 905	221 905	-	-	-	-	-
Property and equipment	28 154	28 154	28 154	-	-	-	-	-
Intangible assets and goodwill	107 164	107 164	107 164	-	-	-	-	-
Total assets	**9 690 928**	**9 690 928**	**4 741 021**	**1 247 933**	**-**	**448 297**	**2 744 703**	**508 974**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)
Maturity analysis (continued)

Group - 31 December 2012

LIABILITIES AND SHAREHOLDERS FUNDS	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	2 297 812	(2 297 812)	2 297 812	497	-	-	86	-
Term deposits accounts	5 001 325	(5 001 325)	4 420 828	439 756	-	87 524	53 216	-
Deposits to banks	527 262	(527 262)	527 262	-	-	-	-	-
Total liabilities to customers and banks	**7 826 399**	**(7 826 399)**	**7 245 319**	**440 254**		**87 524**	**53 302**	
Other liabilities	174 366	(174 366)	174 366	-	-	-	-	-
Current taxation	9 089	(9 089)	-	9 089	-	-	-	-
Deferred taxation	14 346	(14 346)	-	-	-	-	14 346	
Senior subordinated debt	372 260	(372 260)	-	-	-	-	372 260	-
Equity	961 403	(961 403)	-	-	-	-	-	961 403
Total liabilities and shareholder's funds	**9 357 863**	**(9 357 863)**	**7 419 685**	**449 343**	**-**	**87 524**	**439 908**	**961 403**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)
Maturity analysis (continued)

Company - 31 December 2012

LIABILITIES AND SHAREHOLDERS FUNDS	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	2 335 770	(2 335 770)	2 335 187	497	-	-	86	-
Term deposits accounts	5 001 326	(5 001 326)	4 420 828	439 756	-	87 524	53 216	-
Deposits from banks	527 262	(527 262)	527 262	-	-	-	-	-
Total liabilities to customers and banks	**7 864 358**	**(7 864 358)**	**7 283 278**	**440 254**	**-**	**87 524**	**53 304**	**-**
Other liabilities	171 455	(171 455)	171 455	-	-	-	-	-
Current taxation	250	(250)	-	250	-	-	-	-
Deferred taxation	14 346	(14 346)	-	-	-	-	14 346	-
Subordinated debt	372 260	(372 260)	-	-	-	-	372 260	-
Equity	935 194	(935 194)	-	-	-	-	-	935 194
Total liabilities and shareholders' funds	**9 357 863**	**(9 357 863)**	**7 461 365**	**440 503**	**-**	**87 524**	**439 908**	**928 562**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)
Maturity analysis (continued)

Group - 31 December 2011

LIABILITIES AND SHAREHOLDERS FUNDS	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	6 278 266	(6 278 266)	6 278 266	-	-	-	-	-
Term deposits accounts	1 795 870	(1 795 870)	130 498	1 517 523	86 996	49 409	11 444	-
Deposits to banks	237 346	(237 346)	237 346	-	-	-	-	-
Total liabilities to customers and banks	**8 311 482**	**(8 311 482)**	**6 646 110**	**1 517 523**	**86 996**	**49 409**	**11 444**	**-**
Other liabilities	318 268	(318 268)	318 268	-	-	-	-	-
Current taxation	20 428	(20 428)	-	20 428	-	-	-	-
Deferred taxation	22 062	(22 062)	-	-	-	-	22 062	-
Subordinated debt	245 000	(245 000)	-	-	-	50 000	-	195 000
Equity	773 688	(773 688)	-	-	-	-	-	773 688
Total liabilities and shareholders' funds	**9 690 928**	**(9 690 928)**	**6 964 378**	**1 537 951**	**86 996**	**99 409**	**33 506**	**968 688**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.4 Liquidity risk (continued)
Maturity analysis (continued)

Company - 31 December 2011

LIABILITIES AND SHAREHOLDERS FUNDS	Carrying amount	Gross nominal (outflow)	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	6 309 626	(6 309 626)	6 309 626	-	-	-	-	-
Term deposits accounts	1 795 870	(1 795 870)	130 498	1 517 523	86 996	49 409	11 444	-
Deposits from banks	237 346	(237 346)	237 346		-	-	-	-
Total liabilities to customers and banks	**8 342 842**	**(8 342 842)**	**6 677 470**	**1 517 523**	**86 996**	**49 409**	**11 444**	**-**
Other liabilities	315 819	(315 819)	315 819	-	-	-	-	-
Current taxation	13 796	(13 796)	-	13 796	-	-	-	-
Deferred taxation	22 062	(22 062)	-		-	-	22 062	-
Senior and subordinated debt	245 000	(245 000)	-	-	-	50 000	-	195 000
Equity	751 409	(751 409)	-	-	-	-	-	751 409
Total liabilities and shareholders' funds	**9 690 928**	**(9 690 928)**	**6 993 289**	**1 531 319**	**86 996**	**99 409**	**33 506**	**946 409**

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.5 Operational risk

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

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

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

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

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

4.6 Capital management

Bank of Botswana sets and monitors the capital requirements for the Bank and requires the Bank to maintain a minimum capital adequacy ratio of 15 percent of risk-weighted assets (RWA). The Group's regulatory capital is analysed in two parts:-

- Tier I capital, which includes stated capital, retained earnings, and other reserves less investment in subsidiaries
- Tier II capital, which includes property revaluation reserve and loan loss reserve

The calculation of both the above ratios is as follows:-

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.6 Capital management (continued)

	2012 P'000	2011 P'000
Capital adequacy		
Core capital		
Stated capital	179 273	179 273
Other revenue reserves	680 924	412 893
Capital contribution	28 213	28 213
Less goodwill and intangible assets	(76 760)	(107 164)
	811 650	513 215
Supplementary capital		
Current year unpublished profits, less dividends	-	105 409
Revaluation reserve	3 163	3 163
Available-for-sale reserve	6 118	6 671
Credit risk reserve	8 223	8 223
Non-specific impairment	63 773	55 682
Subordinated debt	307 260	145 000
	1 200 187	**837 423**
Risk mitigated exposure		
Balance sheet items	5 252 566	4 394 065
Off-balance sheet items	75 269	60 467
	5 327 835	**4 454 532**
Capital adequacy ratio	22.5%	18.8%

4.7 Market risks

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

Exposure to market risks

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

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.7 Market risks (continued)

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

- An 8-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature. The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vise versa.

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

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

	At 31 December	Average	Maximum	Minimum
In thousands of USD				
2012				
Foreign currency risk	44	54	107	32
Interest rate risk	55	69	79	65
Overall	99	123	186	97
2011				
Foreign currency risk	88	62	172	21
Interest rate risk	88	86	176	31
Overall	176	148	348	52

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

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.7 Market risks (continued)

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

Exposure to interest rate risk – non-trading portfolios

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

31 December 2012

	Zero rate	Floating rate	Fixed rate instruments					
			0–1 month	1–6 months	6–12 months	1 to 5 years	<5 years	Total
Total assets	1 335 902	8 021 960	-	-	-	-	-	9 357 862
Total liabilities and shareholders' funds	(1 440 620)	(7 544 982)		(50 000)		(322 260)		(9 357 862)
Net mismatch	(104 718)	476 978	-	(50 000)	-	(322 260)	-	-

Interest sensitivity gap	
Impact of increase in interest rates	
50 basis points	1 131
+1%	2 261

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

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.7 Market risks (continued)

31 December 2011

	Zero rate	Floating rate	Fixed rate Instruments 0 – 1 month	1 – 6 months	6 – 12 months	1 to 5 years	Over 5 years	Total
Total assets	1 262 839	8 428 089	-	-	-	-	-	9 690 928
Total liabilities and shareholders' funds	(1 142 807)	(8 448 121)	-	-	(50 000)	-	(50 000)	(9 690 928)
Net mismatch	120 032	(20 032)	-	-	(50 000)	-	(50 000)	-

Interest Sensitivity Gap – Group and Company

Impact of increase in interest rates	
50 basis points	100
+1%	200

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

Effective interest rates of financial assets and liabilities

In the opinion of directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short period to contractual re-pricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the reporting date.

4.8 Foreign exchange rate risk management

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

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

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.8 Foreign Exchange Rate Risk Management (continued)

Group financial markets is responsible for:-

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

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

The table below sets out principal structural foreign exchange exposures of the group for major currencies only at 31 December 2012 and 2011.

Group and Company

	2012	2011
	Assets	Assets
American Dollars	1 146 919	1 648 400
British Pound	153 231	128 895
Euro	134 637	97 737
South African Rand	512 502	526 596

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.9 Financial assets and liabilities

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

	Note	Available for sale	Held to maturity	Loans and receivables	Cash and bank balances	Amortized cost	Total carrying	Fair value
Group – 31 December 2012								
Cash and balances with central bank	14	-	-	-	713 065	-	713 065	713 065
Loans and advances to other banks	15	-	-	-	1 759 394	-	1 759 394	1 759 394
Investment securities	16	1 657 166	-	-	-	-	1 657 166	1 657 166
Loans and advances to customers	17	-	-	5 007 391	-	-	5 007 391	5 007 391
		1 657 166	**-**	**5 007 391**	**2 472 459**	**-**	**9 137 016**	**9 137 016**
Deposits from other banks	21	-	-	-	-	527 262	527 262	527 262
Deposits from customers	22	-	-	-	-	7 299 137	7 299 137	7 299 137
Debt securities issued	23	-	-	-	-	-	-	50 000
Senior and subordinated debt	23	-	372 260	-	-	-	372 260	372 260
		-	**372 260**	**-**		**7 826 399**	**8 198 659**	**8 198 659**
Company – 31 December 2012								
Due from central bank	14	-	-	-	713 065	-	713 065	713 065
Due from other banks	15	-	-	-	1 759 394	-	1 759 394	1 759 394
Financial securities	16	1 657 166	-	-	-	-	1 657 166	1 657 166
Loans and Advances to customers	17	-	-	5 007 391	-	-	5 007 391	5 007 391
		1 657 166	**-**	**5 007 391**	**2 472 459**	**-**	**9 137 016**	**9 137 016**
Deposits from other banks	21	-	-	-	-	527 262	527 262	527 262
Deposits from customers	22	-	-	-	-	7 337 096	7 337 096	7 337 096
Debt securities issued	23	-	-	-	-		-	-
Senior and Subordinated liabilities	23	-	372 260	-	-		372 260	-
		-	**372 260**	**-**	**-**	**7 864 358**	**8 236 618**	**8 236 618**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.9 Financial assets and liabilities (continued)

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

	Note	Available for sale	Held to maturity	Loans and receivables	Cash and bank balances	Other amortized cost amount	Total carrying	Fair value
Group – 31 December 2011								
Cash and balances with central bank	14	-	-	-	905 617	-	905 617	905 617
Loans and advances to banks	15	-	-	-	1 366 420	-	1 366 420	1 366 420
Investment securities	16	2 964 977	-	-	-	-	2964 977	2 964 977
Loans and advances to customers	17	-	-	4 096 691	-	-	4 096 691	4 096 691
		2 964 977	**-**	**4 096 691**	**2 272 037**	**-**	**9 333 705**	**9 333 705**
Deposits from other banks	21	-	-	-	-	237 346	237 346	237 346
Deposits from non bank customers	22	-	-	-	-	8 074 136	8 074 136	8 074 136
Debt securities issued	23	-	100 000	-	-	-	100 000	100 000
Senior and subordinated debt	23	-	145 000	-	-	-	145 000	145 000
		-	**245 000**	**-**	**-**	**8 311 482**	**8 556 482**	**8 556 482**
Company – 31 December 2011								
Due from central bank	14	-	-	-	905 617	-	905 617	905 617
Due from other banks	15	-	-	-	1 366 420	-	1 366 420	1 366 420
Financial investments	16	2 964 977	-	-	-	-	2 964 977	2 964 977
Loans and advances to customers	17	-	-	4 096 691	-	-	4 096 691	4 096 691
		2 964 977	**-**	**4 096 691**	**2 272 037**	**-**	**9 333 705**	**9 333 705**
Deposits from other banks	21	-	-	-	-	237 346	237 346	237 346
Deposits from non bank customers	22	-	-	-	-	8 105 496	8 105 496	8 105 496
Debt securities issued	23	-	100 000	-	-	-	100 000	100 000
Senior and subordinated debt	23	-	145 000	-	-	-	145 000	145 000
		-	**245 000**	**-**	**-**	**8 342 842**	**8 587 842**	**8 587 842**

Notes to the financial statements continued...

for the year ended 31 December 2012

4. Financial risk management (continued)

4.9 Financial assets and liabilities (continued)

Fair value measurement

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

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

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

4. Financial risk management (continued)

4.9 Financial assets and liabilities (continued)

Valuation of financial instruments

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

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

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

	Note	Level 1	Level 2	Level 3	Total
31 December 2012					
Investment securities	16	-	1 657 166	-	1 657 166
31 December 2011					
Investment securities	16	-	2 964 977	-	2 964 977

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012 P'000	2011 P'000	2012 P'000	2011 P'000
5. Interest income				
Loans and advances to customers	596 887	532 864	596 887	532 864
Investment securities	129 537	289 504	129 537	289 504
Balances with banks	27 997	23 545	27 997	23 545
	754 421	845 913	754 421	845 913
6. Interest expense				
Amounts due to banks	10 448	59 641	10 448	59 641
Senior and subordinated debt	24 928	23 258	24 928	23 258
Amounts due to customers	141 773	251 657	141 773	251 657
	177 149	334 556	177 149	334 556
7. Net trading income				
Foreign currency	152 792	142 109	152 792	142 109
Trading securities	(564)	12 206	(564)	12 206
	152 228	154 315	152 228	154 315
8. Net impairment loss on financial assets				
Specific impairment	57 682	76 331	57 682	76 331
Portfolio impairment	6 952	11 208	6 952	11 208
Recoveries	(28 412)	(31 068)	(28 412)	(31 068)
Charge per statement of comprehensive income	36 222	56 471	36 222	56 471
Movement in specific impairments				
Balance at beginning of the year	28 883	9 158	28 883	9 158
Charge for the year	57 682	76 331	57 682	76 331
	86 565	85 489	86 565	85 489
Write-offs during the year	(48 910)	(31 434)	(48 910)	(31 434)
Provisions no longer required	(16 372)	(25 172)	(16 372)	(25 172)
Balance at end of the year	21 284	28 883	21 284	28 883
Movement in non-specific impairments				
Balance at beginning of the year	56 821	45 613	56 821	45 613
Charge for the year	6 952	11 208	6 952	11 208
Balance at end of the year	63 773	56 821	63 773	56 821
Total specific and non-specific impairment at end of year	85 057	85 704	85 057	85 704

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012	**2011**	**2012**	**2011**
	P'000	**P'000**	**P'000**	**P'000**
9. Personnel expenses				
Directors' remuneration – management services	1 616	1 093	1 616	1 093
Salaries and wages	186 354	128 700	186 354	127 488
Pension fund costs	10 192	9 569	10 192	9 569
Other	4 178	25 122	4 178	25 122
	202 340	164 484	202 340	163 272
10. Other administration and general expenses				
Audit fees	1 440	1 897	1 440	1 897
Consultancy costs	8 668	10 619	8 668	10 619
Directors' fees	299	210	299	210
Repairs and maintenance	18 106	13 789	18 106	13 789
Communication costs	19 840	22 954	19 840	22 954
Group recharges	172 238	148 349	172 238	148 349
Advertising and sponsorship	1 594	1 959	1 594	1 959
Other expenses	70 161	52 130	65 029	52 106
	292 346	251 907	287 214	251 883
11. Income tax expense				
Taxation charge for the year:				
Current taxation at 22%	76 286	77 320	67 447	70 688
Prior year release	(20 428)	-	(20 428)	-
Prior year receivable	(10 089)	-	(10 089)	-
Deferred tax	(7 716)	(7 285)	(7 716)	(7 285)
	38 053	70 035	29 214	63 403

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012	**2011**	**2012**	**2011**
	P'000	**P'000**	**P'000**	**P'000**
11. Income tax expense (continued)				
Taxation reconciliation:				
Taxation at statutory rate: 22%	69 713	77 309	66 903	75 514
Disallowed items	6 573	11	5 464	11
Dividend income	-	-	(4 920)	(4 837)
Overprovision in prior year (Deferred Tax)	(7 716)	-	(7 716)	-
Prior year release	(20 428)	-	(20 428)	-
Prior year refund	(10 089)	-	(10 089)	-
ACT utilised on dividends	-	(7 285)	-	(7 285)
Current taxation per income statement	38 053	70 035	29 214	63 403
12 .Dividends				
Dividend declared and paid	70 000	140 000	70 000	140 000
Dividend declared and unpaid	20 000	20 000	20 000	20 000
	90 000	160 000	90 000	160 000

Dividends per share is based upon the dividends declared and paid in the year on the 298 350 611 issued ordinary shares. The proposed dividends have not been provided for but are expected to be paid subsequent to year-end.

13. Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of P278 822 thousand (2011: P281 372 thousand), and the weighted average number of ordinary shares issued of 298 350 611 (2011: 298 350 611).

14. Cash and balances with central bank

	Group 2012 P'000	Group 2011 P'000	Company 2012 P'000	Company 2011 P'000
Cash and balances with central bank	713 065	905 617	713 065	905 617

Included in balances with the central bank is an amount of P 580 369 000 (2011: P648 584 000) which is a restricted minimum statutory reserve balance not available for the Group's daily operations.

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012	2011	2012	2011
	P'000	P'000	P'000	P'000
15. Loans and advances to banks				
Bank balances	15 005	12 161	15 005	12 161
Placements and other investments	1 744 389	1 354 259	1 744 389	1 354 259
	1 759 394	1 366 420	1 759 394	1 366 420

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

	Group		Company	
	2012	2011	2012	2011
	P'000	P'000	P'000	P'000
16. Investment securities				
Bank of Botswana Certificates	995 634	2 518 935	995 634	2 518 935
Government bonds	661 532	446 042	661 532	446 042
	1 657 166	2 964 977	1 657 166	2 964 977

At 31 December 2012 Bank of Botswana Certificates amounting to P770 000 000 (2011: P770 000 000) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility. Government bonds are quoted on the Botswana Stock Exchange.

	Group		Company	
	2012	2011	2012	2011
	P'000	P'000	P'000	P'000
17. Loans and advances to customers				
Loans and advances – originated	5 092 448	4 182 395	5 092 448	4 182 395
Less: provision for impairment (note 8)	(85 057)	(85 704)	(85 057)	(85 704)
	5 007 391	4 096 691	5 007 391	4 096 691

Loans and advances are of a floating rate nature, since as per the Bank's loan agreements, the Bank 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 Bank and/or any government or regulatory authority.

Notes to the financial statements continued...

for the year ended 31 December 2012

18. Property and equipment – Group and Company

2011	Premises P'000	Equipment P'000	Total P'000
Cost or valuation			
At 01 January 2011	12 119	70 002	82 121
Additions	4 060	5 498	9 558
At 31 December 2011	**16 179**	**75 500**	**91 679**
Accumulated depreciation			
At 1 January 2011	2 437	55 370	57 807
Charge for the year	510	5 208	5 718
At 31 December 2011	**2 947**	**60 578**	**63 525**
Net book value			
At 31 December 2011	**13 232**	**14 922**	**28 154**
2012			
Cost or valuation			
At 01 January 2012	16 179	75 500	91 679
Additions	10 662	8 705	19 367
Reclassification	(356)	356	-
At 31 December 2012	**26 485**	**84 561**	**111 046**
Accumulated depreciation			
At 1 January 2012	2 947	60 578	63 525
Charge for the year	768	6 039	6 807
At 31 December 2012	**3 715**	**66 617**	**70 332**
Net book value			
At 31 December 2012	**22 770**	**17 944**	**40 714**

Premises are disclosed at valuation less accumulated depreciation and impairment losses. Revaluations are carried out every five years by independent valuers and periodically by directors, on open market basis.

Notes to the financial statements continued...

for the year ended 31 December 2012

19. Intangible assets and goodwill

2011	Customer Relationship P'000	Goodwill P'000	Total P'000
Cost			
As at 01 January 2011	*103 752*	*-*	*103 752*
Reclassification	*(9 068)*	*9 068*	*-*
Deferred taxation	*-*	*20 831*	*20 831*
As at 31 December 2011	*94 684*	*29 899*	*124 583*
Amortisation and impairment losses			
As at 01 January 2011	*1 081*	*-*	*1 081*
Amortisation for the period	*16 338*	*-*	*16 338*
As at 31 December 2011	*17 419*	*-*	*17 419*
Net book value as at December 2011	*77 265*	*29 899*	*107 164*

2012	Customer Relationship P'000	Goodwill P'000	Total P'000
Cost			
As at beginning and end of year	94 684	29 899	124 583
Amortisation and impairment losses			
As at 01 January 2012	17 419	-	17 419
Amortisation for the period	11783	-	11 783
Impairment loss	-	18 621	18 621
As at 31 December 2012	**29 202**	**18 621**	**47 823**
Net book value as at 31 December 2012	**65 482**	**11 278**	**76 760**

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

Goodwill arose on acquisition of the custody business in December 2010. The goodwill was recognised with reference to the consideration paid and fair value of the net assets and intangible assets acquired. The valuation of goodwill at year end was determined by comparing the carrying value of the assets concerned and their recoverable amount. The recoverable amount was measured based on the value in use. The key assumptions and approach in determining the value in use calculations was for the purpose of assessing the impairment on acquired goodwill. Management forecasts projected revenue growth rates greater than long term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate.

Cash flow projections are extrapolated forward for periods of up to 19 years using steady long term forecast GDP growth rates and a terminal value determined based on long term earning multiples. Cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that reasonable possible changes in any of the key assumptions on which the recoverable amount has been based would not cause the carrying amounts to exceed their recoverable amounts.

In line with the accounting policy, acquired intangible assets and goodwill were reviewed for impairment during the year following a trigger event. An impairment loss was therefore recognised.

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012	**2011**	**2012**	**2011**
	P'000	**P'000**	**P'000**	**P'000**
20. Other assets				
Prepayments and accrued income	45 682	149 764	45 682	149 764
Remittances and in transit items	47 602	72 141	47 602	72 141
	93 284	221 905	93 284	221 905
21.Deposits from other banks				
Bank balances	480 297	207 845	480 297	207 845
Placements	46 965	29 501	46 965	29 501
	527 262	237 346	527 262	237 346
22. Deposits due from non-bank customers				
Demand deposits	6 002 533	6 408 765	6 002 533	6 440 125
Time deposits	1 296 604	1 665 371	1 334 563	1 665 371
	7 299 137	8 074 136	7 337 096	8 105 496
23. Senior and subordinated debt				
Local note issue (1)	75 000	75 000	75 000	75 000
Local note issue (2)	70 000	70 000	70 000	70 000
Local note issue (3)	177 260	-	177 260	-
Senior debt	50 000	100 000	50 000	100 000
	372 260	245 000	372 260	245 000

Notes to the financial statements continued...

for the year ended 31 December 2012

23. Senior and subordinated debt (continued)

Local note issue (1) comprises of BWP 75 million raised through a new debt issued on 19 November 2007 as part of the P500 Million Debt Issuance Programme and is to be repaid no later than on the tenth anniversary which is 27th November 2017 and no earlier than five years before that date. The interest rate is a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 40 basis points per annum for first 5 years and the same reference rate plus a stepped up margin of 90 basis points per annum thereafter. The note was redeemed in full subsequent to year end on 15 January 2013.

Local note issue (2) comprises of BWP 70 million raised through a new debt issued on 12 May 2011 as part of the P500 Million Debt Issuance Programme and to be repaid no later than the tenth anniversary which is 12th May 2021 and no earlier than 5 years before that date. The interest rate is a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 130 basis points per annum for first 5 years and the same reference rate plus a stepped up margin of 180 basis points per annum thereafter.

Local note issue (3) comprises of BWP 177.26 million sub-debt, issued in two tranches, through a new debt issued on 27 June 2012 as part of the BWP 500 million Debt Issuance Programme with maturity on 27 June 2022. Tranche (I) for BWP 50 million was issued at a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 150 basis points per annum. Tranche (II) for BWP 127.26 million was issued at a fixed interest rate of 8.20%.

BWP 100 million senior debt was issued in tranches of BWP 50 million each. Tranche (I) was issued at a fixed interest rate of 10.30% per annum and matured on 20 December 2012. Tranche (II) was issued at fixed rate of 10.50% per annum maturing on 20 December 2020. The debt is callable after the 8th anniversary. Interest is payable semi annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors.

None of the loan capital is secured or convertible.

	Group		Company	
	2012	2011	2012	2011
	P'000	P'000	P'000	P'000
24. Current taxation payable				
Opening balance	20 428	33 568	13 796	33 568
Charge for the year	55 858	70 035	47 019	63 403
Income tax paid	(67 197)	(83 175)	(60 565)	(83 175)
Balance at the end of the year	9 089	20 428	250	13 796
25. Deferred taxation				
Balance at the beginning of the year	22 062	1 232	22 062	1 232
Deferred taxation on business combination	-	20 830	-	20 830
Current year movement	(7 716)	-	(7 716)	-
	14 346	22 062	14 346	22 062

Notes to the financial statements continued...

for the year ended 31 December 2012

	Group		Company	
	2012	**2011**	**2012**	**2011**
	P'000	**P'000**	**P'000**	**P'000**
25. Deferred taxation (continued)				
The deferred tax balance comprises of:				
Deferred tax on plant and equipment	(42)	1 232	(42)	1 232
Deferred tax on intangible assets	14 388	20 830	14 388	20 830
	14 346	**22 062**	**14 346**	**22 062**
26. Other liabilities				
Deferred income and accruals	34 530	205 994	31 637	205 994
Accounts payable	139 818	112 274	139 818	109 825
	174 366	**318 268**	**171 455**	**315 819**
27. Cash and cash equivalents				
Cash and bank balances with Central bank (note 14)	713 065	905 617	713 065	905 617
Financial investments (note 16)	995 634	2 518 935	995 634	2 518 935
Balances due from other banks (note 15)	1 759 394	1 366 420	1 759 394	1 366 420
	3 468 093	**4 790 972**	**3 468 093**	**4 790 972**

Cash and cash equivalents include Bank of Bank Botswana certificates and placements with other banks with a maturity of less than 3 months.

28. Related parties

The Bank has a related party relationship with its parent Bank and with entities within the Standard Chartered Group. The Bank also has a related party relationship with its directors and executive officers.

Transactions with other entities in the Standard Chartered Group are in the ordinary course of business on an arm's length basis.

Details of related party at year end are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	P'000	**P'000**	**P'000**	**P'000**
Balances due from:				
Standard Chartered Bank PLC London	346 999	347 059	346 999	347 059
Standard Chartered Bank New York	243 650	435 791	243 650	435 791
Standard Chartered Bank Johannesburg	494 710	431 743	494 710	431 743
Other group companies	118 079	8 265	118 079	8 265
	1 203 437	**1 222 858**	**1 203 437**	**1 222 858**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

28. Related parties (continued)

	Group		Company	
	2012	**2011**	**2012**	**2011**
Balances due to				
Standard Chartered Bank PLC London	86 012	622	86 012	622
Standard Chartered Bank New York	155 788	19 478	155 788	19 478
Other group companies	33 841	33 600	33 841	33 600
	275 642	**53 700**	**275 642**	**53 700**
Details of related party transactions during the year are as follows:				
Directors' fees	299	210	299	210
Executive directors' remuneration	1 616	1 093	1 616	1 093
Interest income	18 123	9 729	18 123	9 729
Interest expense	195	4 700	195	4 700
Group recharges	172 238	148 349	172 238	148 349
Group share scheme expense	2 393	2 191	2 393	2 191
Directors' holding in company shares	45	24 500	45	24 50

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers.

Executive officers also participate in Group share scheme programme.

No impairment losses have been recorded against related party receivables.

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

	2011	2012	2013	2014	2015
29. Operating leases					
Long –term accrual	873 212	669 266	396 577	132 202	-
Short – term accrual	38 202	203 946	272 689	264 375	132 202
Total accrual	**911 414**	**873 212**	**669 266**	**396 577**	**132 202**

	2011	2012	2013	2014	2015
Minimum lease payments					
Cash flow within 1 year	6 490 871	4 643 952	2 972 189	2 185 146	951 380
	10 700 573	6 108 715	3 140 806	951 380	-
Cash flow between 2 - 5 years	**17 191 444**	**10 752 667**	**6 112 995**	**3 136 526**	**951 380**
Lease accrual	(911 414)	(873 212)	(669 266)	(396 577)	(132 202)
Future expenses	**16 280 030**	**9 879 455**	**5 443 729**	**2 739 949**	**819 178**

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

Notes to the financial statements continued...

for the year ended 31 December 2012

	2012 P'000	2011 P'000	2012 P'000	2011 P'000
30. Contingent liabilities and commitments				
Un-drawn commitments	644 894	548 946	644 894	548 946
Acceptances and letters of credit	120 662	280 009	120 662	280 009
Guarantees and standby letters of credit	1 881 722	1 231 674	1 881 722	1 231 674
	2 647 278	**2 060 629**	**2 647 278**	**2 060 629**

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

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

31. Fiduciary activities

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

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

	Group		Company	
	2012 P'000	2011 P'000	2012 P'000	2011 P'000
Assets held in custody	**6 990 805**	17 032 666	**6 990 804**	17 032 666

Notes to the financial statements continued...

for the year ended 31 December 2012

32. Average balances for the group

The following are the average daily balances for the full year 2012 and 2011:

	2012 P'000	2011 P'000
Total Assets	9 251 614	10 045 946
Total Liabilities	8 392 953	9 372 175
Shareholders' Equity	960 503	673 771
Contingent liabilities and un-drawn commitments	644 894	548 946

33. Investment in wholly owned subsidiary companies

	2012 P'000	2011 P'000
Standard Chartered Bank Insurance Agency (Pty) Ltd	100	100
Standard Chartered Investments (Pty) Ltd	100	100
Standard Chartered Nominees (Pty) Ltd	100	100

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

34. Segmental reporting

	Consumer Banking	Wholesale Banking	Total
2012			
Statement of Comprehensive Income			
Net interest income	**421 455**	**155 817**	**577 272**
Non funded income	193 799	132 702	326 501
Net income before impairment	**615 254**	**288 519**	**903 773**
Impairment movement	**(28 190)**	**(26 653)**	**(54 843)**
Net interest income after impairment	587 064	261 866	848 930
Operating expenses	(313 687)	(218 368)	(532 055)
Profit before taxation	**273 377**	**43 498**	**316 875**
Taxation	-	-	(38 053)
Profit after taxation	**273 377**	**43 498**	**278 822**
Statement of financial position			
Investment securities	-	1 657 166	1 657 166
Loans and advances to customers	3 642 347	1 365 044	5 007 391
Other assets for reportable segments	137 179	2 556 127	2 693 306
Total assets for reportable segments	**3 779 526**	**5 578 337**	**9 357 863**
Deposits from non bank customers	3 411 463	3 887 674	7 299 137
Other liabilities for reportable segments	700 634	396 689	1 097 323
Total liabilities for reportable segments	**4 112 097**	**4 284 363**	**8 396 460**
2011			
Statement of comprehensive income			
Net interest income	386 071	125 286	511 357
Net funded income	176 767	178 378	355 145
Net interest income before impairment	**562 838**	**303 664**	**866 502**
Impairment movement	(43 963)	(12 508)	(56 471)
Net interest income after impairment	**518 875**	**291 156**	**810 031**
Operating expenses	(267 133)	(191 490)	(458 623)
Profit before taxation	**251 742**	**99 666**	**351 408**
Taxation	-	-	(70 035)
Profit after taxation	**251 742**	**99 666**	**281 373**
Statement of financial position			
Investment securities	-	2 964 977	2 964 977
Loans and advances to customers	2 965 076	1 131 615	4 096 691
Other assets for reportable segments	63 971	2 565 289	2 629 260
Total assets for reportable segments	**3 029 047**	**6 661 881**	**9 690 928**
Deposits from non bank customers	3 106 622	4 967 514	8 074 136
Other liabilities for reportable segments	687 602	155 502	843 104
Total liabilities for reportable segments	**3 794 224**	**5 123 016**	**8 917 240**

Notes to the financial statements continued...

for the year ended 31 December 2012

In Thousands of Pula

34. Segmental reporting (continued)

Reconciliation of reportable segment revenue, profits or loss and assets and liabilities

	2012	2011
Revenues		
Total revenue for reportable segments	903 773	866 502
Profit before taxation		
Total profit for reportable segments	316 875	351 407
Assets		
Total assets for reportable segments	9 075 502	8 953 428
Other unallocated amounts	282 361	737 500
Group total assets	9 357 863	9 690 928
Liabilities		
Total liabilities for reportable segments	9 124 187	9 528 841
Other unallocated amounts	233 676	162 087
Group total liabilities	9 357 863	9 690 928

Notice to shareholders

for the year ended 31 December 2012

Notice is hereby given that the 38th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Thursday 27th June 2013 at 1500 hours at Gaborone Sun for the following purposes:

- To receive, consider and adopt the Chairman's report.
- To receive, consider and adopt the Chief Executive Officer's report.
- To receive, consider and approve the Annual Financial Statement for the year ended 31st December 2012, together with the Auditor's reports therein.
- To approve the retirement of Professor Bojosi Otlhogile in terms of section 66 of the Articles of Association; who puts himself up for re-election.
- To approve the appointment of Mr Ish Handa as a Non-Executive director in accordance with section 90 of the Articles of Association.
- To note the resignation of Ms Serty Leburu in terms of section 91 of the Articles of Association
- To note the resignation of Mr Reginald Motswaiso in terms of section 91 of the Articles of Association
- To approve the payment of dividends for the year ended 31st December 2012.
- To approve the 2013 remuneration for directors.
- To approve the remuneration of the auditors for the year ended 31st December 2012.
- To confirm the appointment of the auditors for the year 2013.
- To receive and consider questions and or comments from the shareholders.

Notes:
Any member entitled to attend and vote, is entitled to a proxy to attend and speak and, on a poll, vote in his/her stand. The person so appointed needs not be a member. Proxy forms should be forwarded to reach the Secretary, at Standard Chartered Bank Botswana Limited, Head Office, 5th Floor, Standard House, The Mall, P O Box 496, Gaborone, not less than 48 hours before the meeting.

By order of the Board

Thato Mmile
Secretary

Proxy form

Please complete in block letters

I/WE____

Being a member of Standard Chartered Bank Botswana Limited, hereby appoint:

____or failing him or her

____or failing him or her

____or failing him or her

The chairman of the meeting, as my proxy to vote on my behalf at the annual general meeting of the company to be held on the 27th June 2013.

Unless otherwise indicated, my proxy may vote as he/she thinks fit.

Signature_________________ Date ________________________2013.

Notes____

1. Any alteration of this form must be initialed by the signatory
2. This form of proxy should be completed and returned so as to reach the Secretary of the company on the 5th floor, Standard House, The Mall, P O Box 496, Gaborone, no later than Tuesday 25th June 2013.


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