Barclays Bank of Botswana
Branch Network

BRANCHES

Bobonong Express Branch
Lot 430, Bobonong

Broadhurst Branch
Lot 5619, Broadhurst, Gaborone

Carbo Prestige and Premier
Lot 54518, Carbo Centre Riverwalk, Gaborone

Francistown Galabgwe Branch
Lot 16142, Francistown

Francistown Branch
Lot 494/5, Francistown

Francistown Blue Jacket Prestige
Lot 494/5, Francistown

Gaborone Bus Stop Branch
Lot 13964, Gaborone

Gaborone Industrial Branch
Lot 17953, Gaborone

Gaborone Sun Prestige
Gaborone Sun Hotel, Gaborone

Galo Prestige
Lot 1471/2, Francistown

Game City Prestige
Game City Mall, Gaborone

Ghanzi Branch
Lot 29, Ghantzi

Gumare Express Branch
Lot 76, Gumare

Jwaneng Branch
Lot 5477, Unit 21, Jwaneng

Kasane Branch
Lot 2208, Kasane

Mall Branch
Lot 1103/07, Gaborone

Mahalapye Branch
Lot 61, Mahalapye

Molepolole Branch
Plot 39, unit 33 Mafenyatlala Mall

Palapye Branch
Lot 47, Palapye

Mochudi Branch
Lot 136, Mochudi

Kanye Branch
Lot 89, Kanye

Letlhakane Branch
Plot 3577, Letlhakane

Lobatse Branch
Lot 4649, Lobatse

Maun Branch
Lot D4, Maun/66

Masunga Express Branch
Lot 1107, Masunga

Mogoditshane Express Branch
Lot 1462, Mogoditshane

Moshupa Express Branch
Lot 1016, Moshupa

Tsabong Branch
Lot 545, Tsabong

Orapa Branch
Lot 18/98, Orapa

Personal Prestige
Lot 1188, Debswana House Gaborone

Phakalane Mowana Prestige
Lot 63724, Mowana Mall, Phakalane, Gaborone

Ramotswa Express Branch
Lot 861-3, 2990, Ramotswa

Selibe- Phikwe (Botshabelo) Express
Lot 2935, Selibe Phikwe

Selibe Phikwe Branch
Lot 2579/81, Selibe Phikwe

Selibe Phikwe Prestige
Lot 2579/81, Selibe Phikwe

Serowe Branch
Lot 40/5, Serowe

Shakawe Express Branch
Lot 180, Shakawe

Sowa Express Branch
Lot 1012, Sowa

Tlokweng Express Branch
Lot 5778 , Tlokweng

Tutume Express Branch
Lot - Itachi Complex, Tutume

SALES & SERVICE CENTRES

Donga BDF Camp
Francistown

Nata
Caltex Filing Station, Nata

Nzano Mall
Shop 7, Nzano Shopping Centre, Francistown

Tonota Bonanza Mall
Bonanza Mall, Tonota

BARCLAYS

'Go-To' bank Barclays Bank of Botswana Limited Annual Report 2012

Barclays Bank of Botswana Limited.
Annual Report
2012

'Go-To' bank

BARCLAYS

Barclays Bank of Botswana Overview

Barclays Bank of Botswana (BBB) has operated in Botswana since 1950, making the business part of the fabric of Botswana's developmental story. Over the years BBB has led the pack and has always been in the top four Banks in respect of market capitalisation.

Number of employees	Number of ATMs
1,200	101

Number of customers:	Points of Sale machines:
162,500	2,370

Shareholding structure: 67.82% is held by Barclays PLC and the remaining 32.18% is held by local companies, citizens and various organisations.

Strategy

As part of our Group and our One Africa strategy, our goal is to be the 'Go-To' bank in the market for our customers and clients and also for all our stakeholders. What this means is that we will continue helping our customers, clients and stakeholders achieve their ambitions in the right way. This is underpinned by our new set of values, which are:

Respect;
We respect and value those we work with, and the contribution that they make
Integrity;
We act fairly, ethically and openly in all we do
Service;
We put our clients and customers at the centre of what we do
Excellence;
We use our energy, skills and resources to deliver the best sustainable results
Stewardship
We are passionate about leaving things better than we found them.

Accolades

- Best Bank in Botswana for 2012; EMEA Finance and The Banker
- Overall Best Bank of the Year in Botswana for 2012 Intercontinental Finance
- Most conscientious Corporate Bank of the Year for 2012
- Europe Business Assembly Prestigious International Award 2012

Barclays Bank of Botswana Overview

Barclays Bank of Botswana is a subsidiary of Barclays Bank PLC which holds a 67.82% shareholding. Barclays has been operating in Botswana for more than 60 years and is one of the leading banks in the country employing over 1,200 people and serving over 160,000 customers and clients. Barclays offers personal banking, credit cards, and corporate banking products. Our customers and clients benefit from the strength of the Barclays Group and are able to access investment banking and wealth management services.

Barclays Bank of Botswana has three business units :

- Consumer
- Corporate
- Treasury

Consumer

Our Consumer business serves customers across a network of 44 branches, which is the largest branch network in Botswana, and 101 ATMs. Barclays Bank of Botswana also serves customers through a full suite of digital channels and offers high net worth clients bespoke Premier Banking Services.

Corporate Banking

Corporate provides banking services and solutions to businesses, financial institutions, Government and parastatals. Our corporate products include lending, risk management, cash and liquidity management, trade finance, and asset financing.

Treasury

In addition to asset and liability management, capital, funding and liquidity management for the bank, Barclays Bank of Botswana Treasury offers risk management and foreign exchange services to our clients.

Barclays Bank PLC Overview

Barclays is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking, and wealth and investment management. With an extensive presence in over 50 countries across Europe, the Americas, Africa and Asia, the bank employs over 140,000 people.

Our customers and clients benefit from our 300 years of banking experience and access to the breadth of expertise across the entire organisation.

Retail and Business Banking

UK Retail and Business Banking

With more than 15 million personal and business customers across the UK, Barclays has the largest network of branches in the country. Barclays offers affluent customers a tailored service and a dedicated account manager through its Premier Banking Service. In addition, more than 770,000 UK entrepreneurs, from start-ups to those turning over up to £5m a year, choose Barclays as their banking partner. Larger customers are accommodated in the Barclays Corporate Banking division.

Africa Retail and Business Banking

Africa Retail and Business Banking provides retail, corporate and credit card services across Africa and the Indian Ocean islands, serving over 15 million customers and clients. Africa Retail and Business Banking combines the operations previously operated as Barclays Africa and ABSA. Barclays Bank of Botswana reports to this business unit.

Europe Retail and Business Banking

Europe Retail and Business Banking provides retail services, including credit card services in Spain, Italy, Portugal and France as well as lending to small and medium sized enterprises.

Barclaycard

Barclaycard is an international payments business with more than 21 million customers and over 85,000 merchants across the world. It offers a broad range of payment solutions to consumer and business customers.

Corporate and Investment Banking

Investment Bank

Barclays Investment Bank provides large corporate, Government and institutional clients with a full spectrum of solutions to their strategic advisory, financing and risk management needs.

Corporate Banking

Corporate Banking provides banking solutions to businesses with an annual turnover of more than £5 million in the UK, and to large local companies, financial institutions and multinationals in non-UK markets. The unit/division offers a range of services including lending, risk management, cash and liquidity management, trade finance, and asset and sales financing.

Wealth and Investment Management

Barclays is a leading global wealth manager providing international and private banking, investment management, fiduciary, wealth advisory and brokerage services to private, corporate and intermediary clients around the world.

Chairman's Statement

"It has become something of a cliché to state that the business environment in the period under review was tough. However, that does not make it any less true."

Rizwan Desai (Chairman)

The 2012 financial year was a very tough year for Barclays Bank of Botswana, not only because of the global and domestic macro-economic environment, but also because of the uncertainties and upheavals in the global banking arena, and within the parent Barclays PLC organisation.

Botswana is a mineral led economy, with diamonds being our largest export, accounting for over 70 percent of the country's foreign earnings. With the global recession continuing to depress demand for diamonds in our major markets - the US, India, China then Europe – the impact on Botswana was significant.

The result was that once again Government and parastatal employees, who constitute some 60 percent of the country's economically active population, received significantly below inflation salary increases of 3%. This put pressure on domestic disposable income, impacting our retail operations. At the same time, global economic uncertainty negatively affected our corporate clients, many of whom are subsidiaries of multinationals, putting a dampener on their appetite for investment and debt.

We also had to contend with changes in the Bank's leadership, both in Botswana and at a global level. The departure of the Group's Chairman, Chief Executive and other members of the executive committee as a result of the Libor (London Interbank Offer Rate) revelations created uncertainty about the Barclays brand. I believe these issues were dealt with effectively and that, as we enter the new financial year, these concerns are no longer at the forefront.

In Botswana, we saw the departure of the Managing Director and other members of the executive committee. I commend our interim Managing Director, Mr Aupa Monyatsi, for the energy, passion and diligence he has shown, putting his own career ambitions on hold as he stepped up to the plate and led the Bank through this difficult consolidation period. Our search for a substantive MD continues and the Board is committed to finding the right leader to take the Bank into the future.

Results

At face value, the Bank's financial results are not as expected, given the macro-economic environment outlined above. Profit before tax declined 12% to P564m. However, when viewed against the achievements of the review period, I believe our performance was more than satisfactory.

The hard work and commitment of all members of the Barclays Bank of Botswana family have enabled us to enter the new financial year with confidence and vigour. A range of initiatives, designed to ensure the Bank's sustainable growth, have been put in place or are on the verge of being implemented. Innovative yet practical steps are being taken to mitigate the effects of increasing competition in our traditional markets and to cushion us against ongoing or further economic turmoil.

> In effect, Barclays Bank of Botswana is ready for the future and is well placed to fulfil its vision of being the country's '**Go-To**' Bank

We are also preparing ourselves to leverage the Group's "One Africa" strategy. This is being rolled out to leverage the integration of Barclays Africa and South Africa's largest bank, Absa. Barclays Bank of Botswana will therefore be a part of Africa's largest bank; a bank that is based in Africa and growing with Africa, possessing an intimate understanding of the needs of and challenges facing the continent.

The implications of this for our colleagues and customers – both retail and corporate – as well as the country as a whole are tremendously exciting, but also challenging. As a member of a global group, we have to balance our obligation to meet the expectations of our major shareholder with the reality of our position as a local financial institution.

At the same time, the exciting Barclays 'One Africa' strategy will give us access to a broader scope of expertise on a more integrated basis. On the corporate side, we will be able to do transactions on the back of a continent-wide balance sheet. On the retail side, there is tremendous synergy that can be harnessed in terms of improving our customer experience and delivering truly innovative products.

All this will feed in to our commitment to our longstanding values, which have been encapsulated in our Four – now Five – Cs: Company, Colleagues, Customer, Citizenship, and Conduct.

Chairman's Statement (continued)

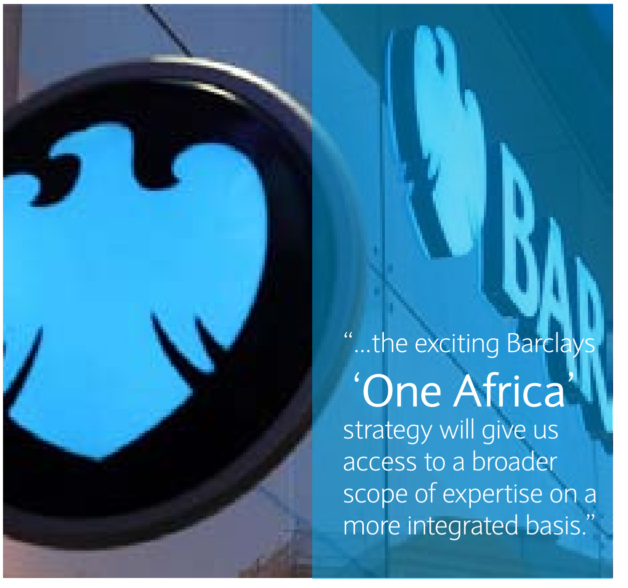
One of the most important aspects of our scorecard encapsulated in the C's - a key driver for me in my position as Chairman - is that they are regarded as far more than sound bites. We have to constantly assess and reassess how well we are integrating them into the total experience we deliver to each of our stakeholders. We have to use them effectively to translate our objective of being the 'Go-To' Bank into a reality. By keeping them in mind, we will ensure we deliver on the expectations of our customers, meet the needs of colleagues, support the company and fulfil our obligations to the communities we serve.

That we are succeeding to some degree is evidenced by the fact that, for the fourth consecutive year, we were named the Best Bank in Botswana by EMEA Finance Magazine. The Banker Magazine also chose us as their Bank of the Year in Botswana, while we were recognised by international finance publication, InterContinental Finance Magazine, as Botswana's most Conscientious Corporate Bank for 2012, as well as being the country's Overall Best Bank.

These are excellent achievements, but they should not allow us to become complacent. An award is recognition of past achievement; our future depends on our ability to constantly continue to deliver on the expectations of all our stakeholders.

This is why the fifth C - Conduct - has been added to our values during the review period. Conduct speaks to the behaviour of leadership as well as the behaviour of every Barclays employee. It's about ethics and responsibility, about respect and co-operation. It's about being a role model at work, at home and within our communities.

The fifth C is now a fundamental pillar of the Bank and has been included in training programmes to ensure



that these important values are not just espoused by those at the top, but are cascaded down to every single colleague.

As a Board, we are keen to see that all the C-pillars, and particularly the fifth C, is implemented and monitored. Translation of this foundation pillar into reality can only result in a more assured relationship between all stakeholders and a better experience for both customer and colleague. It will also ensure the sustainability of the Bank.

Corporate Social Investment is another manifestation of our core values. Being a good corporate citizen and contributing to the development of the communities we serve has long been an entrenched principle for Barclays Bank of Botswana. A full report on our CSR activities is provided on page 21-23 of this Annual Report. Our achievements in this area and the dedication of our colleagues to helping those less fortunate is commendable.

Management and the Board

Apart from the resignation of our previous MD, Mr Wilfred Mpai, and his departure from the Board, Mr Neo Moroka also resigned from the Board towards the end of 2012 in order to pursue other opportunities in the financial sector. I thank Mr Moroka for his contribution to the Board for two years and the role he played on the Audit committee.

We currently have two vacancies for independent, non-executive Directors on the Board, which, when filled, will enable us to exceed the desired ratio of one Executive Director to two independent non-executives. I am confident that the current vacancies will be filled by appropriately skilled candidates within the near future. It is important that directorships are offered to individuals of the highest integrity who are able to bring a diverse range of skills to the table.

Looking ahead

Innovation will be a key objective for the Bank moving forward. There is no question that our sustainability will depend on our ability to develop innovative programmes and strategies, in all our operating divisions.

However, effective execution of these developments will require skills and dedication on the part of our colleagues. The introduction of innovative training programmes, particularly those that are focused on leadership development, will make a significant contribution to the Bank's ongoing success into the future.

One of our most important tasks in the current financial year will be to appoint a substantive Managing Director, to take the Bank through its next phase of development and growth.This will be a prority.I am also looking forward to continuing to inculcate our core values in all colleagues so that when the time comes to making

customer lives easier, we are able to do so within the framework of the five Cs.

Appreciation

My personal thanks are due to all Board members for their unflagging contribution during what was a difficult period. We had many additional meetings in order to deal with the various challenges and every Board member stepped up to the mark with an impressive attendance record. Each Board member also played a valuable role in contributing to the various Board Committees.

My very sincere thanks also go Mr Monyatsi not only for his successful implementation of the Bank's initiatives, but also for the substantial role he has played in developing the One Africa strategy. Once we have appointed a substantive MD, he will be moving on to a new and challenging role at Barclays Africa where he will carry the Botswana flag forward.

I also thank our shareholders and regulators for their support during the year; and of course all the Barclays Bank of Botswana colleagues for the way in which they conducted themselves during the review period. I am confident that their efforts will bear substantial fruit in the year ahead and beyond.

Rizwan Desai
Chairman

Managing Director's Report

> In 2012, 857 employees volunteered to deliver over 70 Corporate Social Responsibility projects across the country, impacting over 5,000 people directly and 10,000 people indirectly

Aupa Monyatsi (Interim Managing Director)

Employee Satisfaction

15%

First Opening

3in1 Bank

Recognition of efforts in International Publications

Roll out of "Go To Bank" strategy

Go-To Bank

Introduction of Motshelo Account

Motshelo Account

Launch of One Africa Strategy

One Africa

2012 was a difficult year for the economy and certainly for us as Barclays Bank of Botswana with several events impacting on business momentum.

Modest Government salary increases and the slowdown in Government expenditure impacted our lending activities.

We nonetheless achieved moderate growth in the Corporate and Treasury segments and succeeded in protecting our market share in most areas. We also made significant progress in the roll-out of our 'One Bank in Africa' strategy aimed at making us the 'Go-To' Bank.

From a balanced scorecard perspective - taking account of the health of the overall franchise and our relationship with all stakeholders as well as the financials - the Bank's performance in 2012 was satisfactory. More importantly, we have made significant strides towards becoming a more sustainable organisation.

For Barclays, sustainability refers to our ability to deliver a healthy franchise as measured through a balanced scorecard by our five Cs:

- Customer
- Colleague
- Citizenship
- Company
- Conduct

We passionately believe that sustainability depends on balancing our emphasis on the quality of each of our Cs. For example, focusing solely on 'Company,' which encompasses the delivery of profits, income and balance sheet ratios, at the expense of 'Colleagues', will lead to disgruntled employees who don't believe that they are part of the fabric of the organisation and don't share its vision.

Similarly foregoing the 'Citizenship' agenda, which is about giving back to the communities we operate in, caring for the environment, and being the 'Go-To' Bank for our regulator, our shareholders and Government, will also negatively affect our sustainability because good citizenship is what gives us our licence to do business.

The reason we have successfully operated for over 320 years globally and 62 years in Botswana, and that we are confident we will be in existance for many years to come, is because our focus on each of our Cs is unwavering.

Customers

As part of our goal to be the 'Go-To' Bank, our focus and our efforts have been directed towards making banking with Barclays easier, more convenient and an altogether more enjoyable experience for all our customers.

We strive to be the banking partner of choice. We understand that the environment we operate in is based on competition, and it is with this in mind that we, as a bank, will continue to work towards ensuring the greatest degree of customer convenience, offering a range of alternative products to meet all our customers' needs and striving to create wealth for them. We have an unwaivering dedication towards helping people achieve their ambitions – in the right way.

It is with this guiding philosophy and strategy in mind that we launched the Motshelo Account earlier in 2012, which allows for groups and societies to save, and the Ultimate Account, where we bundled all our channels with free funeral cover for the convenience of the customer.

Colleagues

At the core of every successful organisation is a united and ambitious team. One of our greatest challenges in 2012 was to deal with the uncertainty that resulted from the restructuring in the previous year. Our approach was to introduce a concerted campaign of colleague engagement and communication.

One key barometer of how effective we are in addressing colleague concerns is our employee opinion survey. In 2012, this reflected an improvement of over 15% in satisfaction over the 2011 results. This tells us that our colleagues have seen improvement in all aspects of their working environment.

In addition, our relationship with unions improved significantly. We managed to close out salary negotiations in just a few meetings, including resolving longstanding issues around salary allowances. We strive to provide an environment that is conducive to enabling colleagues to excel and take pride in the fact that they work for Barclays, and so we are particularly pleased with this development.

During the period under review 92 % of employees received training and we sent 5 colleagues on job swaps to Barclays Zambia and Barclays Kenya. In addition, 53 Managers and Senior Managers completed the University of Stellenbosch's New Managers Development Programme and Management Development Programme. We consider these interventions to be an investment in

Managing Director's Report (continued)

our people that will drive the future and sustainability of the bank.

Citizenship

Our citizenship agenda is aimed at positioning us as a responsible brand and organisation. In 2012, 857 employees volunteered to deliver over 70 Corporate Social Investment (CSI) projects across the country, impacting over 5,000 people directly and 10,000 people indirectly.

In addition, we touched the lives of over 500 orphaned and vulnerable children through various programmes spearheaded by the Bank's CSI. We have also managed to make what we believe is a sustainable difference to a great number of less fortunate individuals in our communities, as well as to our environment. We are extremely proud that our Corporate Social Investment agenda is aligned to the national agenda with our key projects focused on poverty eradication, financial literacy and youth empowerment.

Company

We made significant investment in projects that will drive our goal to be the 'Go-To' Bank and therefore contribute to the Bank's profitability and sustainability going forward. For this effort, we continue to receive international recognition. In 2012 we were named the Best Bank by The Banker, EMEA Finance and the Intercontinental Finance magazines.

We opened the first of its kind three-in-one branch at Game City in Gaborone, set aside funds for the refurbishment of some of our key branches and invested in technology and new channels. With regards to the latter, we introduced the first banking application in Botswana that is available for free download for Apple and Android devices.

We also saw our bancassurance division take off. Introduced in 2011 to make our customers' lives easier, this offering grew from a zero base to over 11,000 standalone bancassurance policies in 2012. This is just one illustration of how our ability to leverage other Barclays Group companies – in this case Absa Life Botswana – can benefit our customers and contribute positively to our bottom line. We envisage more product innovation and collaboration to come from the combination of the Barclays Africa and Absa operations.

Conduct

Conduct talks to the behaviour of leadership and of every employee at this Bank. It is about the way we deal with our customers and colleagues respectfully and ethically. This C is also in line with the Values that we have put at the core of our operations: Respect, Integrity, Service, Excellence and Stewardship. This fifth 'C' is a more emotive concept than the other Cs; it is nevertheless an essential value for any organisation hoping to succeed in the 21st century.

Operations

Consumer

Growth in this sector was flat in the review period, especially with regard to loans and advances to customers. This is largely because domestic income edged down due to the freeze on civil servant salary increases and higher than targeted inflation at 7.8%.

Although we did not see growth, we managed to protect our position as the leading retail bank in the face of growing and often aggressive competition. Barclays is still the leading bank when it comes to consumer banking in Botswana and this is a position we are determined to protect.

A clearly developing trend in this sector is growing customer demand for better service and greater product innovation. With competition likely to ramp up through 2013, putting greater pressure on margins, our product innovation and service excellence will be the best counters to this threat.

Another pleasing trend that has emerged is a change in consumers' savings culture. Our consumer savings deposits not only outperformed the previous year, but in

> "At the core of every successful organisation is a united and ambitious team."

fact exceeded our growth forecasts. While this is partly attributable to the fact that the global recession served as a rude awakening for many individuals, the introduction of innovative and relevant products like the Motshelo Account also played a key role.

Corporate
Our goal in the corporate segment has always been to be the 'Go-To' Bank when it comes to large multinational and parastatal corporations in Botswana. We have been successful in this but the effects of the global recession on our clients had a negative impact on the Bank. Uncertainty in this sector led to our traditional client base opting to utilise their own reserves wherever possible instead of turning to us for loans and advances. This resulted in our loans, advances and deposits declining slightly during the review period.

However, the business banking segment - the tier below the large corporate and parastatal segments – has experienced growth. While we are not as active in this segment as we would like, we will be focusing on growing our presence in this market in 2013.

Treasury
Treasury does not have its own standalone customers and clients, and it usually only provides a service to our consumer or corporate customers. The constraints experienced in these divisions had a knock-on effect on Treasury's performance.

Our Treasury team is exceptionally innovative and executed its first back-to-back repo trade, in which it successfully lent money to a smaller bank in a denomination that made it possible for them to lend to their customers. This transaction was a first for us and it generated welcome revenue.

In addition, we took the bold step of going to our customers to find out what type of treasury products they need, using this research data to then develop the relevant products. As a result, in 2013 we will be launching several new products that will enable our customers to better manage their risk.

Human Resources
HR at Barclays Bank of Botswana was reinvented in 2012 after the upheavals of 2011 with an emphasis on talent management, retention and succession planning.
A highlight of the year was our continued way of engaging colleagues based on "pilediwa e a lwela", a fundamental to our Setswana culture of consultation, "pilediwa sessions" – regular colleague engagement, or "town hall" sessions. I personally engaged with over 1200 colleagues, and this was a highly rewarding experience. The response was enthusiastic and gratifying, with many colleagues coming forward with insightful comments and useful suggestions on how to make the Bank better.

A new payroll system was introduced and work has commenced on aligning our job grades with those of the wider Barclays Group. This alignment will facilitate the movement of colleagues from Botswana to other Barclays operations across the globe. We also launched an employee self-service portal, which enables colleagues to manage a number of routine HR functions such as applying for leave or viewing their payslips online.

Strategic Priorities
Anthony Jenkins, Barclays Group Chief Executive, set out a comprehensive new strategy for Barclays. We took that strategy – as the Barclays Africa Group Executive team and the extended leadership team - and looked at how we could align our strategies with it. This has resulted in the development of our "One Africa" strategy which is designed to leverage the synergies between our various components. It works by breaking down the silos between product lines, geographies and brands to offer the best out of what we have in Africa to our customers and colleagues. Our goal in Botswana is to build on the "One Africa" strategy and make it work for us here.

Managing Director's Report (continued)

This has led to the development of the following strategic priorities which will guide the Bank going forward.

1. Our colleagues must be proud to work for Barclays Bank of Botswana.

Competition is increasing and we need to ensure we have what it takes to attract and retain the best talent.

2. Help our customers create wealth through relevant product sets.

Banks in Botswana generally have a large component of unsecured lending which feeds into individuals' appetite for debt. Typically, it is easier to get a personal loan for a large amount than to obtain a first mortgage. We aim to become the market leader in changing that around. We believe in sustainability. Wealth creation underpins sustainability. We are therefore going to focus a great deal more of our energy and attention on wealth creation.

3. Using innovation to make banking easier and more accessible.

This talks to our ability to leverage the fact that we are living in an increasingly social era in which we have numerous channels through which to engage with customers. It is about liberating customers from queues, providing them with accurate information at their fingertips, and enabling them to engage with us where they want, when they want, and how they want.

4. Increase our non-interest income by deepening our relationships with customers.

While we have reduced our fees, we need to find innovative ways of growing our income. We can achieve this through the introduction of value-added services for which customers are happy to pay. Why should customers pay for the privilege of withdrawing their own money from a machine? Paying for advisory services or investment services, even for networking opportunities with clients of other Barclays operations around the world is a different matter.

5. Be a role model in the way we do business in Botswana.

This is not only about the way we operate as a business, it also about encouraging others to do the right thing and to understand their responsibilities as a private or corporate citizen. So, for example, we could encourage our corporate clients to become more environmentally aware by giving them financial incentives to conduct environmental impact studies and use environmentally friendly construction principles when applying for a loan to build their new corporate headquarters. This approach, we believe, will enable us to attract and retain the right kind of customers.

Looking ahead

I believe Barclays Bank of Botswana is poised for success and that by the next financial year, we will be a transformed business; one that is providing a solid return on equity to investors.

We will be an organisation staffed by happy colleagues, and attracting the kind of people who want to make a sustainable difference to our customers' lives.

We will be a bank that is respected and admired by our customers for caring not only about them and their money, but also about the sustainability of our country. I believe that we will be an organisation that regulators use as a role model for other banks.

We have the strategy in place to deliver on all of this. I am confident that we will be successful.

Appreciation

We faced immense challenges throughout 2012, but the resilience of our colleagues through it all was outstanding. Seldom have employees displayed such passionate commitment to a brand burdered by considerable pressure both internally and externally. Sometimes we tend to forget the cashier, the personal banker, the investment advisor and the many others who are at the coalface of engaging directly with the customer. They had to be resilient and patient during those times when there was no clarity and I applaud them for a job exceptionally well done. I am extremely grateful to them, as well as their families who supported them through it all.

I am grateful to, and also thank, our very strong Board of Directors who provided incredible leadership and oversight during 2012.

Finally, my thanks must go to our customers. We have to recognise that we are an organisation that exists primarily to provide a return to investors. But for that mandate to be fulfilled we have to have customers. Thanks to their loyalty, we managed to maintain market share and saw our brand surveys and mystery shopper results improving even while being bombarded with negative publicity. Our challenge will always be to continue to ensure that we do whatever it takes to repay the loyalty that has been demonstrated.

Aupa Monyatsi
(Interim) Managing Director

Country Management Committee

1. Aupa Monyatsi joined Barclays in July 2005 as Deputy Head of Operations at COO and was subsequently appointed Chief Operating Officer in 2008.. In March 2012 he was appointed Interim Managing Director. He has held several roles across operations including Head of Performance and Head of Branch Operations as well as setting up an Operations Centre in Barclays Seychelles in 2006. He has a completed a leadership program with the Duke University and is currently reading for a Masters in Corporate Governance.

2.Lipalesa Makepe joined Barclays in 2005 as Financial Controller and was appointed Finance Director in February 2012. She has held senior management positions at various organisations, including Chief Executive Officer of Capital Securities. Prior to that she was Audit Manager with KPMG. Lipalesa has served on the Board of Trustees of the Barclays Bank Pension Fund, Capital Securities and has been Chairperson of the Botswana Stock Exchange. .

3. Peo Motshegare joined Barclays in January 2007 as Head of Barclays at Work and was appointed Consumer Director in 2012. She has also held several senior management positions including Head of Retail Core Sales. In 2010 she was appointed Retail Director. She has a Bachelor's Degree in Public Administration from Carleton University in Canada. She is currently studying for a Master Degree in Business Administration.

4. Seseti Mogami joined Barclays Bank of Botswana in 2009 as Corporate Banking Director. With 16 years of banking experience, he has held several management positions such as Head of Origination and Client Coverage and Co-Head Wholesale Bank, Director – Sales, at Standard Chartered Bank. Seseti graduated from Luther College in the USA with a B.A double major in Economics and Management.

5. Grace Mosinyi joined Barclays Bank of Botswana in September 2007 as Internal Communications Manager. She was appointed Acting Head of Corporate Affairs in March 2012. Grace has extensive experience in corporate communications and journalism. She previously worked for Debswana Diamond Company where she held several roles including Group Publications Manager.

6. Imdad Aslam joined Barclays in September 2012 as the Cluster Head of Digital Channels for Southern Africa. He previously held several positions including Regional Head of Remote & Proximity Banking for Middle East, Africa & Pakistan based out of Dubai as well as the Regional Head of Remote & Proximity Banking for Eastern & Southern Africa based out of Kenya with Standard Chartered Bank. He holds a Bachelor of Commerce from Karachi University.

7. Steven Palmer joined Barclays Bank of Botswana in 2011 as the Head of Legal and Company Secretary. After admission as an attorney, he spent 10 years in private practice largely servicing the commercial banking sector. In 2006 he was appointed by the ABSA Group as Litigation Counsel. Steven holds Bachelor of Commerce and Bachelor of Laws degrees, as well as a Post Graduate Diploma Insolvency and a Post Graduate Diploma Dispute Resolution (Cum Laude).

8. Richard Bulayani Malikongwa joined Barclays in 2012 as Human Resources Director. He first joined the bank in 1995 as Management Development Trainee and was later appointed Assistant Bank Manager. Richard has an all round experience in Corporate Affairs, Human Resource and Civil Personnel Affairs. He has also worked with the UN as Deputy Chief of Civilian Personal Affairs in the Democratic Republic of Congo.

9. Fergus Ferguson joined Barclays Bank of Botswana in August 2007 as Head of Collections and Recoveries being responsible for strategy and execution on the Consumer Loans portfolio. He was later appointed to act in the position of Consumer Credit Director in April 2012 and later appointed to the role in January 2013. Fergus has completed a mangement development programme with the University of Stellenbosch.

10. Reginald Botsile joined Barclays Bank of Botswana in September 2007 as a Money Laundering Reporting Officer. He was appointed Acting Head of Compliance in March 2012. Reginald previously worked for Bank of Botswana, where he was a Bank Analyst within the Banking Supervision Department.. He graduated from University of Botswana with a Bachelor of Commerce Degree (Accounting Major). He has attended an Executive Development Programme at the University of Stellenbosch Business School.

11. Boitumelo Komanyane has 16 years of experience in the banking industry, mostly in the credit risk environment. She joined Barclays Bank of Botswana in January 2002 as Corporate Risk Manager, and has held various roles in the Risk function, including being Country Credit Director. In 2007 she was appointed Corporate Credit Director. She is currently studying for a Masters in Business Administration.

12. Matshidiso Kereteletswe joined Barclays Bank of Botswana in 2004 as Applications and Branch Support Manager. In 2008 she was appointed IT Portfolio Manager, and Head of Change in 2010. She was appointed Acting Chief Operating Officer in March 2010. She holds an MBA from DeMontfort University, UK, Bachelor of Computer Science (Cooperative Programme) from Technical University of Nova Scotia (TUNS), Canada, and has attended a Management Development Programme at the University of Stellenbosch, South Africa.

13. Kgotso Bannalotlhe joined Barclays Bank of Botswana in 2012 as Treasurer from the From Standard Chartered Bank Tanzania having been with the Standard Chartered Bank Group for the past seven years. He has all round experience in the Treasury environment, having worked in the back office, middle office and the front office in different geographies. became the Head of ALM for Botswana.

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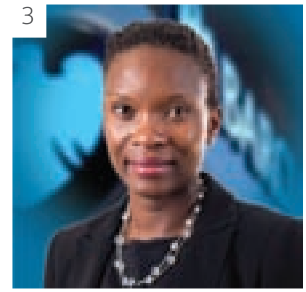

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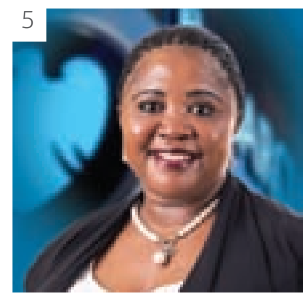

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Financial Report

Loans and Advances	Profit Before Tax
3% ▲	12% ▼

Capital Adequacy Ratio	Cost Income Ratio
23%	47%

Return on Equity	Accolades
33%	• EMEA Award • The Banker Magazine • Intercontinetal Finance Magazine

For Financial year ended 31 December 2012	2012 P'000	2011 P'000	%
Profit before tax	564,103	643,703	(12%)

Finance and The Banker

In 2012 the Bank continued on its journey towards becoming 'Go-To' Bank. To realise this objective, a lot more focus went into fixing the basics; such as improving our technology platform, refurbishing our branch network and ensuring that our customers pay a fair price through our 'Clearly Barclays' initiative. The above efforts have had the cumulative effect of raising our cost base while showing a modest growth in non-interest income.

In 2012 the Bank consciously adopted a strategy to take a cautious approach to lending in light of increasing household indebtedness and overall economic slowdown. This strategy is reflected in our relatively subdued growth in the loan book. This, along with reduced interest rates due to market pressure, has resulted in a slightly lower interest income.

The Bank has embarked on a journey to leverage its significant presence throughout the country and increase its retail deposit base. This strategy has two objectives: to encourage ordinary Batswana to save more, and also to reduce the Bank's reliance on wholesale deposits which are expensive and subject to significant margin pressure. Whilst this strategy has resulted in a lower return in the current financial year, we believe this will yield rich dividends in the years ahead.

In our performance for the year, the most significant item to note is investment in our staff. During the year the Bank gave up its right to its retirement benefit asset which was carried at P57.55million as at 1 January 2012. This has now been released to the Bank's pension fund to be distributed amongst its members.

Other matters which are noteworthy include:

3% decline in net interest income

The lower performance on interest income is the result of diversification of our Consumer lending portfolio from a predominantly unsecured base to more secured lending, on the back of Mortgages and the Personal Instalment Loan product in the Scheme's segment.

5% growth in fee and commission income

'Clearly Barclays' sought to increase our principle of value for money as well as making it easier for customers to do business with the Bank. The benefit of this strategic initiative has been an uplift in customer numbers, utilisation of channel offerings, increase in uptake of our standalone insurance product offerings and transactional activity by customers. The focus going forward will be more investment in new product and service offerings tailored to meet the needs and aspirations of our customers across all business units.

8% increase in impairment

While our impairment charge has remained flat year on year, we have seen a moderate increase due to a one-off impairment on our vehicle asset portfolio of P9million. We continue to maintain a robust credit risk control framework and investment in the operational effectiveness of our collections infrastructure.

The increase in the cost to income ratio from 43% in 2011 to 47% in 2012 is due to the one-off release of the pension fund asset.

Taxation

As a result of the change in legislation in July 2011, the effective tax rate increased from 18% in December 2011 to 22% in December 2012.

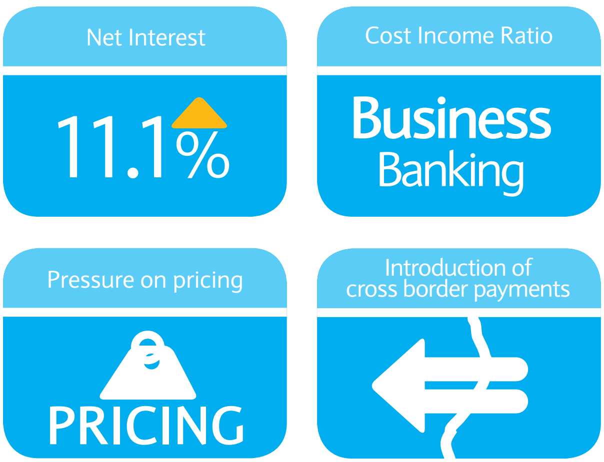
Capital management

Barclays Bank of Botswana continues to be well capitalised, with a very strong core a capital ratio at 20.4% (2011: 16.4%) and capital adequacy ratio at 23% (2011: 19.8%). These are above the minimum regulatory positions of 4% core capital and 8% capital adequacy, respectively. This strong capital position will support future asset growth and development of the Bank. Following the announcement by the Central Bank that it will adopt the Basel II capital management framework in 2014, the Bank has taken steps to ensure compliance with the new requirements and can confirm that capital levels are accommodative of Basel II requirements.

Looking Ahead

Against a backdrop of global and local economic challenges, which have affected market liquidity, customers' disposable income and general fiscal policy, the Bank's strategy has been structured in a manner which will cushion the Bank and enable the delivery of the Bank's strategy going forward. We remain committed to driving the momentum on our strategic initiatives which will see us delivering to various stakeholders. The reorganisation and investments made in 2012 on infrastructure provide us with a solid foundation to improve our customer value proposition so as to meet the ever changing market demands and position Barclays as the 'Go To' Bank in Botswana.

Corporate Report



For Financial year ended 31 Dec. 2012	2012 P'000	2011 P'000	%
Net interest income	144,019	129,636	11.1%
Other income	98,386	92,904	5.9%
Total income	242,405	222,540	8.9%
Impairment charges	2,482	5, 555	-123.81%
Net income	244,887	228,095	7.3%
Operating expenses	(22, 415)	(23, 081)	2.97%

2012 was a relatively good year for the Corporate Division despite several major challenges that put our margins under pressure.

These included the curtailment of the Bank of Botswana Certificates which resulted in excess liquidity in the market. With competitor banks facing issues of funding, pricing became extremely competitive.

Nevertheless, we were successful in deepening our pipeline and made inroads into Tanzania and Zambia where we closed two significant transactions. Other deals which were initiated in 2012 have not yet come to fruition and we expect them to bear fruit in 2013. Our stable Internet banking platform and robust cash management team have worked towards us winning more mandates from multinational organisations. It is also proving particularly attractive to locally based businesses that require the convenience of an easy-to-use Internet banking service and client specific transactional solutions for the ever developing requirements within a growing economy.

We will also be able to leverage off the resources and skills of the enhanced Barclays Africa Group to grow the division further.

However, we recognise the constraints associated with devoting most of our energies to the large corporate and multinationals and we are therefore broadening our focus to incorporate additional tiers of businesses.

Companies with turnovers of between P1-million to P25-million will be accommodated by our new Business Banking focus while smaller organisations will be served by our Consumer division's SME offering.

With our Business Banking focus, we anticipate growing our share of the corporate banking market in Botswana while simultaneously finding a more equitable balance between our capital and lending activities.

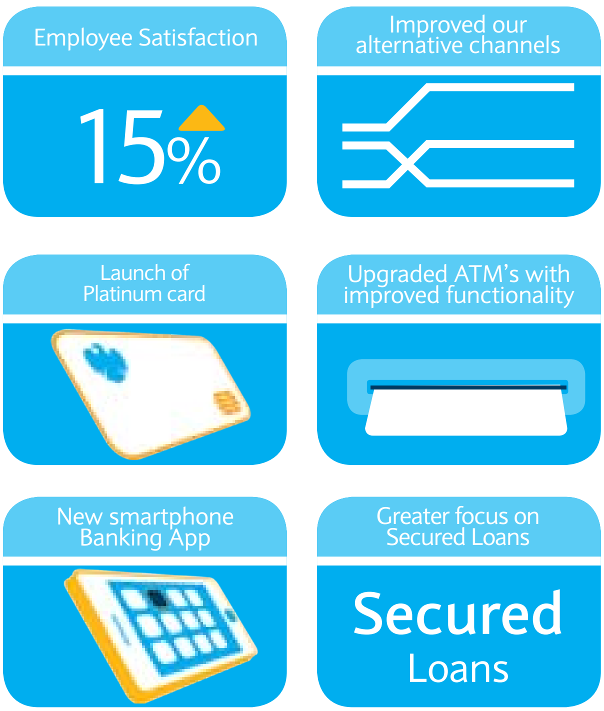
We have launched a number of Business Banking products, mainly in the foreign exchange arena and have started financing GPO's which will boost our trade activities.

Looking ahead:
2013 presents many opportunities. We are determined to be the "Go-to" Bank for Government as well as multinationals, large corporate and medium-sized businesses. Realising the need for public/private cooperation, we are making a concerted effort to be the right partner in the development of the Botswana economy by providing specific solutions and collaborating with Government on key strategic economic activities.

We are also extremely optimistic about our business banking venture and we plan to develop industry and client-specific packages and solutions based on our indepth sector expertise.

Our relationship management team is in place, ensuring that our clients are able to obtain all their services – from vehicle finance to FOREX, mortgages to cross border transactions - through one point of contact.

Consumer Banking



Consumer Banking	2012	2011	%
Net interest income	722,265	738,347	-2%
Non interest income	234,513	234,757	0%
Total income	956,778	973,104	-2%
Impairments	(128,191)	(121,775)	5%
Total net income	828,587	851,329	-3%
Total operating expenses	(233,239)	(226,859)	3%
Profit before income tax	595,348	624,470	-5%
Loans and advances to customers	5,278,645	4,913,709	7%
Deposits due to customers	3,388,545	3,008,445	13%

Taking account of the economic challenges facing consumers in the country, and the exceptionally competitive environment in which we operate which put margins under pressure, our performance in the consumer sector was fair.

That we managed to hold our own is testimony to the initiatives we have put in place to ensure that we are not only meeting, but exceeding our customers' expectations. The revolutionary step we had taken in reducing our fees and generally streamlining our fee structure to make it easier to understand, paid dividends in 2012. The move was in line with our commitment to doing what is right for customers.

We also changed our lending strategy, increasing our focus on secured lending, particularly mortgages. This approach was adopted to ensure that we maintain sustainability in the long term. The introduction of our improved mortgage offering will make it easier for consumers to invest in their own home.

Highlights of the review period included the launch of an innovative Platinum credit card for high net worth individuals. This card offers customers significant rewards including air miles for any airline in the world as well as free travel and accident insurance. We will be introducing additional benefits in association with alliance partners. While access to the Platinum card is by invitation only, uptake has been good.

At the other end of the market, uptake of the Motshelo Account has been excellent. It is the first of its kind in the local banking industry to recognise group savers and cater for the unbanked market. Moreover, it captures the essence of the Motshelo groups, which is to foster social relations while working towards a common goal of saving with the intention to grow interest. The introduction of the Motshelo Account has given the informal sector the opportunity to access financial services and improve their economic activities. In the three months following its launch, accounts with a total value of more than P1.5 million were opened.

We also expanded our alternative channels, making it easier for customers to interact with the Bank. We introduced smart phone banking and we extended our SMS alert facility to our Barclaycard customers, making it easier for them to react quickly to unauthorised activity on their accounts.

We also introduced a new Bill Payment service with DSTV and towards the end of the year launched Pingit which makes it possible for anyone to send or receive payment using only a mobile phone.

Our work on maintaining branches is ongoing and, in partnership with Absa Life, we have introduced dedicated Insurance kiosks at some of our branches.

Looking ahead:

The SME market has been identified as one of our strategic imperatives. We will be launching a new Business Banking service. This will include a full package, focused offering that caters for the specific needs of Small and Medium-sized Businesses. We will also be ensuring that all our touch points are fit for purpose and we have plans in place to grow our share of the mortgage market considerably.

Treasury Report

For Financial year ended 31 Dec. 2012	2012 P'000	2011 P'000	%
Net interest income	94,804	117,914	(24.4)
Other income	17,540	30,496	(42.5)
Total/net income	112,344	148,410	(24.3)
Operating expenses	(11,999)	(7,362)	(63.0)
Profit before tax	100,345	141,048	(28.9)

In Brief:

- 2012 was challenging given increasing competition on conventional treasury products with flat growth; interest income declined significantly given reduced issuance of Bank of Botswana Certificates.
- The transformation journey has begun with platforms, policies and infrastructure put in place to support our Treasury expansion strategy;
- Cut-over to Corporate, Investment Banking and Wealth division complete;
- Trading mandate acquired and dealing room set up and well positioned for growth.

2012 was a challenging year for the Treasury business. Intense competition and shrinking margins on conventional treasury business – spot and forward foreign exchange products - continued unabated and given we have over the years been largely focused on these products as the only source of revenue for Treasury it was inevitable that our earnings would come under pressure. Income remained flat on retail foreign exchange, while corporate recorded only marginal growth. Interest income declined significantly as Bank of Botswana limited issuance of Bank of Botswana Certificates, greatly reducing interest income excess liquidity.

In this past year we began the transformation journey for the Treasury business as part of our 'One Africa' strategy rollout to position the business for growth and improve resilience through a diversified product mix and adding investment banking service and products. We have completed putting the infrastructure in place to build a world class, full product/service Treasury incorporating the local wisdom of the Botswana team supported by the wider global expertise within the Barclays network. Despite the tough environment, we were able to pioneer some firsts as initial steps in this transformation journey, in particular was our first currency repo trade where we lent foreign currency against local currency collateral.

Looking ahead

2013 will be an exciting, packed, watershed year for the Treasury business. We will roll out a new Treasury dealing room system to allow us to accommodate more composite product offerings. We have just begun our first year of a full own account trading mandate for both foreign exchange and fixed income with a view to increasing our own account trading revenues. We have begun to leverage off our partnership with Absa as we roll out innovative risk management solutions and investment products to our customer base in Botswana. Further innovations are also in the pipeline for retail foreign exchange with compelling enhancements being developed for launch in 2013.

Despite the challenges of the past year, we have proven to be both dedicated and resourceful in striving to take the department forward: the people, the infrastructure and the strategy are all in place. All that remains is to execute and take advantage of the many opportunities that lie ahead.

Citizenship Report

- Make a Difference Day involves almost 70% of colleagues
- We launched our Citizenship agenda in May 2012. It is at the heart of our business and speaks to our desire to support individuals, businesses, communities and indeed Botswana to develop and grow.

The Barclays Citizenship Programme has three pillars:

- Contributing to growth
- The way we do business
- Supporting our communities

Contributing to Growth

Through this pillar, we seek to reach out to previously unbanked populations. In several villages across Botswana we are the only bank. In addition, our SME proposition is getting a major facelift and will be introduced to the public in 2013.

The highlight of this pillar of our Citizenship Programme in 2012 was the introduction of the Barclays Motshelo Account. This new product was created to provide a solution to the risks faced by informal group savers who are usually women. Most of these women have never had a safe place to keep their funds, leading to theft and inadequate funds reconciliation. Barclays has now given them a safe, formal and reliable account for their savings.

The outstanding feature of this product is that it captures the essence of Motshelo groups, which is to foster social relations while working towards a common goal of saving with the intention to grow interest. It is an initiative that will improve the lives of Batswana while promoting financial inclusion and people development.

The Way We Do Business

This pillar of our Citizenship agenda speaks to the way in which we treat customers, colleagues and the environment - with recycling and energy saving techniques top of our agenda – as well as how we work with our suppliers.

The highlight of this programme was the Customer Service Month held in October in all Barclays branches. A key feature of the month was the initiative aptly called "Walk a Mile in my Shoes", where Senior Managers assumed customer facing roles within branches. This delighted customers and colleagues alike. The Month culminated in a Customer Appreciation Dinner to reward and recognise loyal customers. During Customer Service Month, we gained 1, 943 new customers.

Within this pillar, we also introduced several Environmental initiatives. These include the introduction of motion sensing

Citizenship Report (continued)

lights at our Game City branch. This is now being rolled out to all meeting rooms across the Bank. Other targeted areas are ATM rooms, server rooms, store rooms and back office areas which will certainly contribute to reduction of the Barclays carbon footprint. In the same vein, we are also considering the introduction of solar energy on Portable ATMs to reduce consumption of Thermal Power Energy, further reducing our carbon footprint. We have also installed paper shredding machines at branches and centres for easy disposal of paper and recycling.

Supporting our Communities

Our ambition is to empower the next generation - young people aged 10 to 35 - with the skills they need to achieve economic independence and security. Our focus is on providing life skills which speak to employability, enterprise skills and financial skills.

We seek to implement our Community Strategy by partnering with like-minded organisations that are working on programmes that align with our goals.

Our Community Investment Programme provides financial investment information, as well as skills based support through our colleagues. Our colleague volunteering programme allows colleagues to dedicate 16 hours annually to charitable initiatives, as well as facilitate small grants to implement projects.

Some of our Community Investment Programmes are:

Baylor's Teen Club

Botswana Baylor's Teen Club is a structured peer support group for fully disclosed, HIV positive adolescents between the ages of 13 and 19 years. Teen club's mission is: "To empower HIV-positive adolescents to build positive relationships, improve their self-esteem and acquire life skills through peer mentorship, adult role-modelling and structured activities, ultimately leading to improved clinical and mental health outcomes as well as a healthy transition into adulthood."

We have partnered with Teen Club since 2009, providing financial assistance to expand the programme. In addition, colleagues have engaged with the programme and provided money management training and career guidance. Through Barclays funding, Baylor's has provided over 1000 teenagers living with HIV training in life skills, peer education and personal finance management.

TeachAIDS

TeachAIDS is an interactive cartoon animation that was developed by world experts and the TeachAIDS team at Stanford University to debunk myths and misconceptions about HIV while helping learners assess their true level of risk. TeachAIDs was brought to life in Botswana through the Ministry of Education and Skills Development, UNICEF, Barclays Bank and Stepping Stones International. This HIV prevention education tool is also endorsed by Former President Festus Mogae and is available in both English and Setswana.

Over 2,000 people attended the launch of TeachAIDS at Freedom Square in Old Naledi in June 2012. Since then, Barclays colleagues and U.S. Peace Corp volunteers have delivered TeachAIDS to schools across the country. It has been viewed in villages such as Ghanzi, Nata, Sowa, Mochudi, Maun, Francistown and Selebi Phikwe.

Barclays F.G. Mogae Scholarship Fund

This scholarship fund began in 2008 in honour of the former President of Botswana. A total of 25 students, including two Barclays colleagues, have benefitted from the programme.

The last five students were awarded scholarships in August 2012. Areas of study have included MBA (the majority), Environmental Science, Education, Economics, Agriculture, Mathematics, Library Studies, Law and Social Sciences.

Mothers for All

Mothers for All was created to alleviate the profound challenges faced by people caring for Botswana's orphans and vulnerable children (OVCs). Mothers for All aims to provide income-generating skills and to train women in a variety of life skills including health, environmental awareness and financial management.

Through investment from Barclays, Mothers for All has so far trained 90 women to make beads from waste paper. These are being sold on the national and international market. Mothers for All have diversified income-generation through teaching caregivers how to recycle paper and are now developing their products into cards, packages and books.

Youth Alliance for Leadership and Development in Africa

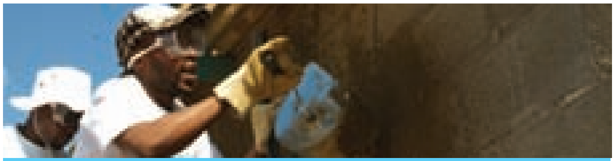
The main purpose of this programme was to deliver a financial literacy programme for university and college students. The project was a great success and managed to reach 150 young students from the University of Botswana, Botho College and Limkokwing. The sessions included speakers from different actors from the financial services sector including Barclays Bank of Botswana and provided detailed information on savings, debt management and investments.

Springboard Humanism

This project works with young women from remote areas who have dropped out of school. They are given an opportunity to complete secondary school education through the Botswana College of Distance and Open Learning (BOCODOL). The participants in this programme are also exposed to a variety of skills to ensure that they successfully start a small business or gain employment.

Voluntary Colleague Participation

Throughout the year, numerous Barclays colleagues volunteered to participate in activities that sought to address socio-economic needs in their respective communities. The emphasis in 2012 was to provide money management skills and life skills.



Make-A-Difference Day

This is an important part of the Barclays community calendar where for a period of three weeks in October and November Barclays colleagues visit their respective communities to share their time and skills. This year the focus was on skills-based volunteering. Approximately 70 per cent of colleagues provided money management, life skills and enterprise skills training. Over 50 schools were visited across the country, reaching over 5,000 young learners.

CEYOHO Community Project

Barclays is providing Project Management skills by leveraging its own internal resources within its Corporate Real Estate Services (CRES), Sourcing and Corporate Affairs departments, primarily to vet and design layout drawings, contractor tenders and adjudication of the works for the CEYOHO Centre which is currently at construction stage. The project is expected to be delivered at a substantially reduced cost of approximately P600,000 below the market, while still meeting the initial project scope. The Centre will comprise of a dining hall and kitchen, with the potential to be expanded to incorporate counselling offices and accommodation for over 100 children living with AIDS.

Risk review

As a leading bank engaged in consumer and commercial banking services, Barclays Bank of Botswana offers various financial products including credit facilities.

The Bank's risk function is responsible for the management of this credit risk through the implementation of robust risk management policies, processes and infrastructure. This assists with the identification, analysis and control of this risk within the Bank's set risk appetite. The risk management policies, models and systems are reviewed regularly to reflect changes to markets and products as well as best market practice.

The Board is responsible for approving the country risk appetite which is the level of risk the Bank chooses to take in pursuit of its business objectives. The Board Credit Risk Management Committee (BCRMC), a sub-committee of the Board, monitors the Bank's risk profile against the agreed appetite. The country Executive team presents a risk report to the Board on a quarterly basis. This report summarises developments in the risk environment and performance trends in the key portfolios.

The Chief Risk Officer (CRO) is a member of the Executive Committee and has overall day-to-day accountability for risk management under delegated authority from the Managing Director. He is responsible for monitoring the Bank's risk profile relative to the established risk appetite. Reporting to the CRO, are risk-type heads for retail credit, corporate credit and operational risk. The risk-type heads are responsible for establishing a Group-wide framework for oversight of the risks and controls of their risk type. In addition, risk-type teams liaise with each business head as part of the management and monitoring processes.

Retail Credit

The full year loss rates were 2.38%, a marginal increase from the previous year's loss rate of 2.29%. The loss coverage ratio reduced from 7.5% in 2011 to 6.5% in 2012 as a result of the improving risk profile of the portfolio and a growing secured loans portfolio.

The credit risk profile of our consumer portfolio in 2012 remained stable. Our underwriting standards continued to improve through scorecard and policy reviews, ensuring that we remain dynamic and in constant touch with our customers and market changes.

We managed to achieve growth in the consumer portfolio without compromising in controls, with impairment well within acceptable levels. We also cemented the role of our assurance team into the fabric of our end-to-end credit cycle, providing us with an independent assessment of our control environment. Furthermore, we constantly reviewed our collections and recoveries strategies to ensure that they remain effective and yet customer centric. Finally, robust portfolio analysis was conducted to ensure that we have an accurate and timely view on portfolio performance and market dynamics, enabling us to make product and policy changes where necessary.

Corporate Credit

Corporate asset growth continues to be one of our strategic priorities. The risk profile of the corporate asset portfolio continues to be healthy on the back of good quality credit facilities and robust monitoring and control.

A specialised corporate risk management team (Barclays Business Support & Recoveries) is responsible for reviewing and identifying early indicators of any potential counterparty in distress and taking appropriate action. Barclays Business Support & Recoveries works closely with the client, supporting them in developing and implementing a turnaround strategy to improve business performance.

'Go-To' Bank

What does this mean?

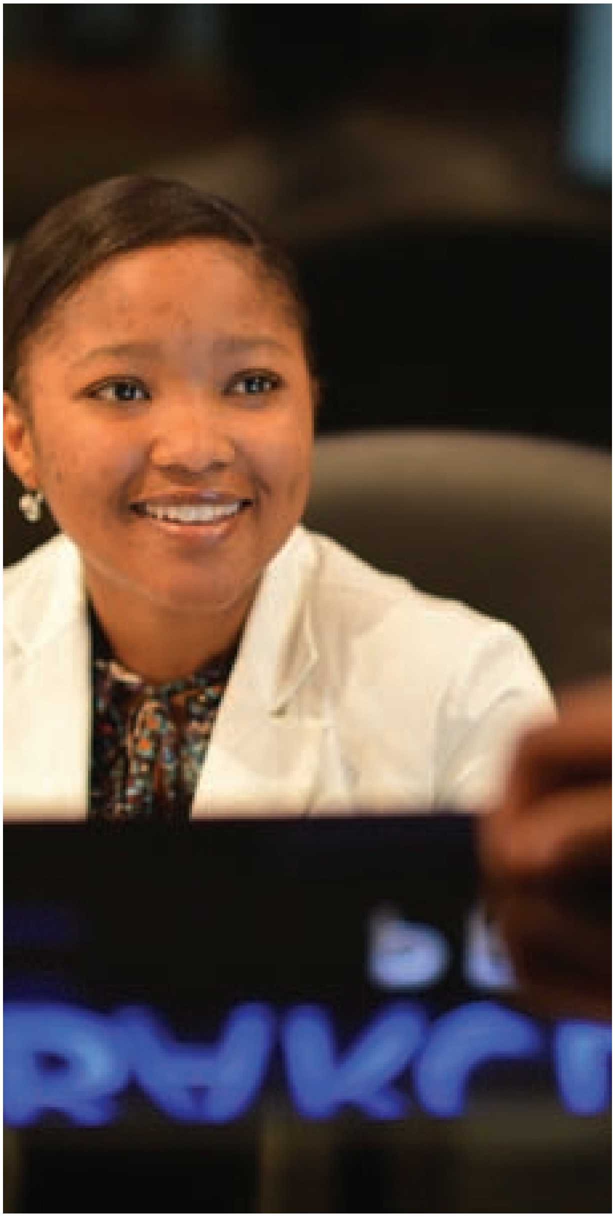
It means that Barclays will be the natural and instinctive choice of consumers, small businesses, corporates, multinationals and Government when they require a banking service – because of the outstanding service, the innovative products, and the superior banking experience we deliver.

It means that anyone wanting a career in the banking sector will aspire to be a Barclays colleague because of the respectful environment, the training provided and the advancement and growth opportunities available.

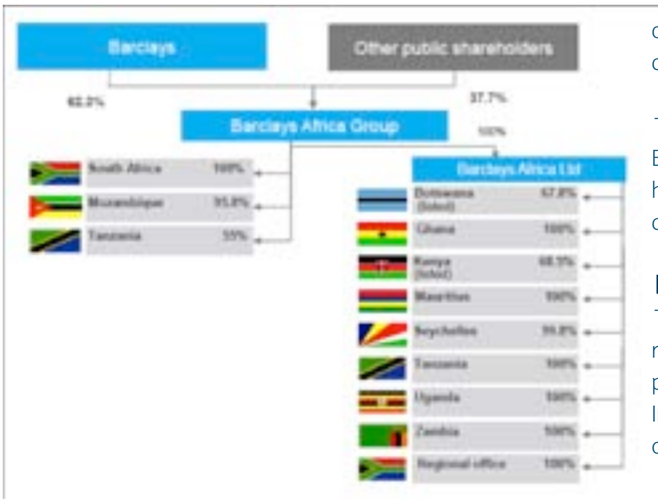
It means that when regulators seek a benchmark for outstanding banking behaviour, they think 'Barclays' because of the Bank's ethical behaviour and commitment to sustainability, the environment, the country and its citizens.

And when investors consider where to place their money, Barclays will be their first choice because of the consistently excellent returns they will receive on their investment.

In effect, as the 'Go-To' Bank, the Barclays brand will be synonymous with banking. We will no longer go to "the bank". We will go to 'Barclays'.



Barclays - ABSA deal



Background

In December 2012, Barclays PLC and South Africa's largest bank, Absa, agreed to a landmark deal in which the latter will acquire most of Barclays' interests in Africa. Barclays PLC's stakes in Zimbabwe and Egypt do not form part of the agreement.

The proposed combination accelerates Barclays 'One Bank in Africa' strategy and its goal to become the 'Go-To' Bank on the continent. With Absa as the leading retail bank in South Africa and Barclays ranking in the Top 3 in 10 of the 13 countries Barclays operates in within Africa, the combined business will create a leading pan-African financial services business.

The deal effectively transfers Barclays' African assets to Absa, creating a unit with 14.4-million customers through a network of more than 1,300 outlets and employing more than 43,000 people across 10 countries. This represents approximately 22.5% and 30.5% of Africa's population and GDP respectively.

Proposed structure post transaction

Upon completion of the deal a new entity, Barclays Africa Group Limited will be formed which will replace Absa's listing on the Johannesburg Stock Exchange. Barclays and Absa aim to complete the combination by the end of the first half of 2013.

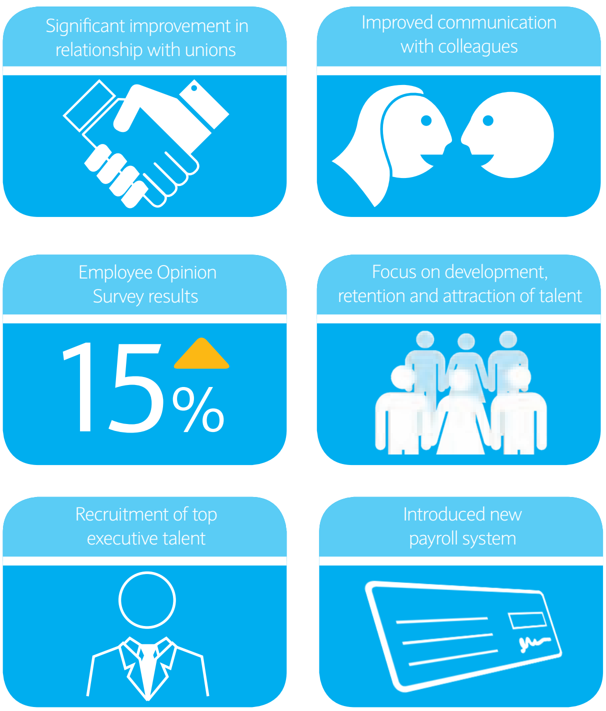
The listing of Barclays Bank of Botswana on the Botswana Stock Exchange will continue to be maintained as only the shares held by Barclays PLC are to be transferred in the proposed combination.

Implications for Barclays Bank of Botswana

The deal improves Barclays' earnings growth prospects in Africa, returns and diversity. Barclays Bank of Botswana's earnings potential will be improved by the access to Absa's Corporate and Investment banking, Bancassurance and access to innovation/ digital collaboration.

Customers will benefit as some of the very advanced technologies and specialised services that are available to Absa customers in South Africa are introduced locally.
And finally, Barclays Bank of Botswana colleagues will have access to significantly enhanced career opportunities.

Human Resources Review



2012 was a successful year for Human Resource management at Barclays Bank of Botswana.

After a turbulent 2011 on the HR front, 2012 was spent renewing and rebuilding our relationship with the unions and improving our communication with colleagues. The success of both these key drivers is evidenced by the remarkably smooth passage of negotiations around salary and employment conditions; the marked improvement in our annual Employee Opinion Survey results; and the stabilisation of our workforce numbers.

After the 13 percent drop in our headcount in 2011, our colleague numbers declined by just 5 percent to 1198 in the review period - largely as a result of natural attrition. The rationalisation of our infrastructure and the implementation of the Barclays Africa strategy may result in a further realignment of job roles, but colleagues will find new opportunities opening for them as we roll out our enhanced business strategy. Indeed, a major focus during the review period was talent development and succession planning. Several training development programmes were held for colleagues, including leadership training. This, we believe, is absolutely essential for the Bank's ongoing sustainability and will remain a priority into the future.

The health and wellness of our colleagues remains a priority for the Bank. In line with this, we introduced health and wellness initiatives across the network. These have been well embraced and will contribute to colleagues' improved wellbeing.

In addition, a new payroll system was introduced and we launched an employee self-service portal or intranet, which enables colleagues to manage a number of routine HR functions such as applying for leave or viewing their payslips online.

Looking ahead

A major task, which has already commenced but will be a key priority in 2013, will be the alignment of our job grades and job descriptors with those of Barclays Africa. This is essential if colleagues are to experience the full benefits and potential of being part of a global organisation in terms of career opportunities and development. For example, during 2012, several of our Botswana colleagues had an opportunity to participate in job swops in Kenya, Tanzania and Zambia. More such swops are scheduled for 2013. This type of programme is considerably facilitated if all colleagues in the Barclays Africa group are on the same job classification system.

Our strategy going forward is to continue to focus on talent development and retention. Several programmes have been, or are being initiated to support this.

Communication with colleagues and effective change management will also remain high on our priority list as we realign with the broader Barclays Africa strategy. There is no doubt that challenges remain for HR in 2013, but the strategy that has been put in place will enable us to move into the future with confidence.

Board of Directors

My personal thanks are due to all Board members for their unflagging contribution during what was a difficult period. We had many additional meetings in order to deal with the various challenges and every Board member stepped up to the mark with an impressive attendance record. Each Board member also played a valuable role in contributing to the various Board Committees.

Rizwan Desai
Chairman

1 Alfred Dube
Independent Non-Executive Director (63)
Alfred is the Managing Director of Lazare Kaplan Botswana (Pty) Ltd, a subsidiary of Lazare Kaplan International Inc. of New York. He holds a Bachelor of Arts degree with Honors from the University of Essex in the UK. A Foreign Policy specialist, and career diplomat, Mr Dube began his career in 1978 and has held appointments as Botswana's Ambassador to different missions around the world, including the United Nations Headquarters in New York.

2 Aupa Monyatsi
Acting Managing Director (34)
Aupa joined Barclays in July 2005 as Deputy Head of Operations at COO. In March 2012 he was appointed Acting Managing Director. He has held several roles across operations including Head of Performance and Head of Branch Operations as well as setting up an Operations Centre in Barclays Seychelles in 2006. He was appointed Chief Operating Officer in 2008. He has a Bachelor's degree in Accountancy. He is currently studying for a Masters in Corporate Governance. Prior to joining Barclays, Aupa was an Auditor with PWC Botswana.

3 Lipalesa Makepe
Finance Director (43)
Lipalesa joined Barclays in 2005 as Financial Controller and was recently appointed Finance Director. She has held senior management positions at various organisations, including Chief Executive Officer of Capital Securities. Prior to that she was Audit Manager at KPMG. She serves on the Board of Trustees of the Barclays Bank Pension Fund, Capital Securities and is Chairperson of the Botswana Stock Exchange. Lipalesa is a Fellow of the Institute of Certified Chartered Accountant (FCCA) and an Associate Chartered Accountant (Botswana).

4 Rizwan Desai
Independent Non-Executive Director
Chairman of Board of Directors (45)
Rizwan joined the Board in 2002. He was appointed Board Chairman in 2009. He is a partner in the law firm Collins Newman & Co. and Director of a number of property development and investment companies. Mr Desai also chairs the Board's Credit Sub-Committee and Nominations & Remuneration Sub-Committee. He specialises in corporate and banking law. He holds LLB (Hons) and DIP.L.P qualifications from the University of Edinburgh and an LLM from Harvard Law School.

5 Lawrence Maika
Independent Non-Executive Director (62)
Lawrence joined the Board in 2005, and is the Chairman of the Audit Committee. He is an accountant by profession, having studied in the United Kingdom, and is a member of the Botswana Institute of Accountants. Lawrence is the Managing Director of Nsenya (Pty) Ltd and also manages a firm of accountants. He has served on a number of boards including Botswana Meat Commission, Sefalana Holdings Co. Ltd, Botswana Housing Corporation, Bank of Botswana and Botswana Savings Bank.

6 Mokgadi Nteta
Independent Non-Executive Director (47)
Mokgadi is an MBA holder specialising in Human Resources Management. She also holds a BSc (Honours) in Applied Psychology. A Fellow of the Chartered Institute of Personnel and Development, UK, Ms Nteta has over 20 years experience in the field of Human Resources, 13 of which were in senior management positions. She is the Managing Director of Fast Forward People Solutions Botswana, an HR Consultancy and Hair Solutions. Ms Nteta has previously held senior positions in the private sector including, HR Director, Kgalagadi Breweries (Pty) Ltd and Group HR Manager for Sefalana sa Botswana.

7 Kenneth Molosi
Independent Non-Executive Director (44)
Kenneth is the Chief Executive Officer of EOH Consulting, a leading local management consultancy. Through his involvement in various consultancies, Mr Molosi has developed a wealth of strategic business and technology related expertise in the public and private sector (locally and regionally) in a wide range of sectors including Government, Telecommunications, Financial Services, Health Insurance and Tax Administration. He holds an MSc in Information Systems and a Bachelor of Business Administration in Computer Science and Marketing.

Corporate Governance Report

The Bank is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practices. Barclays Bank of Botswana has, therefore, adopted Bank of Botswana guidelines which seek to provide guidance on the provisions of Sections 22, 23 and 29-32 of the Banking Act, as well as to implement and enhance good corporate governance standards in the Botswana banking market, in addition to the Barclays Bank PLC internal corporate governance guidelines. These guidelines address the composition of the Board, its responsibilities, how these responsibilities are met and detail the selection procedures for new directors.

In accordance with the requirements of the Banking Act as read with the Bank of Botswana Guidelines and Internal Control, as well as the Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales, the Board ensures that management identifies measures and monitors a variety of risks through various control mechanisms. The risks and the measures related thereto are explained at pages 91 to 108 in this document.

The Board is committed to improving its corporate governance practices. The Board and the various committees are making continuous strides to present Barclays as an exemplary organisation in the field of corporate governance, by promoting greater openness and transparency.

The Board

Primary role

The main focus of the Board is on the business policies and strategies of the Bank. Operating within a corporate governance framework ensures that the Board:

- Remains accountable to the Bank and its shareholders
- Effectively monitors the Bank's management
- Continues its commitment to achieving the Bank's agreed strategies

Objectives

The main objectives of the Board are to:

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

The Board comprises of a non-executive Chairman, 4 Non-Executive Directors and two Executive Directors, the Managing Director and the Finance Director. The brief biographical details of these Directors are set out at page 29 of this document. The Board approves the roles and responsibilities of the Chairman and Managing Director. The roles are separate, well documented and understood.

Directors' Remuneration (BWP)

Director	Board	Audit Commitee	Credit Commitee	Remuneration Commitee	Pension Fund	Human Resources Commitee	Executive Renumeration	Total
Rizwan Desai	150 000	-	40 000	40 000	-	-	-	230 000
Lawrence Maika	120 000	60 000						180 000
Alfred Dube	120 000	-	20 000	20 000	-	-	-	160 000
Kenneth Molosi	120 000	30 000	-	-	-	10 000	-	160 000
Mokgadi Nteta	120 000	-	-	20 000	40 000	20 000	-	200 000
Neo Moroka	120 000	30 000		-	-	-	-	150 000
Aupa Monyatsi	-	-	-	-	-	-	1,731,553	1,731,553
Lipalesa Makepe	-	-	-	-	-	-	1,147,613	1,147,613
	750 000	**120 000**	**60 000**	**80 000**	**40 000**	**30 000**	**2,879,116**	**3,959,166**

Attendance register

At every Annual General Meeting, one third of the Directors (rounded down) retires and offers themselves for re-election. In practice, this causes every director to stand for re-election at least every three years.

A quorum consists of four Directors and the Board meets at least quarterly. During 2012, the Board held four meetings as scheduled.

Director	Board	Audit Committee	Credit Committee	Remuneration & Nominations Committee	Human Resources Committee
Rizwan Desai	4/4		4/4	4/4	
Lawrence Maika	4/4	4/4			
Alfred Dube	4/4		2/4	3/4	
Kenneth Molosi	3/4	4/4			2/2
Mokgadi Nteta	4/4			4/4	2/2
Neo Moroka	3/3	2/3			
Aupa Monyatsi	4/4	4/4	3/4		2/2
Lipalesa	4/4	4/4	2/4		

Corporate Governance Report (Continued)

The Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and running the Bank based on their knowledge and experience. Non-Executive Directors challenge, monitor and approve the strategies and policies recommended by the CMC. Executive Directors have annual performance contracts against which their performance is measured and managed. The Board meets regularly and has a formal schedule of matters reserved for it. Meetings of the Board are structured to allow and encourage open discussion and free debate. This ensures that Non-Executive Directors are able to challenge Executive Directors effectively. When necessary, the Chairman meets privately with Non-Executive Directors to brief them and to address any concerns they may have.

Audit Committee

The Board appoints a minimum of three members, who are Directors without any executive responsibility, to the Audit Committee. During the year there were three non-executive Directors on the committee, one of whom is the Chairperson of the committee. In line with corporate governance best practice, a non-executive Director other than the Chairman of the Board has been appointed to chair the Committee and this position is accordingly held by Lawrence Maika. The Audit Committee meets quarterly.

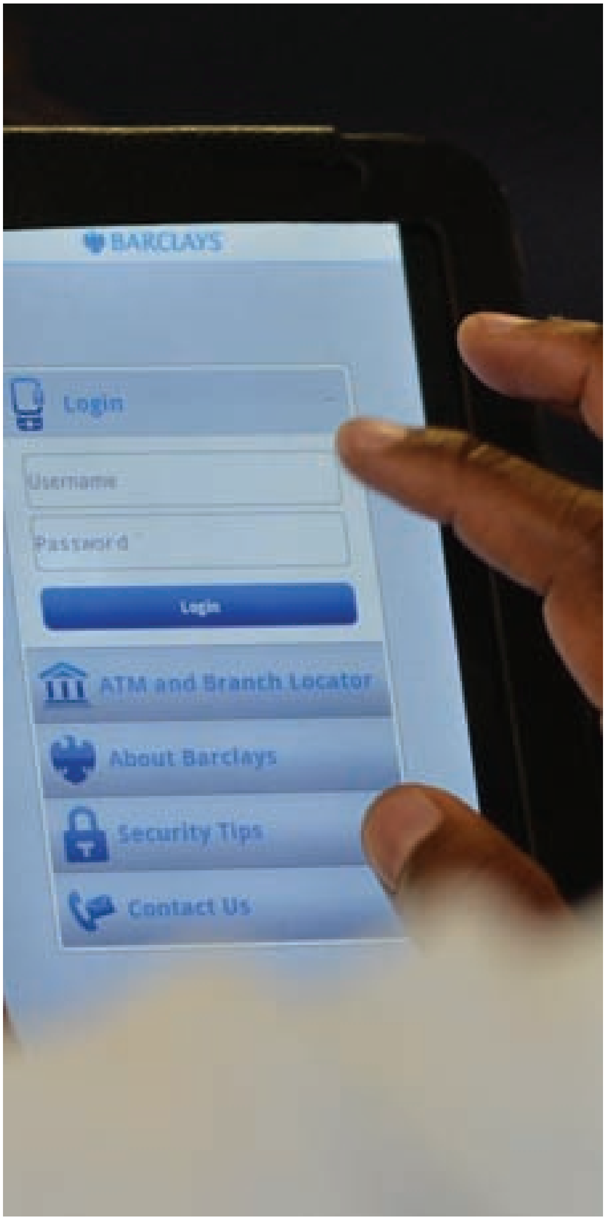
The Audit Committee has written terms of reference that have been approved by the Board and are in compliance with the Banking Act, Cap 46:04. The external and internal auditors have free access to the Chairman of the Committee. The function of the committee is to assist the Board in discharging its duties under the Companies Act, Banking Act and common law. In particular, it monitors financial controls, accounting systems and shareholder reporting. It also assesses the management of financial risks. The Banking Act imposes additional responsibilities on the Board of the Bank. This is especially true with regard to annual reporting on the functioning of the Bank's system of internal controls and its continuing viability as a going concern. The Audit Committee assists the Board in discharging these responsibilities.

Credit Committee

The Board Credit Committee includes the Managing Director, two Non-Executive Board members and the Commercial Credit Director. It is chaired by the Board Chairman, Rizwan Desai. The Credit Committee meets quarterly. The main purposes of the Committee are to approve the Banks credit policy, review and approve credit limits within Banking Act requirements, review portfolio management information, set sector caps and to review information on significant non-performing accounts in the Bank's credit portfolio. While some of the functions of the Credit Committee include statutory Board duties, the ambit of its terms of reference are wider than that and include a real partnership with risk executives to ensure the health of the Bank's lending book. Meetings of the Credit Committee are routinely held on a quarterly basis, although ad hoc meetings for approval of facilities can be convened on an urgent basis or may be held by teleconference, in line with the terms of reference.

Remuneration and Nominations Committee

This Committee has emerged from the fusion of the Remunerations Committee and the Nominations Committee. The committee is made up of four Non- Executive Directors, including the Chairman of the Board who serves as Chairman. The Remuneration and Nominations Committee meets three times a year. The Committee's main purpose is to provide oversight over executive performance and compensation, review bespoke incentive proposals, and advise on the succession /appointment of Executives. The Committee is also tasked with reviewing the level of expertise and skills at the Executive and Board levels and making suggestions for achieving the best overall skills coverage, whether by upskilling or recruitment.



Human Resources Committee

The mandate of this Committee does not extend to day to day management activities and is restricted to the provision of oversight and governance of the following;

- recruitment and Executive Management staffing, especially the appointment of the Head of Human Resources;
- organisational planning, structure and change;
- employee performance management and improvement;
- employment compliance and regulatory concerns;
- employee orientation, development, and training;
- policy development and documentation;
- talent management;
- employee relations, including relations with any labour organisations recognised by the Bank; and
- employee safety, welfare, wellness and health.

In addition, it is within the Committee's mandate to consider the overall strategy and approach to any issues or projects of significant consequence to the Bank's Human Resources. The Committee consists of 4 members, 2 of whom are Non-Executive Directors of Barclays, with two members to be representatives of the Barclays Executive in the form of the Head of Human Resources and the Managing Director

Country Management Committee (CMC)

The CMC acts as the operational management forum responsible for delivering Barclays Bank of Botswana's operating plan and results.

The objectives of the CMC are to ensure:

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

Corporate Governance Report (Continued)

- The efficient implementation of business plans.
- That performance is maximised across all lines and functions of the business.
- The enhancement of the Barclays Brand.

The CMC consists of the following:

- Managing Director (as its Chairman)
- Finance Director
- Treasurer
- Commercial Director
- Consumer Director
- Chief Operating Officer
- Commercial Credit Director
- Head of Compliance & Anti Money Laundering
- Head of Corporate Affairs
- Human Resources Director
- Consumer Credit Director
- Head of Legal

Country Asset and Liability Management Committee (ALCO)

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

The objectives of the Country ALCO are to manage:

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

Membership of Country ALCO comprises the following:

- Managing Director (as its Chairman)
- Finance Director
- Retail Director
- Commercial Director
- Treasurer
- Retail Credit Director
- Commercial Credit Director

- Head of Cards
- Chief Operating Officer

Risk and Control Committee

The duties and responsibilities of this management committee are to:

- Provide assurance to Management in respect of the Bank's risk and control framework by reviewing and challenging reports from Management, internal and external audit and regulators in respect of the Bank's business activities.
- Oversee implementation and embedding of the Policies and Controls, and confirm that control standards are defined and adequate for achieving regulatory compliance.
- Oversee the monitoring of Legal & Regulatory changes in the external environment and compliance with relevant laws, regulations and the directives of state authorities.
- Monitor and take action where required in relation to changes in the internal and external risk environment.
- Oversee management of the Country Business risk profile, risk event management through review of Key Indicators, Risk Events, specific risk issues, themes and concentrations.

Membership of the Risk and Control Committee comprises the following:

- Managing Director - Chairman
- Finance Director
- Commercial Credit Director
- Chief Operating Officer
- Commercial Director
- Consumer Director
- Head of Compliance & Anti Money Laundering
- Head of Legal
- Head of Governance, Operational Risk & Control Rigour
- Human Resources Director
- Consumer Credit Director
- Treasurer
- Head of Operational Risk

The internal auditors attend the meetings to challenge the decisions and discussions of the committee.

Remunerations and Promotions Committee (RPC)

The duties and responsibilities of this management committee are to:

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

Membership of the Remunerations and Promotions Committee comprises the following:

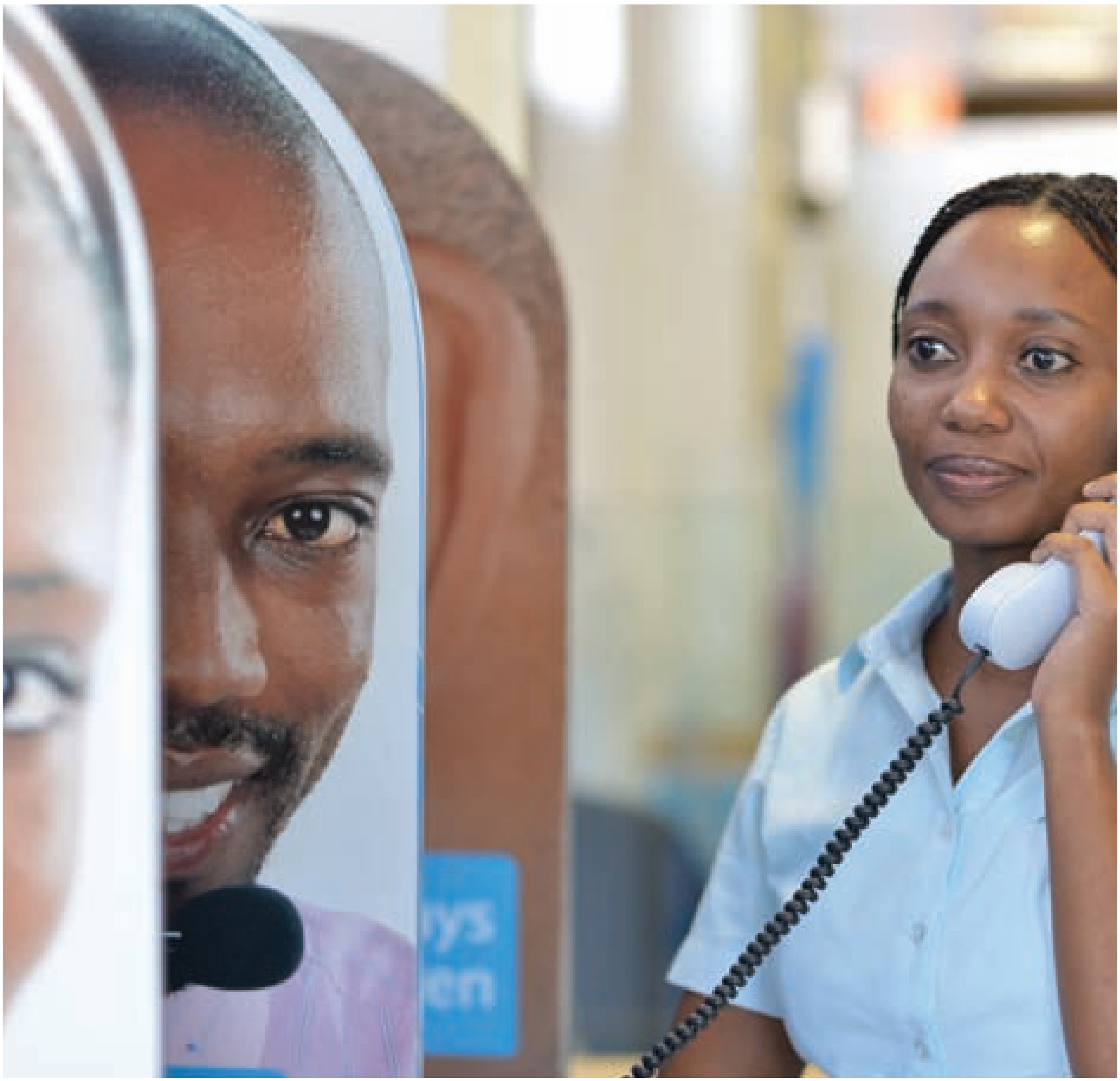
- Managing Director - Chairman
- Finance Director
- Human Resources Director
- Chief Operating Officer
- Head of Legal

Operations Committee (OPCO)

The duties and responsibilities of this management committee are to:

- Provide oversight of all key operational issues facing the Bank (including IT and other operational projects) and to ensure timely, robust delivery of operational and IT investments within budget.
- Ensure the effectiveness of Operational & IT Capability and Resource management across the Bank.
- Provide management oversight and review of all operational and IT projects and ensure that projects are managed according to Prince2 principles and within timescales and budget.
- Review Group, Global Retail Banking (GRB) and Barclays Africa operations and IT projects intended for, or impacting upon the country.
- Provide oversight of sourcing and alliances

Corporate Governance Report (Continued)



- Review Business Continuity Management

Issues are escalated and reported to the Managing Director, Country Management Committee and Barclays Africa Chief Operating Officer where resolution at OpCo is not possible.

Membership of the committee comprises:

- Chief Operating Officer - Chairman
- Finance Director
- Consumer Director
- Commercial Director
- Human Resources Director
- Head of Technology
- Head of Consumer Operations
- Head of Wholesale
- Head of Branch Operations
- Head of Internal Control
- Head of Sourcing

Brand and Reputation Committee (B&RC)

The duties and responsibilities of the Committee are to:

- Protect and enhance the brand and reputation of Barclays.
- Support Barclays in being a leading company in the field of corporate social responsibility.
- Ensure that the Bank treats customers fairly in accordance with its "Treating Customers Fairly" principles.
- Confirm the reputational hotspots in the business, together with the adequacy of mitigating actions and escalate as appropriate to the Barclays Africa Brand and Reputation Committee.
- Agree and monitor the implementation of the Customer agenda in the business, including Treating Customers Fairly, Customer Service and Customer Complaints.
- Confirm and monitor the implementation of the External Corporate Affairs plan, and the Community and Environmental strategy.
- Approve Community projects for implementation.

Composition and quorum

- Managing Director - Chairman
- Finance Director
- Chief Operating Officer
- Head of Legal
- Commercial Credit Director
- Head of Corporate Affairs
- Commercial Director
- Consumer Director
- Head of Compliance & Anti Money Laundering
- Human Resources Director
- Treasurer
- Retail Credit Director

Horizontal Review Forum

The overall purpose of the forum is to ensure comprehensive and effective review, challenge and raising of potential control issues across Barclays Bank of Botswana Ltd as important input towards the Risk and Control Committee (R&CC) meetings.

The duties and responsibilities of the forum are to:

- Review current Control Issues across the business for thematic issues and remediation.
- Raise and escalate any new issues.
- Recommend deep dive topics.
- Review and rate, the current escalation level of BA Control Issues, and recommend the escalation or transfer issues where appropriate.

Attendees of the committee are at the discretion of the Barclays but will, as a minimum include:

- Africa Head of Operational Risk and Control Rigour (ORCR)
- Head of ORCR — Chairman
- Chief Operations Officer
- Finance Director
- Head of Technology
- Head of Compliance
- Permanent attendees
- Head of Internal Audit (independent Challenger)
- Subject Matter Experts (by invitation)

Annual Financial Statements

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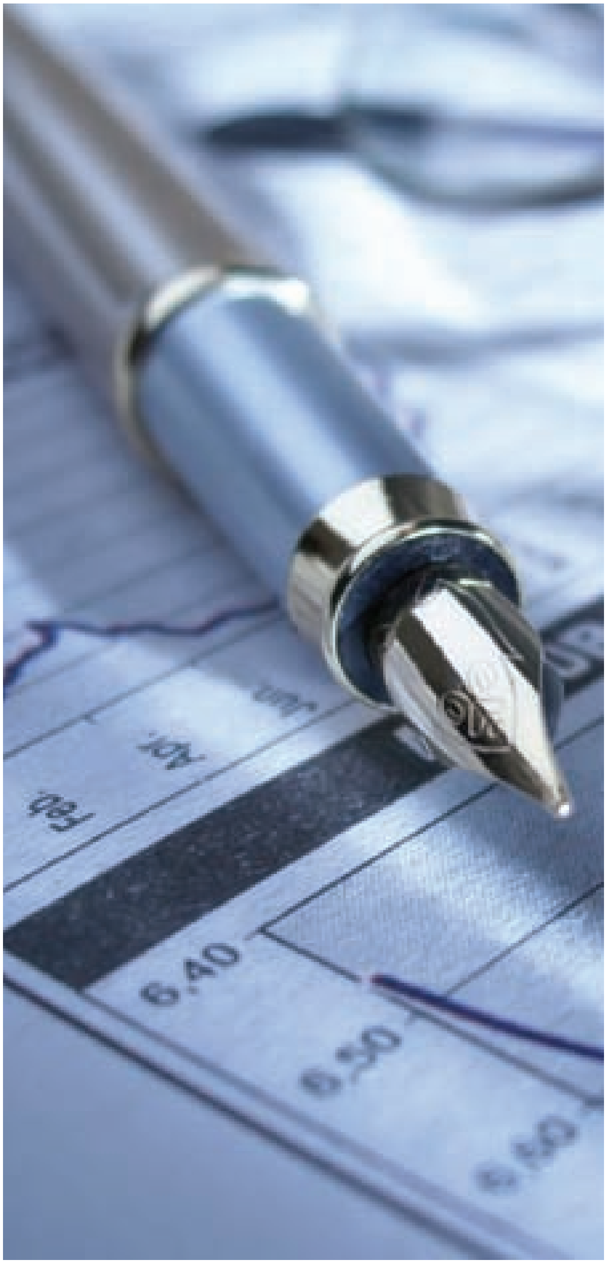
Financial Statements



Directors' Report

For the year ended 31 December 2012

The directors have pleasure in submitting their report to shareholders together with the audited financial statements for the period ended 31 December 2012.

1 Share capital

Details of the Bank's share capital are given in note 29 to the financial statements.

2 Financial results

The annexed financial statements adequately disclose the results of the Bank's operations for the year.

3 Directorate

The following were directors of the Bank during the period to the date of this report:

R K Desai (Independent non-executive)
Chairman

A Monyatsi (Executive)
Managing Director (Interim)

L Makepe (Executive)
Finance Director

L Maika (Independent non-executive)

K Molosi (Independent non-executive)

A M Dube (Independent non-executive)

M Nteta (Independent non-executive)

D N Moroka (Independent non-executive)
Resigned November 2012

4 Independent auditors

PricewaterhouseCoopers
Plot 50371
Fairgrounds Office Park
Gaborone

5 Company Secretary

S Palmer
6th Floor Barclays House
Khama Crescent
Gaborone

PO Box 478
Gaborone, Botswana

6 Transfer secretaries

Transaction Management Services (Proprietary) Limited
Unit 22, Plot 126
Kgale Court
Gaborone

7 Registered office

6th Floor, Barclays House
Khama Crescent
Gaborone

8 Company registration

Registration Number 1732

Statement of Directors' responsibility

For the year ended 31 December 2012

The directors of Barclays Bank of Botswana Limited ("the Bank") are responsible for the annual financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Botswana (Companies Act, 2003) and the Botswana Banking Act (1995).

The Bank maintains systems of internal control which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Banks assets. The directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the Bank will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Our external auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between management and our external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the Board of Directors and the Board Audit Committee.

The Board of Directors have reviewed and approved the accompanying financial statements, set out on pages 43 to 108, for issue on 29 March 2013.

R Desai
Chairman

A Monyatsi
Interim
Managing Director

L Maika
Chairman of
the Board Audit
Committee

Corporate Governance Statement

For the year ended 31 December 2012

The Bank is committed to robust corporate governance practices and applying the highest standards of business integrity in all its activities.

Corporate governance has been a major focal point in recent years and several training initiatives were undertaken to improve the process.

Corporate governance is the system according to which companies are managed and controlled. As a listed company, the Bank follows the United Kingdom Listing Authority's Combined Code, Principles of Good Governance and Code of Best Practice, published in June 1998 to implement the proposals of the Hampel Committee.

The Bank is committed to business integrity and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practice. The Barclays Group has adopted its own internal corporate governance guidelines. These guidelines address the composition of the Board, its responsibilities, how these responsibilities are met and details the selection procedures for new directors.

In accordance with the requirements of Internal Control: Guidance for Directors on the Combined Code, issued by the Institute of Chartered Accountants in England and Wales, the Board ensures that management identifies, measures and monitors a variety of risks through various control mechanisms. These risks and the measures related thereto are explained in the annual report.

The Board is most committed to improve its corporate governance practices. The Board and the various committees are making continuous strides to display the Bank as an exemplary organisation in the field of corporate governance by promoting greater openness and transparency.

R Desai	**A Monyatsi**	**L Maika**
Chairman	Interim Managing Director	Chairman of the Board Audit Committee

Independent Auditors Report to the Members of Barclays Bank of Botswana Limited

pwc

Report on the Financial Statements

We have audited the accompanying annual financial statements of Barclays Bank of Botswana Limited (the "Bank"), which comprise the consolidated and separate statements of financial position as 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 43 to 108.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation of the group and Bank financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in compliance with the Botswana Banking Act, CAP 46.04 and for such internal control 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.

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 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 control. 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 Barclays Bank of Botswana Limited as at 31 December 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Individual practicing member: Sheyan Edirisinghe
Membership number: 20030048
Date: 29 March 2013
Gaborone

Statements of Comprehensive Income

For the year ended 31 December 2012

In Thousands of Pula	Notes	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Continuing operations					
Interest income	3	1,213,948	1,313,030	1,213,948	1,313,030
Interest expense	3	(252,860)	(327,133)	(252,860)	(327,133)
Net interest income		961,088	985,897	961,088	985,897
Fee and commission income	4	284,903	285,243	226,481	232,807
Fee and commission expense	4	(9,903)	(22,841)	(9,903)	(22,841)
Net fee and commission income		275,000	262,402	216,578	209,966
Net trading and investing income	5	74,478	82,705	74,478	82,705
Other operating income	6	961	13,050	961	13,050
Net other income		75,439	95,755	75,439	95,755
Total income		1,311,527	1,344,054	1,253,105	1,291,618
Impairment charges and other credit provisions	7	(125,709)	(116,220)	(125,709)	(116,220)
Net income		1,185,818	1,227,834	1,127,396	1,175,398
Staff costs	8	(354,875)	(313,968)	(335,302)	(295,435)
Administration and general expenses	9	(237,032)	(251,974)	(223,883)	(238,434)
Depreciation of property, plant and equipment	21	(21,592)	(18,169)	(21,592)	(18,169)
Amortisation of intangible assets	22	(8,216)	(20)	(8,216)	(20)
Operating expenses		(621,715)	(584,131)	(588,993)	(552,058)
Profit before income tax		564,103	643,703	538,403	623,340
Income tax expense	10	(121,778)	(117,194)	(116,124)	(112,714)
Profit for the year from continuing operations		442,325	526,509	422,279	510,626
Discontinued operations					
Profit after tax from discontinued operations, including gain on disposal	33	-	12,502	-	12,502
Total profit for the year		442,325	539,011	422,279	523,128
Other comprehensive income					
Reversal of revaluation reserve due to change in accounting policy		-	(12,919)	-	(12,919)
Total comprehensive income for the period		442,325	526,092	422,279	510,209
Profit attributable to					
- Owners of the parent		442,325	539,011	422,279	523,128
Other comprehensive income					
- Owners of the parent		-	(12,919)	-	(12,919)
Earnings per share					
Basic and diluted earnings per share from continuing operations (thebe)	2	51.91	61.79	49.55	59.92
Basic and diluted earnings per share from discontinued operations (thebe)		-	1.47	-	1.47
Dividends per share					
Interim dividend per share (thebe)		11.73	11.73	11.73	11.73

The accompanying notes form an integral part of the financial statements

Statements of Financial Position

For the year ended 31 December 2012

In Thousands of Pula	Notes	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Assets					
Cash and cash equivalents	11	198,447	168,571	198,447	168,571
Balances with the Bank of Botswana	12	842,514	893,452	842,514	893,452
Investment securities	17	2,369,268	2,195,479	2,369,268	2,195,479
Trading portfolio assets	18	4,858	22,839	4,858	22,839
Balances with related companies	20	1,311,539	905,867	1,311,539	905,867
Loans and advances to banks	15	159,633	698,368	159,633	698,368
Derivative financial instruments	14	-	278	-	278
Financial assets designated at fair value through profit and loss	13	41,326	27,561	41,326	27,561
Loans and advances to customers	16	6,296,973	6,092,309	6,296,973	6,092,309
Other assets	19	175,072	146,449	175,072	146,449
Current tax asset		39,367	17,221	23,308	5,183
Deferred tax assets	28	-	4,929	-	4,929
Retirement benefit asset	8	-	57,551	-	57,551
Intangible assets	22	49,218	37,432	49,218	37,432
Property, plant and equipment	21	97,678	94,632	97,678	94,632
Total assets		11,585,893	11,362,938	11,569,834	11,350,900
Liabilities					
Deposits from banks	23	269,944	9,233	269,944	9,233
Balances with related companies	20	57,876	97,213	127,015	150,327
Derivative financial instruments	14	16,134	15,591	16,134	15,591
Deposits due to customers	24	9,166,416	9,093,204	9,166,416	9,093,204
Other liabilities	26	214,566	168,158	214,566	168,158
Provisions	27	10,693	34,727	10,693	34,727
Deferred tax liabilities		5,227	-	5,227	-
Debt securities in issue	25	503,603	503,649	503,603	503,649
Total liabilities		10,244,459	9,921,775	10,313,598	9,974,889
Shareholders' equity					
Stated capital	29	17,108	17,108	17,108	17,108
Retained earnings		1,256,741	1,356,416	1,171,543	1,291,264
Other reserves	29	67,585	67,639	67,585	67,639
Total equity attributable to equity holders		1,341,434	1,441,163	1,256,236	1,376,011
Total liabilities and equity		11,585,893	11,362,938	11,569,834	11,350,900

The accompanying notes form an intergral part of the financial statements

Statements of Cash Flows

For the year ended 31 December 2012

In Thousands of Pula	Notes	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Reconciliation of profit before tax to net cash flows from operating activities					
Continuing operations					
Profit before tax		564,103	643,703	538,403	623,340
Net interest income		(961,088)	(985,897)	(961,088)	(985,897)
Adjustment for non-cash items:-					
Allowance for impairment	16	125,709	116,220	125,709	116,220
Depreciation of property, plant and equipment	21	21,592	18,169	21,592	18,169
Amortisation of intangibles	22	8,216	20	8,216	20
Net increase in financial assets designated at fair value		(13,765)	(11,368)	(13,765)	(11,368)
Other provisions including pensions		57,597	20,190	57,597	20,190
Profit on disposal of property, plant and equipment		(166)	(10,487)	(166)	(10,487)
Changes in operating assets and liabilities					
Increase / (decrease) in deposits		73,212	(255,223)	73,212	(255,223)
Increase in other liabilities		22,374	15,007	22,374	15,007
Increase in advances to customers		(330,373)	(636,350)	(330,373)	(636,350)
Increase / (decrease) in derivative financial instruments		821	13,855	821	13,855
Increase on statutory reserve with Bank of Botswana		(2,790)	(298,690)	(2,790)	(298,690)
(Increase) / decrease in balances with related parties		(445,009)	415,709	(428,984)	468,823
Increase /(decrease) in investments and market placements		17,981	(22,589)	17,981	(22,589)
Increase in other assets		(28,623)	(37,924)	(28,623)	(37,924)
Interest received		1,213,948	1,313,030	1,213,948	1,313,030
Interest paid		(252,860)	(327,133)	(252,860)	(327,133)
Tax paid net of refunds		(133,768)	(117,896)	(124,093)	(107,454)
Net cash flows utilised in operating activities		(62,889)	(147,654)	(62,889)	(104,461)
Purchase of property and equipment		(25,384)	(18,595)	(25,384)	(18,595)
Purchase of intangibles		(20,002)	(24,974)	(20,002)	(24,974)
Proceeds on sale of property and equipment		912	11,630	912	11,630
Disposal of discontinued operations	33	-	14,974	-	14,974
Net cash utilised in investing activities		(44,474)	(16,965)	(44,474)	(16,965)
Dividends paid		(542,000)	(325,073)	(542,000)	(325,073)
Redemption of debt securities		-	(331,423)	-	(331,423)
Net cash utilised in financing activities		(542,000)	(656,496)	(542,000)	(656,496)
Net decrease in cash and cash equivalents		(649,363)	(821,115)	(649,363)	(777,922)
Cash and cash equivalents at beginning of the year		3,108,139	3,929,254	3,108,139	3,886,061
Cash and cash equivalents at the end of the year		2,458,776	3,108,139	2,458,776	3,108,139
Cash and cash equivalents comprise:					
Cash and cash equivalents		198,447	168,571	198,447	168,571
Current account with Bank of Botswana		6,447	60,175	6,447	60,175
Balances with other banks		159,633	698,368	159,633	698,368
Bank of Botswana Certificates		2,364,193	2,190,258	2,364,193	2,190,258
Deposits from other banks		(269,944)	(9,233)	(269,944)	(9,233)
		2,458,776	3,108,139	2,458,776	3,108,139

The accompanying notes form an integral part of the financial statements

Statements of Changes in Equity

For the year ended 31 December 2012

Consolidated

In Thousands of Pula	Stated Capital	Share Capital reserve	General risk reserve	Fixed property Revalution Reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011	17,108	2,060	45,992	12,919	3,252	1,182,312	1,263,643
Profit for the period	-	-	-	-	-	539,011	539,011
Prior year dividends paid	-	-	-	-	-	(249,976)	(249,976)
Interim dividend paid	-	-	-	-	-	(100,000)	(100,000)
Transfer to retained earnings	-	-	14,931	-	-	(14,931)	-
Effect of change in accounting policy	-	-	-	(12,919)	-	-	(12,919)
Contribution made by parent	-	-	-	-	1,404	-	1,404
Balance at 31 December 2011	17,108	2,060	60,923	-	4,656	1,356,416	1,441,163
Balance at 1 January 2012	17,108	2,060	60,923	-	4,656	1,356,416	1,441,163
Profit for the period	-	-	-	-	-	442,325	442,325
Prior year dividends paid	-	-	-	-	-	(442,000)	(442,000)
Interim dividend paid	-	-	-	-	-	(100,000)	(100,000)
Transfer from retained earnings	-	-	-	-	-	-	-
Contribution made by parent	-	-	-	-	(54)	-	(54)
Balance at 31 December 2012	17,108	2,060	60,923	-	4,602	1,256,741	1,341,434

Company

In Thousands of Pula	Stated Capital	Share Capital reserve	General risk reserve	Fixed property Revalution Reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011	17,108	2,060	45,992	12,919	3,252	1,133,043	1,214,374
Profit for the period	-	-	-	-	-	523,128	523,128
Prior year dividends paid	-	-	-	-	-	(249,976)	(249,976)
Interim dividend paid	-	-	-	-	-	(100,000)	(100,000)
Effect of change in accounting policy	-	-	-	(12,919)	-	-	(12,919)
Transfer to retained earnings	-	-	14,931	-	-	(14,931)	-
Contribution made by parent	-	-	-	-	1,404	-	1,404
Balance at 31 December 2011	17,108	2,060	60,923	-	4,656	1,291,264	1,376,011
Balance at 1 January 2012	17,108	2,060	60,923	-	4,656	1,291,264	1,376,011
Profit for the period	-	-	-	-	-	422,279	422,279
Prior year dividends paid	-	-	-	-	-	(442,000)	(442,000)
Interim dividend paid	-	-	-	-	-	(100,000)	(100,000)
Contribution made by parent	-	-	-	-	(54)	-	(54)
Balance at 31 December 2012	17,108	2,060	60,923	-	4,602	1,171,543	1,256,236

The accompanying notes form an integral part of the financial statements

Accounting Policies

For the year ended 31 December 2012

General Information

Barclays Bank of Botswana Limited ("the Bank") is a public limited company listed on the Botswana Stock Exchange and domiciled in Botswana. The address of the Bank's registered office is 6th Floor, Barclays House, Khama Crescent, Gaborone. The consolidated financial statements of the Bank as at and for the period ended 31 December 2012 comprise the Bank and it's subsidiaries (together referred to as "the Bank"/"the Group"). The Bank primarily is involved in corporate banking, retail banking, and in treasury products and services.

The Bank's parent company is Barclays PLC, a company registered in the United Kingdom.

Approval of financial statements
These financial statements have been approved for issue by the Board of Directors on 21 March 2013.

Accounting Policies (Continued)

For the year ended 31 December 2012

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board (''IASB'') . Except as otherwise stated, the consolidated financial statements have been prepared on the historical cost basis as modified by:

- revaluation of available-for-sale financial assets
- revaluation of derivative financial instruments measured at fair value through profit and loss
- revaluation of land and buildings
- All other property, equipment and software is remeasured less accumulated depreciation.

Functional and presentation currency

These consolidated financial statements are presented in Pula, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Pula has been rounded to the nearest thousand.

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in page 62.

(b) Summary of significant accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are presented below. Except as described below, the accounting policies applied are consistent with those applied in the prior year.

New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the 2012 financial year that would be expected to have a material impact on the Bank.

Future accounting developments

As at 31 December 2012 the IASB had issued the following accounting standards. These are effective on 1 January 2013 unless otherwise indicated:

– IFRS 10 Consolidated Financial Statements which replaces requirements in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. This introduces new criteria to determine whether entities in which the Bank has interests should be consolidated. The amendment to the standard will not have a material impact on the financial statements of the Bank.

– IFRS 11 Joint Arrangements, which replaces IAS 31 Interests in Joint Ventures. This specifies the accounting for joint arrangements whether these are joint operations or joint ventures. It is not expected to have a material impact on the Bank;

– IFRS 12 Disclosures of Interests in Other Entities This specifies the required disclosures in respect of interests in, and risks arising, from subsidiaries, joint ventures, associates and structured entities whether consolidated or not. As a disclosure only standard it will have no financial impact;

– IFRS 13 Fair Value Measurement. This provides comprehensive guidance on how to calculate the fair value of financial and non-financial assets and liabilities. It is not expected to have a material impact on the Bank financial statements;

– IAS 19 Employee Benefits (Revised 2011). This requires that actuarial gains and losses arising from defined benefit pension schemes are recognised in full. Previously the Bank deferred these over the remaining average service lives of the employees (the 'corridor' approach).

Accounting Policies (Continued)

For the year ended 31 December 2012

(b) Summary of significant accounting policies (continued)

Future accounting developments (continued)

– IAS 32 and IFRS 7 Amendments Offsetting Financial Assets and Financial Liabilities. The circumstances in which netting is permitted have been clarified and disclosures on offsetting have been considerably expanded. The amendments on offsetting are effective from 1 January 2014 and those on disclosures from 1 January 2013.

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment allowances and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way that the Bank accounts for financial instruments. The key changes issued and proposed relate to:

– Financial assets. Financial assets will be held at either fair value or amortised cost, except for equity investments not held for trading, which may be held at fair value through other comprehensive income;

– Financial liabilities. Gains and losses on fair value changes in own credit arising on non-derivative financial liabilities designated at fair value through profit or loss will be excluded from the Income Statement and instead taken to other comprehensive income;

– Impairment. Expected losses (rather than only incurred losses) will be reflected in impairment allowances for financial assets that are not classified as fair value through profit or loss; and

– Hedge accounting. Hedge accounting will be more closely aligned with financial risk management.

Adoption is not mandatory until periods beginning on or after 1 January 2015. Earlier adoption is possible, subject to endorsement and finalisation of the standard. At this stage, it is not possible to fully determine the potential financial impacts of adoption of IFRS 9 on the Bank.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Bank will consider the financial impacts of these new standards as they are finalised.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Bank entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

"Subsidiaries are entities controlled by the Bank. Control exists when the Bank 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.

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the purchase of subsidiaries. The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. The excess of the consideration paid in an acquisition over the Bank's share of the fair value of the identifiable net assets acquired is recorded as goodwill. A gain on acquisition is recognised in profit or loss if there is an excess of the Bank's share of the fair value of the identifiable net assets acquired over the cost of the consideration paid. Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Common control transactions

The Group accounts for the common control transactions using the pooling-of-interests method. Under the pooling-of-interests method of accounting, the results of entities or businesses under common control are presented as if the business combination had been effected from the date of obtaining control. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the business combination is cancelled with the values of the net assets received. Any resulting difference is classified as equity.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses 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. The accounting policies for subsidiaries are consistent with the policies adopted by the Bank.

A listing of the Bank's subsidiaries is set out in note 31 to the financial statements.

In the individual financial statements, investments in subsidiaries are stated at cost less impairment, if any.

(b) Foreign currency

(i) Foreign currency transactions

Functional currency and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(c) Interest income and expense

Interest income and expense on all instruments measured at amortised cost are recognised in the profit or loss using the effective interest method.

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

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

Interest income and expense is recognised as part of operating cash flows in the statement of cash flows.

(d) Trading income

The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value in trading income as it is earned.

(e) Fees and commission

Fees and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Service fees are recognised based on the applicable service contracts.

Other fees and commission expense

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(f) Borrowing costs

The Bank capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the asset is substantially completed. Other borrowing costs are expensed when incurred.

(g) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. WHT is recognised as a liability in the period during which the related dividends are accounted for.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for current tax purposes. Deferred tax 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 profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Significant accounting policies (continued)

(g) Taxation (continued)

The principal temporary differences arise from the revaluation of property, depreciation of property, plant and equipment, the revaluation of certain financial assets and liabilities including available-for-sale investments, provision for impairment on loans and advances and provision for pensions.

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax related to fair value re-measurement of available-for-sale investments and the revaluation of property, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit or loss together with the deferred gain or loss.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial instruments are recognised on trade date at which the Bank irrevocably commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or liability, except for one designated at fair value through profit or loss, is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

- loans and receivables;
- available for sale;
- at fair value through profit or loss and within the category as:
    - held for trading or
    - designated at fair value through profit or loss

The Bank does not classify any of its financial assets as held to maturity.

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 which are not classified as available for sale or financial instruments at fair value through profit or loss. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers. Interest on loans is included in the consolidated statement of comprehensive income and is reported as interest income. The impairment loss is reported as a deduction from the carrying value of the loan recognised in the consolidated statement of comprehensive income as impairment charges and other credit provision.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Available-for-sale investments

Available for sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are intended to be held for an indefinite period of time and may be sold due to liquidity needs or changes in interest rates, exchange rates or equity prices. They are initially recognised at fair value which is the cash consideration including direct and incremental transaction costs. Subsequent measurement is at fair value with gains or losses recognised in other comprehensive income. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in profit or loss. When an available for sale financial asset is derecognised as a result of sale or is impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. The investments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

Financial instruments at fair valued through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are:
'- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or;
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial instruments may be designated at fair valued through profit or loss (designated under the fair value option) on inception. Financial instruments cannot be taken into or out of this category after inception. To be designated at fair value through profit or loss, financial assets and liabilities must meet one of the following criteria: (1) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (2) a group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (3) the instrument contains one or more embedded derivatives unless: (a) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (b) it is clear with little or no analysis that separation is prohibited. In addition, the Group allows the fair value option to be designated only for those financial instruments for which a reliable estimate of fair value can be obtained.

Financial instruments designated at fair value are recognised initially at fair value and transaction costs are taken directly to the profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

(ii) Fair value measurement

Financial Liabilities

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest method. Financial liabilities are derecognised when they extinguished.

Determining fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of the Bank's financial assets and liabilities, especially derivatives, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data. Most market parameters are either directly observable or are implied from instrument prices. The model may perform

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

numerical procedures in the pricing such as interpolation when input values do not directly correspond to the most actively traded market trade parameters.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price ('Day One profit') is recognised in profit or loss either:

– on a straight-line basis over the term of the transaction, or over the period until all model inputs will become observable where appropriate; or
– released in full when previously unobservable inputs become observable.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity of market modelling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependant on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

Offsetting

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

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

(i) Impairment of financial instruments

The Bank assesses at each statement of financial reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired. A financial asset or portfolio 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 loss events that occurred after the initial recognition of the asset and prior to the statement of financial reporting date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Bank about the following loss events:

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
v) the disappearance of an active market for that financial asset because of financial difficulties; or
vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio;
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank 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 Bank 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.

Accounting Policies (Continued)

For the period ended 31 December 2012

Significant accounting policies (continued)

(i) Impairment of financial instruments (continued)

For loans and advances, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the profit or loss.

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 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 risk characteristics, taking into account asset type, industry, geographical 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 by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When 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 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 profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the profit or loss. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities are recognised in the profit or loss. Reversals of impairment of equity shares are not recognised in the profit or loss, increases in the fair value of equity shares after impairment are recognised directly in equity.

(j) Derivative financial instruments and hedge accounting

Derivatives are used to hedge interest rate, exchange rate, commodity and equity exposures and exposures to certain indices such as house price indices and retail price indices related to non-trading positions. Derivatives entered into for hedging purposes and for trading purposes include foreign exchange and interest rate derivatives and mainly take the form of swaps and forwards, or a combination of these instrument types.

Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate.

All derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative, unless there is the legal ability and intention to settle on a net basis. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models.

Accounting Policies (Continued)

For the period ended 31 December 2012

Significant accounting policies (continued)

(j) Derivative financial instruments and hedge accounting (continued)

The effect of discounting expected cash flows back to present value is achieved by constructing discount curves derived from the market price of the most appropriate observable interest rate products such as deposits, interest rate futures and swaps. The calculation of fair value for any instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), or to reflect hedging costs not captured in pricing models (to which extent they would be taken into account by a market participant in determining a price).

The method of recognising fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:
- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or ;
- hedges of the highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedges).

When a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instrument and the hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is repaid or sold, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in shareholders' equity, and recycled to the profit or loss in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the profit or loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to the profit or loss.

Derivatives that do not qualify for hedge accounting

Derivative contracts entered into as economic hedges that do not qualify for hedge accounting are held at fair value through profit or loss. Changes in the fair value are recognised immediately in profit or loss under ''net gain/(loss) on financial assets classified as held for trading.

(k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise of cash in hand, balances with Bank of Botswana, balances with other banks net of deposits from other banks and Bank of Botswana Certificates . Cash and cash equivalents excludes the Statutory Reserve held with the Bank of Botswana because it is illiquid.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(l) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at historical cost less accumulated depreciation and provisions for impairment, if any.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost/valuation to their estimated residual values over their estimated useful lives, as follows:

The estimated useful lives for the current and comparative periods are as follows:
- Leasehold property - Unexpired period of the leases
- Freehold property - 50 years
- Rented property improvements - Unexpired period of the leases
- Office equipment, computers, ATMs and point of sale devices- 3 - 7 years
- Motor vehicles - 5 years
- Furniture and fittings - 5 years"

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

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in the profit or loss. When revalued assets are sold, the appropriate portion of the revaluation reserve is transferred to retained earnings on disposal.

"At each financial reporting date, property, plant and equipment and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arms-length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis."

The carrying values of property, plant and equipment are written down by the amount of any impairment and this loss is recognised in the profit or loss in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset will only be increased up to the amount that it would have been had the original impairment not been recognised. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment on assets.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(m) Intangible assets - software

Computer software

Computer software is stated at cost, less amortisation and provisions for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised in the profit or loss as an expense when incurred. Capitalised computer software is amortised over three to five years on a straight line basis.

(n) Lease agreements

(i) Where the Bank is the Lessor

Finance leases

Assets leased to customers under agreements, which transfer substantially all the risks, and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the minimum lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to the respective accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Operating leases

Assets leased to customers under agreements, which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. The leased assets are included within property, plant and equipment on the Bank's statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

(ii) Where the Bank is the Lessee

Finance leases

The Bank classifies leases as property, plant and equipment where it assumes substantially all the benefits and risks of ownership as finance leases. Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the profit or loss over the lease period. The property and equipment acquired are depreciated over the shorter of economic life or lease period.

Operating leases

The total payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

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

(o) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(o) Provisions (continued)

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on commercial terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within other operating expenses.

Any increase in the liability relating to guarantees is taken to the profit or loss under provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognised in the profit or loss when the guarantee is discharged, cancelled or expires.

(q) Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Bank having a recent obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable, or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the company. Financial instruments issued which contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest rate method.

Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Dividend and other payments to equity holders are deducted from equity, gross of any related tax.

Borrowings, consisting of floating rate notes and medium-term notes, are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate yield method.

If the Bank purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(r) Employee benefits

(i) Pension obligations

A defined benefit obligation arises when a pension plan defines an amount of pension benefit that an employee will receive on retirement with reference to one or more factors unrelated to plan contributions such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the statement of financial position in respect of defined benefit pension plan obligations is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Actuarial gains and losses comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. Cumulative actuarial gains and losses, to the extent that they exceed the greater of: 10% of the fair value of the scheme assets or 10% of the present value of the defined benefit obligation, are deferred and the excess amortised in the income statement over the average service lives of scheme members. Gains and losses on curtailments are recognised when the curtailment occurs, which may be when a demonstrable commitment to a reduction in benefits, or reduction in eligible employees, occurs. The gain or loss comprises any change in the present value of the obligation, the fair value of the assets and any related unrecognised actuarial gain or loss and past service costs.

Where a scheme's assets and its unrecognised actuarial losses exceed its obligation, an asset is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions.

The defined benefit plan obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate and government bonds that are denominated in Botswana Pula, and that have terms to maturity approximating the terms of the related pension liability.

For defined contribution plan obligations, the contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Certain of the Bank's employees are members of the holding company's defined contribution pension plan. These contributions are recognised as employee benefit expense when they are due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term 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 plans if the Bank 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.

Employees on contract receive terminal gratuities in accordance with their contracts of employment. An accrual is made for the estimated liability towards such employees up to the statement of financial position date. All other employees are members of the Bank's pension scheme and do not qualify for such terminal gratuities.

Short term employee benefits, such as paid absences are accounted for on an accrual basis over the period which employees have provided services in the year.

Accounting Policies (Continued)

For the year ended 31 December 2012

Significant accounting policies (continued)

(r) Employee benefits (continued)

(iv) Share-based payment transactions

Certain members of the Bank's senior executives participate in a cash-settled, share-based compensation plan operated by Barclays PLC. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit or loss.

(s) Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The bonus issue ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

(t) Segment reporting

Business segments are distinguishable components of the Bank that provide products or services that are subject to risks and rewards that are different to those of other business segments. Business segments are the primary reporting segments. Bank costs are allocated to segments on a reasonable and consistent basis. Transactions between segments are generally accounted for in accordance with Bank policies as if the segment were a stand-alone business with intra-segment revenue and costs being eliminated in Head office.

(u) Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customer. Acceptances are accounted for as off-statement of financial position transactions and are disclosed as contingent liabilities and commitments.

(v) Collateral and netting

The Bank enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively except for funding costs relating to trading activities which are recorded in net trading income.

Netting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross in the statement of financial position.

(w) Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

Use of Estimates and Judgements

For the year ended 31 December 2012

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

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

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

The projected future cash flows of the loans which reflect objective evidence of default are calculated on a monthly basis according to the recovery curve. Recovery curves are calculated by observing movements in actual balances over a period of time.

The table below summarises the sensitivity analysis on impairment losses:

In Thousands of Pula	Existing impairment allowance	Impact on changes in Loss Given Default		Impact on changes Probability of default	
		(+) 5%	(-) 5%	(+) 10%	(-) 10%
Identified	354,852	17,731	(17,731)	4,270	(4,270)
Unidentified	12,023	577	(577)	1,155	(1,155)
Total	366,875	18,308	(18,308)	5,425	(5,425)

The above sensitivity assumes a change in the variable under consideration only with all other variables being constant.

Roll Rates are defined as the probability that an account has missed 1, 2 or 3 months loan repayments going down into default or a default event occurring.

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

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

Basis for determining fair values of investments
The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Segment Reporting

For the year ended 31 December 2012

Operating segments are reported in a manner consistent with the internal reporting provided to the Country Management Committee (''CMC''). The CMC, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker. All transactions between business segments which include intra-segment revenue and costs are eliminated at Head Office. Income and expenses directly associated with each segment are included in determining business segment performance.

The Bank's operations are situated wholly within the boundaries of Botswana with a large number of Retail and Corporate customers. The Bank does not rely on individual customer.

Business segments

The Bank comprises the following main business segments:

Corporate Banking

Includes loans, deposits and other transactions and balances with corporate customers.

Retail Banking

Includes loans, deposits and other transactions and balances with retail customers.

Treasury

Undertakes the Bank's funding and centralised treasury risk management activities through borrowings, issues of debt securities, investing in liquid assets such as short-term placements and corporate and government debt securities.

Barclaycard

Includes all credit card business activities.

Shared Services

The Bank also has a head office and back office that manages certain operational and administrative functions. Where costs are not directly attributable to business segments, these costs are allocated to the 'shared services' segment.

Segment Reporting (Continued)

For the year ended 31 December 2012

Business segments

2012 - Group

In Thousands of Pula Continuing operations	Consolidated Retail Banking	Corporate Banking	Treasury	Barclaycard	Shared services	Consolidated
Interest income						
Gross interest income	835,149	88,481	166,197	124,121	-	1,213,948
Inter-segment revenue	(123,252)	198,602	(51,315)	(24,035)	-	-
Total segment revenue	711,897	287,083	114,882	100,086	-	1,213,948
Interest expense						
External interest expense	(89,718)	(143,064)	(20,078)	-	-	(252,860)
Total interest expense	(89,718)	(143,064)	(20,078)	-	-	(252,860)
Other income						
Non interest income	183,797	98,386	17,540	50,716	-	350,439
Total segment income	805,976	242,405	112,344	150,802	-	1,311,527
Impairments charges and other credit provisions	(132,147)	2,482	-	3,956	-	(125,709)
Total net income	673,829	244,887	112,344	154,758	-	1,185,818
Operating expenses						
Staff costs	(119,724)	(16,174)	(5,416)	(5,305)	(208,256)	(354,875)
Property costs	(14,370)	(33)	(9)	(74)	(15,737)	(30,223)
Equipment costs	(8,009)	(228)	(959)	(2,780)	(17,769)	(29,745)
Other costs	(63,046)	(4,213)	(4,753)	(4,065)	(48,602)	(124,679)
Recharges	(237)	(1,558)	(691)	463	(50,364)	(52,387)
Depreciation and amortisation	(14,186)	(209)	(171)	(1,906)	(13,336)	(29,808)
Total operating expenses	(219,572)	(22,415)	(11,999)	(13,667)	(354,062)	(621,715)
Profit before income tax	454,257	222,472	100,345	141,091	(354,062)	564,103
Income tax expense	(99,937)	(48,944)	(22,076)	(31,040)	80,219	(121,778)
Profit for the year	354,320	173,528	78,269	110,051	(273,843)	442,325
Statement of financial position						
Loans and advances to customers	4,901,312	1,018,328	-	377,333	-	6,296,973
Investment securities	-	-	2,369,268	-	-	2,369,268
Other assets	-	-	-	-	2,919,652	2,919,652
Total assets	4,901,312	1,018,328	2,369,268	377,333	2,919,652	11,585,893
Deposits due to customers	3,388,545	5,777,871	-	-	-	9,166,416
Debt securities in issue	-	-	503,603	-	-	503,603
Other liabilities	-	-	-	-	574,440	574,440
Total liabilities	3,388,545	5,777,871	503,603	-	574,440	10,244,459

Segment Reporting (Continued)

For the year ended 31 December 2012

Business segments (continued)

2011 - Group

In Thousands of Pula Continuing operations	Retail Banking	Consolidated Corporate Banking	Treasury	Barclaycard	Shared services	Consolidated
Interest income						
Gross interest income	871,950	71,574	234,999	134,507	-	1,313,030
Inter-segment revenue	(158,414)	271,640	(85,246)	(27,980)	-	-
Total segment revenue	713,536	343,214	149,753	106,527	-	1,313,030
Interest expense						
External interest expense	(81,716)	(213,578)	(31,839)	-	-	(327,133)
Total interest expense	(81,716)	(213,578)	(31,839)	-	-	(327,133)
Other income						
Non interest income	195,534	92,904	30,496	39,223	-	358,157
Total segment income	827,354	222,540	148,410	145,750	-	1,344,054
Impairments charges and other credit provisions	(126,714)	5,555	-	4,939	-	(116,220)
Total net income	700,640	228,095	148,410	150,689	-	1,227,834
Operating expenses						
Staff costs	(112,605)	(18,189)	(4,844)	(5,113)	(173,217)	(313,968)
Property costs	(13,035)	(57)	(2)	(45)	(12,160)	(25,299)
Equipment costs	(6,839)	(222)	(1,114)	(1,202)	(18,214)	(27,591)
Other costs	(56,663)	(4,647)	(608)	(14,761)	(96,082)	(172,761)
Recharges	(1,269)	184	(629)	(1,736)	(22,873)	(26,323)
Depreciation and amortisation	(12,570)	(150)	(165)	(1,021)	(4,283)	(18,189)
Total operating expenses	(202,981)	(23,081)	(7,362)	(23,878)	(326,829)	(584,131)
Profit before income tax	497,659	205,014	141,048	126,811	(326,829)	643,703
Income tax expense	(109,485)	(45,103)	(31,031)	(27,898)	96,323	(117,194)
Profit for the year	388,174	159,911	110,017	98,913	(230,506)	526,509
Discontinuing operations						
Profit after tax from discontinued operations, including gain on disposal	-	12,502	-	-	-	12,502
Total comprehensive income for the year	388,174	172,413	110,017	98,913	(230,506)	539,011
Statement of financial position						
Loans and advances to customers	4,570,270	1,178,600	-	343,439	-	6,092,309
Investment securities	-	-	2,195,479	-	-	2,195,479
Other assets	-	-	-	-	3,075,150	3,075,150
Total assets	4,570,270	1,178,600	2,195,479	343,439	3,075,150	11,362,938
Deposits due to customers	3,008,445	6,084,759	-	-	-	9,093,204
Debt securities in issue	-	-	503,649	-	-	503,649
Other liabilities	-	-	-	-	324,922	324,922
Total liabilities	3,008,445	6,084,759	503,649	-	324,922	9,921,775

Notes to the Financial Statements

For the year ended 31 December 2012

1 Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities. This classification is consistent for both consolidated and company.

Group In Thousands of Pula	Notes	Fair value through profit or loss	Financial instruments at amortised cost	Available for sale	Total carrying amount	Fair value
31 December 2012						
Cash and cash equivalents	(a)	-	198,447	-	198,447	198,447
Balances with the Bank of Botswana	(c)	-	842,514	-	842,514	842,514
Financial assets designated at fair value through profit and loss	(b)	41,326	-	-	41,326	41,326
Derivative financial instruments	(b)	-	-	-	-	-
Loans and advances to banks	(c)	-	159,633	-	159,633	159,633
Loans and advances to customers	(c)	-	6,296,973	-	6,296,973	6,296,973
Investment securities	(b)	2,364,193	-	5,075	2,369,268	2,369,268
Trading portfolio assets		4,858	-	-	4,858	4,858
Other assets		-	175,072	-	175,072	175,072
Balances with related parties	(c)	-	1,311,539	-	1,311,539	1,311,539
		2,410,377	8,984,178	5,075	11,399,630	11,399,630
Deposits due to customers	(d)	-	9,166,416	-	9,166,416	9,166,416
Deposits from banks	(d)	-	269,944	-	269,944	269,944
Debt securities in issue	(e)	-	503,603	-	503,603	503,603
Balances with related parties	(d)	-	57,876	-	57,876	57,876
Other liabilities		-	214,566	-	214,566	214,566
Derivative financial instruments	(b)	16,134	-	-	16,134	16,134
		16,134	10,212,405	-	10,228,539	10,228,539
31 December 2011						
Cash and cash equivalents	(a)	-	168,571	-	168,571	168,571
Balances with the Bank of Botswana	(c)	-	893,452	-	893,452	893,452
Financial assets designated at fair value through profit and loss	(b)	27,561	-	-	27,561	27,561
Derivative financial instruments	(b)	278	-	-	278	278
Loans and advances to banks	(c)	-	698,368	-	698,368	698,368
Loans and advances to customers	(c)	-	6,092,309	-	6,092,309	6,092,309
Investment securities	(b)	2,190,357	-	5,122	2,195,479	2,195,479
Trading portfolio assets		22,839	-	-	22,839	22,839
Other assets		-	146,449	-	146,449	146,449
Balances with related parties	(c)	-	905,867		905,867	905,867
		2,241,035	8,905,016	5,122	11,151,173	11,151,173
Deposits from customers	(d)	-	9,093,204	-	9,093,204	9,093,204
Deposits from banks	(d)	-	9,233	-	9,233	9,233
Debt securities in issue	(b)	-	503,649	-	503,649	503,649
Balances with related parties	(e)	-	97,213	-	97,213	97,213
Other liabilities		-	202,885	-	202,885	202,885
Derivative financial instruments	(d)	15,591	-	-	15,591	15,591
		15,591	9,906,184	-	9,921,775	9,921,775

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

1 Financial assets and liabilities (continued)

Notes

(a) Fair value approximates carrying value due to the minimal credit losses and short-term nature of the financial assets and liabilities.

(b) Financial instruments at fair value are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

(c) The fair value for loans and advances, and other lending is estimated using discounted cash flows, applying either market rates where practicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. In certain cases the fair value approximates carrying value because the instruments are short term in nature or repriced frequently.

(d) Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate to their carrying value. The fair value of all other deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Bank for deposits of similar remaining maturities.

(e) Fair values of short-term debt securities in issue are approximately equal to their carrying amount. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using other valuation techniques.

Gains and losses on the financial assets

The table below summarises the gains and losses on financial assets and liabillities

In Thousands of Pula	Notes	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Other financial assets at fair value through profit and loss		148,800	213,322	148,800	213,322
Financial income from loans and receivables		1,078,081	1,099,987	1,078,081	1,099,987
Net foreign exchange gains		60,712	71,338	60,712	71,338
Total		1,287,593	1,384,647	1,287,593	1,384,647
Financial expenses from financial liabilities at amortised cost		252,860	327,133	252,860	327,133
Other financial instruments at fair value through profit and loss		833	11,088	833	11,088
Ineffectiveness on fair value hedges		(1,500)	(14,770)	(1,500)	(14,770)
Total		252,193	323,451	252,193	323,451

Valuation methodology

The table below shows the financial assets and liabilities that are recognised and measured at fair value analysed by valuation technique.

In Thousands of Pula	Valuations quoted in an active market Level 1	Valuations based on observable inputs Level 2	Valuations based on unobservable inputs Level 3	Total
		31 December 2012		
Trading securities	22,839	-	-	22,839
Treasury bills and other eligible bills	2,364,193	-	-	2,364,193
Debt securities	-	80	-	80
Financial assets designated at fair value	-	41,326	-	41,326
Derivative financial instruments	-	278	-	278
Equity securities	-	-	4,995	4,995
Total assets	2,387,032	41,684	4,995	2,433,711
Derivative financial liabilities	-	15,591	-	15,591
Total liabilities	-	15,591	-	15,591
		31 December 2011		
Trading securities	22,839	-	-	22,839
Treasury bills and other eligible bills	2,190,357	-	-	2,190,357
Debt securities	-	127	-	127
Financial assets designated at fair value	-	27,561	-	27,561
Derivative financial instruments	-	278	-	278
Equity securities	-	-	4,995	4,995
Total assets	2,213,196	27,966	4,995	2,246,157
Derivative financial liabilities	-	15,591	-	15,591
Total liabilities	-	15,591	-	15,591

A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is set out below.

Level 1
Financial instruments for which their valuations are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

Level 2
Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:
- using recent arm's length market transactions or with reference to the current fair value of similar instruments;
- linear financial instruments such as swaps and forwards which are valued using market standard pricing techniques;
- options that are commonly traded in markets whereby all the inputs to the market-standard pricing models are deemed observable.

Level 3
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques

There was no change in the value of instruments classified as level 3 during the year.

Transfers between the levels
There were no transfers between level 1, level 2 and level 3 during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

2 Basic and diluted earnings per share

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

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Profit from continuing operations attributable to equity holders of the bank (P'000)	442,325	526,509	422,279	510,626
Profit from discontinued operations attributable to equity holders of the bank (P'000)	-	12,502	-	12,502
Weighted average number of ordinary shares in issue (thousands)	852,161	852,161	852,161	852,161
Earnings per share from continuing operations (thebe)	51.91	61.79	49.55	59.92
Earnings per share from discontinued operations (thebe)	-	1.47	-	1.47

There were no potentially dilutive shares at 31 December 2012.

3 Net interest income

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Loans and advances to banks	20,088	12,907	20,088	12,907
Bank of Botswana certificates	133,230	200,710	133,230	200,710
Related companies	11,056	8,999	11,056	8,999
Loans and advances to customers	1,027,628	1,054,208	1,027,628	1,054,208
Leases	19,309	23,873	19,309	23,873
Short term funds and other market placements	1,804	1,245	1,804	1,245
Derivative financial instruments	833	11,088	833	11,088
Interest income	1,213,948	1,313,030	1,213,948	1,313,030
Deposits from banks	1,877	3,936	1,877	3,936
Deposits from customers	240,328	305,437	240,328	305,437
Debt securities in issue	7,207	8,190	7,207	8,190
Related companies	3,448	9,570	3,448	9,570
Interest expense	252,860	327,133	252,860	327,133
Net interest income	961,088	985,897	961,088	985,897

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

4 Net fee and commission income

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Fee and commission income				
Risk related services	75,530	78,541	17,108	26,105
Non risk related services	209,373	206,702	209,373	206,702
Total fee and commission income	284,903	285,243	226,481	232,807
Inter-bank transaction fees	(9,903)	(22,841)	(9,903)	(22,841)
Fee and commission expense	(9,903)	(22,841)	(9,903)	(22,841)
Net fee and commission income	275,000	262,402	216,578	209,966

5 Net trading and investment income

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Exchange gain and (loss)	2,155	3,779	2,155	3,779
Net movement from financial instruments designated at fair value	13,765	11,368	13,765	11,368
Treasury sales activities	31,306	43,061	31,306	43,061
Market making activities	27,252	24,497	27,252	24,497
Net trading income	74,478	82,705	74,478	82,705

6 Other operating income

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Rental income	795	616	795	616
Other income	-	1,947	-	1,947
Profit on sale of property, plant and equipment	166	10,487	166	10,487
Other operating income	961	13,050	961	13,050

7 Impairment charges and other credit provisions

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Impairment charges on loans and advances				
- Net increase in impairments	133,104	130,059	133,104	130,059
- Recoveries	(7,040)	(14,660)	(7,040)	(14,660)
Impairment charges on loans and advances	126,064	115,399	126,064	115,399
Other	(355)	821	(355)	821
Impairment charges and other credit provisions	125,709	116,220	125,709	116,220

An analysis of the impairment charges by class of financial instrument is included under Risk Managemet, note (b) 'Credit Risk'.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

8 Staff costs

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Salaries and accrued incentive payments	262,302	240,123	242,728	221,590
Retirement benefit expense	46,658	20,190	46,658	20,190
Release of retirement benefit asset	10,893	-	10,893	-
Leave pay provision	2,593	-	2,593	-
Allowances	19,087	13,251	19,087	13,251
Staff welfare	1,689	2,258	1,689	2,258
Restructuring costs	-	26,627	-	26,627
Health insurance	11,654	11,519	11,654	11,519
Staff costs	354,876	313,968	335,302	295,435

The average number of persons employed by the Bank during the year was 1210 (2011: 1399).

Share based payments

The net release for the year arising from share based payment schemes

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Incentive Share Plan	(173)	894	(173)	894
Share Value Plan	119	510	119	510
Total share based payments	(54)	1,404	(54)	1,404

The terms of the current plans are as follows:

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

Share Value Plan (SVP)
SVP awards are granted to participants in the form of a conditional right to receive Barclays PLC shares which vest over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on vesting of a SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

Defined benefit obligations
The Bank used to operate a defined benefit scheme which was replaced with a defined contribution scheme in 2002. At the time of the conversion, there was a surplus arising from the defined benefit scheme and the Bank utilised this surplus to enjoy a contribution holiday until 31 December 2011.

During 2012, the last of the active members who were part of the defined scheme left the Bank. Thereafter, the Bank's Board of Directors resolved to distribute the remaining surplus of the defined benefit out to the members. Consequently the Bank does not have any further involvement in the defined benefit scheme, except to the extent that the defined benefit scheme assets are inadequate to meet its obligations in which instance, the bank will fund any deficit.

8 Staff costs (continued)

The amounts recognised in the statement of financial position are as follows:

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Present value of funded obligations				
- Defined contribution accounts	(329,881)	(345,797)	(329,881)	(345,797)
- Unallocated defined contribution dividend reserve	(21,951)	(15,361)	(21,951)	(15,361)
- Defined benefit accounts	(130,092)	(103,829)	(130,092)	(103,829)
	(481,924)	(464,987)	(481,924)	(464,987)
Fair value of plan assets	492,817	493,964	492,817	493,964
Present value of unfunded obligations	10,893	28,977	10,893	28,977
Distribution of surplus	(10,893)	28,574	(10,893)	28,574
Recognised asset of defined benefit obligations	-	57,551	-	57,551
Plan assets consist of the following				
Equity securities	329,425	384,662	329,425	384,662
Property occupied by the Bank	21,315	22,888	21,315	22,888
Cash	118,130	13,197	118,130	13,197
Bank's own ordinary shares and bonds	16,024	55,477	16,024	55,477
Other	7,923	17,740	7,923	17,740
	492,817	493,964	492,817	493,964
Movement in the liability for defined benefit obligations				
Liability for defined benefit obligations at 1 January	464,987	414,642	464,987	414,642
Benefits paid by the plan	(93,023)	(30,102)	(93,023)	(30,102)
Current service costs	23,538	25,433	23,538	25,433
Prior service costs	7,096	-	7,096	-
Interest on obligation	37,265	40,836	37,265	40,836
Employee contributions	11,836	12,571	11,836	12,571
Actuarial (gains)/losses during the year	30,225	1,607	30,225	1,607
Liability for defined benefit obligations at 31 December	481,924	464,987	481,924	464,987
Movement in plan assets				
Fair value of plan assets at 1 January	493,964	468,771	493,964	468,771
Employee contributions paid into the plan	11,836	12,571	11,836	12,571
Employer contributions paid into the plan	19,832	-	19,832	-
Benefits paid by the plan	(93,023)	(30,102)	(93,023)	(30,102)
Expected return on plan assets	41,018	46,079	41,018	46,079
Actuarial (losses)/gains during the year	19,190	(3,355)	19,190	(3,355)
Fair value of plan assets at 31 December	492,817	493,964	492,817	493,964
Expenses recognised in profit or loss				
Current service costs	23,538	25,433	23,538	25,433
Prior service costs	7,096	-	7,096	-
Interest on obligation	37,265	40,836	37,265	40,836
Actuarial losses recognised	19,777	-	19,777	-
Expected return on plan assets	(41,018)	(46,079)	(41,018)	(46,079)
	46,658	20,190	46,658	20,190
Actual return on plan assets	60,208	42,724	60,208	42,724

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

8 Staff costs (continued)

Actuarial assumptions

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

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Discount rate at 31 December	8.0%	8.5%	8.0%	8.5%
Expected return on plan assets at 1 January	8.0%	9.5%	8.0%	9.5%
Future salary increases	7.0%	7.5%	7.0%	7.5%
Future pension increases	5.0%	4.5%	5.0%	4.5%

The overall expected long-term rate of return on assets is 10.0 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

Historical information

In Thousands of Pula	2012	2011	2010	2009	2008
Present value of defined benefit obligation	(481,924)	(464,987)	(414,642)	(371,458)	(333,365)
Fair value of plan assets	492,817	493,964	468,771	432,598	454,583
Surplus in the plan	10,893	28,977	54,129	61,140	121,218
Experience adjustments arising on plan liabilities	(30,225)	(1,607)	(7,655)	(817)	73,428
Experience adjustments arising on plan assets	19,190	(3,355)	12,099	(62,763)	(97,291)

9 Administrative and general expenses

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Advertising	21,965	16,049	21,965	16,049
Auditors remuneration	4,253	4,705	4,253	4,705
Cash in transit expenses	25,078	17,470	25,078	17,470
Directors fees - non executive	1,080	1,050	1,080	1,050
Donations	1,550	4,477	1,550	4,477
Equipment costs - operating lease rentals	15,556	16,304	14,037	14,828
Equipment costs - other	14,189	11,287	14,189	11,287
Legal and professional fees	12,712	36,286	12,712	36,286
Property costs - operating lease rentals	19,820	17,090	18,046	15,606
Property costs - other	10,403	8,209	10,403	8,209
Other costs - recharged by related companies	34,188	26,323	31,207	24,901
Other costs - general	21,987	44,788	15,112	35,630
Software licensing and other information technology	1,236	2,599	1,236	2,599
Stationary and postage	25,576	20,219	25,576	20,219
Telephone	16,013	15,013	16,013	15,013
Travel and accommodation	11,426	10,105	11,426	10,105
Administrative and general expenses	237,032	251,974	223,883	238,434

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

10 Tax

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Tax charge				
Company tax	111,773	129,618	106,119	125,138
Origination and reversal of temporary differences	10,156	15,014	10,156	15,014
Prior year over provision	(151)	(5,633)	(151)	(5,633)
Withholding tax on dividends	-	(19,333)	-	(19,333)
Tax charge including discontinued operations	121,778	119,666	116,124	115,186
Less: Tax on discontinued operations	-	(2,472)	-	(2,472)
Tax on continuing operations	121,778	117,194	116,124	112,714

The effective tax for the year in 2012 is higher than the standard rate of corporation tax. The differences are set out below

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Profit before income tax on continuing and discontinued operations	564,103	656,205	538,403	635,842
Income tax using the domestic corporate tax rate	124,103	144,365	118,449	139,885
Net deductible/(non-deductible) expenses	(2,174)	(1,803)	(2,174)	(1,803)
Deferred tax overprovision in prior year	-	(402)	-	(402)
Prior year over provision	(151)	(5,633)	(151)	(5,633)
Withholding tax on dividends	-	(19,333)	-	(19,333)
Tax for the year per the income statement	121,778	117,194	116,124	112,714
Effective tax rate	22%	18%	22%	18%

Tax on Capital Gains

There are no capital losses available for tax purposes for set-off in the next year (2011: Nil) against any taxable capital gains arising.

11 Cash and cash equivalents

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Cash and cash equivalents				
- Pula	185,870	158,762	185,870	158,762
- Foreign currency	12,577	9,809	12,577	9,809
Total	198,447	168,571	198,447	168,571

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

12 Balances with the Bank of Botswana

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Balances with the Bank of Botswana				
- Statutory reserve	836,067	833,277	836,067	833,277
- Current account	6,447	60,175	6,447	60,175
Total	842,514	893,452	842,514	893,452

"The statutory reserve with the Bank of Botswana is calculated at 10% of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing."

13 Financial assets designated at fair value through profit and loss

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Equity securities - 35,766 class 'C' Visa Inc shares				
Balance at beginning of the year	27,561	16,193	27,561	16,193
Fair value gain/(loss) for the year	13,765	11,368	13,765	11,368
Balance at end of the year	41,326	27,561	41,326	27,561

Equity securities are designated at fair value through profit or loss at inception as they are managed and their performance is evaluated on a fair value basis.

Fair value is determined with reference to the market value of class 'A' shares as at the reporting date, which are traded in the New York Stock Exchange. The market value of class 'A' shares is the best estimate of the fair value of class 'C' shares.

The fair value gains or losses arising from the valuation of equity securities are included in the statement of comprehensive income under net trading and investing income.

14 Derivative financial instruments

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Assets				
Forward foreign exchange	-	278	-	278
Net derivative assets held for risk management	-	278	-	278
Liabilities				
Interest rate swap	15,778	13,808	15,778	13,808
Forward foreign exchange	356	1,783	356	1,783
Derivative liabilities held for risk management	16,134	15,591	16,134	15,591
Fair value hedges of interest rate risk	(15,778)	(13,808)	(15,778)	(13,808)
Other derivatives held for risk management	(356)	(1,505)	(356)	(1,505)
Net derivatives held for risk management	(16,134)	(15,313)	(16,134)	(15,313)
Notional contract amount	152,023	152,383	152,023	152,383

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

15 Loans and advances to banks

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Repayable:				
on demand	159,633	698,368	159,633	698,368
Loans and advances to banks	159,633	698,368	159,633	698,368

16 Loans and advances to customers

In Thousands of Pula	Consolidated 2012 Gross	Consolidated 2012 Impairment allowance	Consolidated 2012 Carrying amount	Consolidated 2011 Gross	Consolidated 2011 Impairment allowance	Consolidated 2011 Carrying amount
Overdrafts	109,813	(4,738)	105,075	88,200	(3,922)	84,278
Mortgages	884,087	(12,874)	871,2137	81,172	(17,130)	764,042
Term loans	3,721,324	(254,724)	3,466,600	3,691,642	(278,481)	3,413,161
Credit card receivables	370,694	(29,068)	341,626	386,976	(43,537)	343,439
Scheme loans	1,415,630	(50,245)	1,365,385	1,368,663	(38,705)	1,329,958
Finance lease instalments	162,300	(15,226)	147,074	175,312	(17,881)	157,431
Total	6,663,848	(366,875)	6,296,973	6,491,965	(399,656)	6,092,309

Gross loans with variable rates are P3,011,791 (2011: 2,746,437) and fixed rates are P3,652,057 (2011: P3,745,528)

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Maturity analysis				
Maturing within one year	520,048	123,478	520,048	123,478
Maturing after one year within five years	3,528,251	1,585,803	3,528,251	1,585,803
Maturing after five years	2,615,550	4,782,684	2,615,550	4,782,684
Total gross loans	6,663,848	6,491,965	6,663,848	6,491,965

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Sector analysis of loans and advances				
Private individuals	5,646,425	5,286,197	5,646,425	5,286,197
Mining companies	239,091	252,563	239,091	252,563
Parastatals	14,459	22,809	14,459	22,809
Business	763,873	930,396	763,873	930,396
Gross loans and advances to customers	6,663,848	6,491,965	6,663,848	6,491,965
Impairment allowance	(366,875)	(399,656)	(366,875)	(399,656)
Total	6,296,973	6,092,309	6,296,973	6,092,309

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

16 Loans and advances to customers (continued)

Loans advances to customers include finance lease receivables.

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Finance lease instalments				
Less than one year	19,042	14,595	19,042	14,595
Between one and five years	106,304	188,929	106,304	188,929
More than five years	52,180	5,117	52,180	5,117
Gross investments in finance leases receivable	177,526	208,641	177,526	208,641
Unearned future income on finance leases	(15,226)	(33,329)	(15,226)	(33,329)
Net investment in finance leases	162,300	175,312	162,300	175,312
Maturity analysis of net investment in finance leases				
Less than one year	18,449	11,288	18,449	11,288
Between one and five years	132,449	160,059	132,449	160,059
More than five years	11,402	3,965	11,402	3,965
Net investment in finance leases	162,300	175,312	162,300	175,312

	Note	Identified impairment	Unidentified impairment	Total
Movement in impairment allowance				
Balance at 1 January 2011		424,838	14,115	438,953
Increased impairment		303,073	14,653	317,726
Impairment no longer required		(172,911)	(14,756)	(187,667)
Net increase in impairments		130,162	(103)	130,059
Un-winding of discount		(267)	-	(267)
Amounts written off		(169,089)	-	(169,089)
Balance at 31 December 2011		385,644	14,012	399,656
2011 Charge to the income statement				
Net increase in impairments		130,983	(103)	130,880
Amounts recovered previously written off		(14,660)	-	(14,660)
Net charge to the income statement	7	116,323	(103)	116,220
Balance at 1 January 2012		385,644	14,012	399,656
Increased impairment		278,184	7,169	285,353
Impairment no longer required		(143,091)	(9,158)	(152,249)
Net increase in impairments		135,093	(1,989)	133,104
Un-winding of discount		(355)	-	(355)
Amounts written off		(165,530)	-	(165,530)
Balance at 31 December 2012		354,852	12,023	366,875
2012 Charge to the income statement				
Net increase in impairments		134,738	(1,989)	132,749
Amounts recovered previously written off		(7,040)	-	(7,040)
Net charge to the income statement	7	127,698	(1,989)	125,709

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

17 Investment securities

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Debt securities	80	127	80	127
Treasury bills and other eligible bills	2,364,193	2,190,357	2,364,193	2,190,357
Equity securities	4,995	4,995	4,995	4,995
Investment securities	2,369,268	2,195,479	2,369,268	2,195,479

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Debentures - private schools	75	122	75	122
Debentures - sports clubs	5	5	5	5
Debt securities	80	127	80	127
Bank of Botswana certificates	2,364,193	2,190,258	2,364,193	2,190,258
Treasury bills	-	99	-	99
Treasury bills and other eligible bills	2,364,193	2,190,357	2,364,193	2,190,357
Investment in Barclays House (Pty) Ltd	4,995	4,995	4,995	4,995
Equity securities	4,995	4,995	4,995	4,995
Investment securities	2,369,268	2,195,479	2,369,268	2,195,479

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Movement in investment securities				
Balance at the beginning of the year	2,195,479	3,443,028	2,195,479	3,443,028
Net movement for the year	173,789	(1,247,549)	173,789	(1,247,549)
Balance at the end of the year	2,369,268	2,195,479	2,369,268	2,195,479

The Bank has an equity stake in an unquoted property company Barclays House (Pty) Ltd. This investment is stated at cost. The Directors believe that the difference between the fair value and the carrying value is not material for the users of these financial statements.

Bank of Botswana Certificates and treasury bills are classified as at fair value through profit or loss on initial recognition. Bank of Botswana certificates amounting to P705 million have been pledged as collateral for the use of the secured intra day trading facilities with Bank of Botswana.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

18 Trading portfolio assets

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Treasury and other eligible bills				
Balance at beginning of the year	22,839	250	22,839	250
Net movement during the year	(17,981)	22,589	(17,981)	22,589
Balance at end of the year	4,858	22,839	4,858	22,839

19 Other assets

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Accounts receivable and prepayments	4,157	3,100	4,157	3,100
Clearing and other assets	170,915	143,349	170,915	143,349
Other assets	175,072	146,449	175,072	146,449

20 Balances with related companies

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Amounts due from :				
Holding company - Barclays PLC	771,301	774,980	771,301	774,980
Other Barclays PLC group companies	338	653	338	653
ABSA (a subsidiary of Barclays PLC)	539,900	130,234	539,900	130,234
Total	1,311,539	905,867	1,311,539	905,867
Amounts due to :				
Holding company - Barclays PLC	38,838	17,295	38,838	17,295
Other Barclays PLC group companies	406	225	406	225
Barclays Insurance	-	-	69,139	53,114
ABSA (a subsidiary of Barclays PLC)	18,632	79,693	18,632	79,693
Total	57,876	97,213	127,015	150,327

The Bank provides and utilises services of its holding company and associates, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services.

The table below summarises the transactions conducted with the related parties above and the applicable interest rates chargeable

Details	Terms
Vostros	normal commercial terms
Nostros	normal commercial terms
Recharges	repayable on presentation of invoice
Other costs	repayable on presentation of invoice

The recharges and other costs are unsecured, interest free and are repayable on demand.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

21 Property, plant and equipment

In Thousands of Pula	Property	Motor vehicles	Computers & equipment	Furniture & fittings	Work in progress	Total
	Consolidated and Company 2012					
Cost						
Balance at 1 January	142,632	10,882	144,815	48,065	3,424	349,818
Acquisitions	2,596	2,039	12,360	8,233	156	25,384
Transfers	3,297	-	-	127	(3,424)	-
Disposals	(1,890)	-	(41,933)	(14,221)	-	(58,044)
Balance at 31 December	146,635	12,921	115,242	42,204	156	317,158
Accumulated depreciation						
Balance at 1 January	86,318	4,428	129,611	34,829	-	255,186
Depreciation for the period	8,845	2,289	6,139	4,319	-	21,592
Disposal	(1,144)	-	(41,933)	(14,221)	-	(57,298)
Balance at 31 December	94,019	6,717	93,817	24,927	-	219,480
Net book value	52,616	6,204	21,425	17,277	156	97,678
	2011					
Cost						
Balance at 1 January	156,381	11,107	137,726	46,210	1,620	353,044
Acquisitions	4,796	1,431	7,089	1,855	3,424	18,595
Release of revaluation reserve	(17,225)	-	-	-	-	(17,225)
Transfers	1,620	-	-	-	(1,620)	-
Disposals	(2,940)	(1,656)	-	-	-	(4,596)
Balance at 31 December	142,632	10,882	144,815	48,065	3,424	349,818
Accumulated depreciation						
Balance at 1 January	78,801	4,108	124,653	32,908	-	240,470
Depreciation for the period	9,442	1,848	4,958	1,921	-	18,169
Release of revaluation reserve amortisation	-	-	-	-	-	-
Disposal	(1,925)	(1,528)	-	-	-	(3,453)
Balance at 31 December	86,318	4,428	129,611	34,829	-	255,186
Net book value	56,314	6,454	15,204	13,236	3,424	94,632

Property comprise 11 commercial properties on freehold land and 37 residential and 16 commercial properties on leasehold land. The residential leases are for 99 years and commercial leases are 50 years. All properties are used by the bank in its operations.

Operating leases

Non-cancellable operating lease rentals are payable as follows:

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Less than one year	16,535	14,781	16,535	14,781
Between one and five years	29,325	30,099	29,325	30,099
Total future cash flows	45,860	44,880	45,860	44,880
Straight lining already accrued in the statement of financial position	(1,975)	(2,337)	(1,975)	(2,337)
Future expenses	43,885	42,543	43,885	42,543

The Bank leases a number of branch and office premises under operating leases. The leases run typically for a period of up to 4 years, with an option to renew the lease after that date. Lease payments are increased every year to reflect market rentals.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

22 Intangibles - software

In Thousands of Pula	Internally generated software	Other software	Total
Cost			
At 1 January 2012	37,371	19,645	57,016
Additions	18,279	1,723	20,002
At 31 December 2012	55,650	21,368	77,018
Accumulated amortisation			
At 1 January 2012	-	19,584	19,584
Amortisation charge	7,167	1,049	8,216
At 31 December 2012	7,167	20,633	27,800
Net book value	48,483	735	49,218
Cost			
At 1 January 2011	12,478	19,564	32,042
Work in progress	-	-	-
Additions	24,893	81	24,974
At 31 December 2011	37,371	19,645	57,016
Accumulated amortisation			
At 1 January 2011	-	19,564	19,564
Amortisation charge	-	20	20
At 31 December 2011	-	19,584	19,584
Net book value	37,371	61	37,432

23 Deposits from banks

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Unsecured and payable on demand	269,944	9,233	269,944	9,233
	269,944	9,233	269,944	9,233

24 Deposits due to customers

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Interest bearing deposits	8,824,110	7,763,227	8,824,110	7,763,227
Non-interest bearing deposits	342,306	1,329,977	342,306	1,329,977
Total	9,166,416	9,093,204	9,166,416	9,093,204
Maturity analysis				
On demand	7,806,230	6,262,732	7,806,230	6,262,732
Maturing within one year	1,330,739	2,830,447	1,330,739	2,830,447
Maturing after one year but within five years	29,447	25	29,447	25
Total	9,166,416	9,093,204	9,166,416	9,093,204

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Category analysis of deposits				
- Pula	1,191,216	1,273,698	1,191,216	1,273,698
- Foreign currency	313,756	271,092	313,756	271,092
Current accounts	1,504,972	1,544,790	1,504,972	1,544,790
- Pula	1,225,115	4,383,967	1,225,115	4,383,967
- Foreign currency	-	333,975	-	333,975
Savings accounts	1,225,115	4,717,942	1,225,115	4,717,942
- Pula	5,173,086	2,356,142	5,173,086	2,356,142
- Foreign currency	1,263,243	474,330	1,263,243	474,330
Term deposits	6,436,329	2,830,472	6,436,329	2,830,472
Total	9,166,416	9,093,204	9,166,416	9,093,204

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Sector analysis of deposits				
Private individuals	3,387,351	3,146,535	3,387,351	3,146,535
Other financial institutions	1,900,339	2,358,802	1,900,339	2,358,802
Parastatals	83,999	366,812	83,999	366,812
Business	2,882,388	2,325,911	2,882,388	2,325,911
Local Government	851,074	786,154	851,074	786,154
Central Government	61,265	108,990	61,265	108,990
Total	9,166,416	9,093,204	9,166,416	9,093,204

Deposits with variable rates are P7,247,110 (2011: P4,024,559) and fixed rates are P1,577,000 (2011: P3,768,668)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

25 Debt securities in issue

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Debt securities issued at amortised cost				
Floating rate debt securities	101,133	102,987	101,133	102,987
Medium-term notes	402,470	400,662	402,470	400,662
	503,603	503,649	503,603	503,649

Floating rate notes

The Bank privately placed floating rate notes amounting to P100 million (authorised amount P150m) in November 2002, which are redeemable on 30 October 2014. These notes constitute direct, subordinated and unsecured obligations of the Bank and are unsecured claims of general creditors and depositors of the Bank. These notes carry interest at the Bank of Botswana Certificates rate plus 0.85% and interest is paid half-yearly on 30 April and 31 October.

In terms of this issue, a new class of redeemable preference shares will be compulsorily created and the notes converted to preference shares, should the Bank experience pre-tax losses in excess of its retained earnings and other reserves.

Medium term notes

In 2004, the Bank established and listed a domestic Medium Term Note Programme on the Botswana Stock Exchange. Under the programme, the issuer, Barclays Bank of Botswana Ltd, may from time to time issue up to BWP1,5 billion of notes for such periods and on such terms as may be agreed between the issuer and investors. To date, the Bank has issued BWP1,035,451,000 which comprise P90 million subordinated debt note and P945,451,000 of Senior Debt Notes of various maturities and interest rates to match the tenor of its long term asset book. Senior debt does not form part of the Bank's capital base and ranks the same as other deposits and unsubordinated debt.

In issue

Issuance date	Amount (P '000)	Interest Rate %	Redemption date
Friday, June 09, 2006	15,000	10.25%	Monday, February 22, 2016
Friday, June 09, 2006	85,000	10.75%	Tuesday, April 05, 2016
Wednesday, December 12, 2007	207,000	11.25%	Friday, December 12, 2014
Friday, May 09, 2008	90,000	11.00%	Saturday, May 09, 2015
	397,000		

Redeemed to date

Issuance date	Amount (P '000)	Interest Rate %	Redemption date
28 September 2004	100,000	11.25%	28 September 2008
Wednesday, May 26, 2004	63,750	10.50	Wednesday, May 26, 2010
Wednesday, October 13, 2004	50,010	11.10	Wednesday, October 13, 2010
Wednesday, January 25, 2006	106,240	Bank rate less 3.5%	Tuesday, January 25, 2011
Friday, June 09, 2006	21,361	10.25%	Thursday, February 17, 2011
Thursday, June 08, 2006	35,000	10.75%	Monday, February 21, 201
Wednesday, January 06, 2010	122,090	Bank rate less 3.5%	Friday, November 18, 2011
Friday, June 09, 2006	40,000	10.75%	Sunday, March 06, 2011
Wednesday, August 10, 2005	100,000	11.00%	Wednesday, August 10, 2011
Redeemed to date	638,451		
Total issued to date	1,035,451		

26 Other liabilities

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Creditors and accruals	38,043	28,913	38,043	28,913
Clearing and other liabilities	176,523	139,245	176,523	139,245
	214,566	168,158	214,566	168,158

27 Provisions

In thousands of pula	Consolidated and company Sundry provisions	Redundancy & restructuring	Total
At 1st January 2012	8,100	26,627	34,727
Additions	2,593	-	2,593
Amounts utilised	-	(26,627)	(26,627)
At 31 December 2012	10,693	-	10,693
At 1st January 2011	8,100	-	8,100
Additions	-	26,627	26,627
Amounts utilised	-	-	-
At 31 December 2011	8,100	26,627	34,727

Provisons comprise of leave pay and restructuring costs. The Bank has recognised the full amount due to all employees in respect of leave pay accrued but not taken.

As a result of automation of business processes within the Operations function, the business embarked on a restructuring exercise in August 2011. The restructuring exercise was approved by the Board in September 2011.

The automation process affected 96 roles within the business and these roles were declared redundant. To alleviate the effects of the redundancy exercise, the business offered a voluntary separation to all employees. Consequently, 18 employees who were on the redundant roles were released and a further 43 employees were released on voluntary separation.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

28 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In Thousands of Pula	Consolidated and Company					
	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Accelerated tax depreciation - fixed assets	(11,773)	-	(11,773)	(11,233)	-	(11,233)
Accelerated tax depreciation - leased assets	-	13,912	13,912	-	15,669	15,669
Retirement benefit asset		-	-	-	12,661	12,661
Loan impairments	(10,408)	-	(10,408)	(24,585)	-	(24,585)
Other (net)	(4,151)	17,647	13,496	-	2,559	2,559
Net tax liabilities /(assets)	(26,332)	31,559	5,227	(35,818)	30,889	(4,929)

Movements in temporary differences during the year

	Consolidated and Company			
	Opening balance	Recognised in income statement	Recognised in equity	Closing balance
2012				
Accelerated tax depreciation - fixed assets	(11,233)	(540)	-	(11,773)
Accelerated tax depreciation - leased assets	15,669	(1,757)	-	13,912
Retirement benefit asset	12,661	(12,661)	-	-
Loan impairments	(24,585)	14,177	-	(10,408)
Other	2,559	10,937	-	13,496
Net tax assets/(liabilities)	(4,929)	10,156	-	5,227
2011				
Accelerated tax depreciation - fixed assets	(14,604)	3,371	-	(11,233)
Accelerated tax depreciation - leased assets	19,466	(3,797)	-	15,669
Retirement benefit asset	19,435	(6,774)	-	12,661
Loan impairments	(44,786)	20,201	-	(24,585)
Acquisition of Barclaycard	(18,714)	-	18,714	-
Other	19,260	2,013	(18,714)	2,559
Net tax assets/(liabilities)	(19,943)	15,014	-	(4,929)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

Capital and reserves
29 Stated capital

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Ordinary shares				
Issued and fully paid				
852,161,250 shares at no par value	17,108	17,108	17,108	17,108

All issued shares are fully paid.

Reserves

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Share capital reserve	2,060	2,060	2,060	2,060
General risk reserve	60,923	60,923	60,923	60,923
Undistributed profits	1,256,741	1,356,416	1,171,543	1,291,264
Other reseves	4,602	4,656	4,602	4,656
Total Reserves	1,324,326	1,424,055	1,239,128	1,358,903

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

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

Revaluation reserve
The revaluation reserve is the accumulated revaluation surpluses arising on the revaluation of property that have been retained by the Bank.

Undistributed profits
Undistributed profits are retained in the revenue reserve.

All reserves are shown net of deferred tax where applicable.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

30 Contingent liabilities and commitments

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk.

In Thousands of Pula	Consolidated 2012	2011	Company 2012	2011
Undrawn commitments to customers	425,856	452,204	425,856	452,204
Letters of credit	3,885	3,742	3,885	3,742
Performance and bid bonds	253,587	362,915	253,587	362,915
Total	683,328	818,861	683,328	818,861

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

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

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

Capital commitments
At 31 December 2012 the commitments for capital expenditure under contract amounted to P6.3m (2011: nil).

Operating lease commitments
Please refer to note 21 for details of operating lease commitments arising out of non-cancellable lease arrangements.

31 Bank entities

Significant subsidiary

In Thousands of Pula	Nature of Business	Country of incorporation	Ownership interest 2012	2011
Barclays Insurance Services (Pty) Limited	Insurance agency	Botswana	100%	100%

The cost of investment in the subsidiary is P100 (2011: P100).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

32 Related party transactions

The Bank is controlled by Barclays PLC. (incorporated in the United Kingdom) which owns 67.82% of the ordinary shares. The remaining 32.18% of the shares are widely held. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

For the year end and as at 31st December 2012

In Thousands of Pula	Barclays PLC	ABSA	Total
Interest received	3,872	7,184	11,056
Interest paid	169	-	169
Interest paid - forwards & swaps	3,279	-	3,279
Recharge expense	34,188	-	34,188
For the year end and as at 31st December 2011			
Interest received	5,061	3,938	8,999
Interest paid	6,501	-	6,501
Interest paid - forwards & swaps	3,069	-	3,069
Recharge expense	26,323	-	26,323

Interest received from related companies pertains to surplus foreign currency amounts placed with Barclays PLC. These transactions were carried out under normal commercial terms and conditions.

Payments to Barclays PLC include payments for live system support, change management and other functional support.

Interest paid to related companies pertains to balances owed to them on routine banking transactions.

Please refer to note 20 for details of amounts due to / due from the above related parties.

Other related party transactions

	Consolidated		Company	
In Thousands of Pula	2012	2011	2012	2011
Balances due from Barclays PLC on account of expenses incurred on their behalf (classified as part of clearing and other assets)	35,370	35,370	35,370	35,370

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Barclays Bank of Botswana Limited (directly or indirectly) and comprise the Directors and Senior Management of Barclays Bank of Botswana Limited.

In the ordinary course of business, the Bank makes loans to companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member of Key Management Personnel (or any connected person) of Barclays. These loans are made on substantially the same criteria and terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavourable features, except for staff loans given at discounted rates.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

32 Related party transactions (continued)

Key management personnel (continued)

Details of transactions between Directors and other Key Management Personnel are as follows:

In Thousands of Pula	Non-Executive Directors	Executive Directors	Key Management Personnel
2012			
Lending - balance at 31 December 2012			
Property loans	-	1,276	5,289
Other loans	176	1,081	2,802
Lending policy	Commercial rates	Staff rates	Staff rates

A total of P 912,871 was received as interest income on loans to directors and key management.

Deposits - balance at 31 December 2012	2,015	11	106

A total of P 99,011 was paid as interest on deposit held by directors and key management during the year.

Remuneration - period ended 31 December 2012	1,080	2,318	10,562
2011			
Lending - balance at 31 December 2011			
Property loans	5,578	192	7,465
Other loans	291	128	4,271
Lending policy	*Commercial rates*	*Staff rates*	*Staff rates*

A total of P 825,614.94 was received as interest income on loans to directors and key management.

Deposits - balance at 31 December 2011	2,602	45	368

A total of P 47,010 was paid as interest on deposit held by directors and key management during the year.

Remuneration - year ended 31 December 2011	1,050	2,342	9,207

No provision for impairment have been recognised in respect of loans to Directors or other members of Key Management Personnel (2011: Nil).

All loans are provided on normal commercial terms to Directors and other Key Management Personnel, with the exception of P 10.4m of loans which are provided to Executive Directors and members of Key Management Personnel on staff preferential interest rates (between 3% and 11.5%). The mortgage loans issued to Executive Directors and other Key Management Personnel of P 6.6m are repayable over 26 years. Property loans are collaterised by properties with a total fair value of P 7.3m.

33 Reclassification of balance - Company

Amounts due to Barclays Insurance Services (Proprietary) Limited, amounting to P69,139,000 (2011: P53,114,000), which were previously classified as part of Other liabilities in the Statement of Financial Position have been reclassified and included within Balances with related parties. This reclassification provides more relevant information about balances with the bank's related companies."

34 Discontinued operations

(a) Description

The Bank disposed off its custody and trustee service business in 2010 to Standard Chartered. The consideration for the disposal was based on certain conditions being met and a provision was made to cater for this uncertain conditions. However in 2011 after the prescribed period had elapsed, this provision was reversed as the conditions precedent had been met.

In Thousands of Pula	2012	2011
Consideration		
Cash received		14,974
Net proceeds	-	14,974
Tax		(2,472)
Gain on sale net of tax	-	12,502

In Thousands of Pula	2012	2011
Total profit from discontinued operations, including gain on sale	-	12,502

35 Post balance sheet events

A final dividend of 13.55 Thebe per share was declared on 21 March 2013. There were no material changes in the affairs of the Bank between the year end and the date of approval of this consolidated financial information.

36 Ultimate holding company

The ultimate holding company is Barclays PLC, a company registered in the United Kingdom. Copies of the consolidated financial statements of Barclays PLC may be obtained from its registered and head office at: 1 Churchill Place, London E14 5 HP, United Kingdom

Financial Risk Management

For the year ended 31 December 2012

Barclays risk management strategy

The Bank's risk management objectives are to:
– Identify the Bank's significant risks;
– Formulate the Bank's risk appetite and ensure that business profile and plans are consistent with it;
– Optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures;
– Ensure that business growth plans are properly supported by effective risk infrastructure;
– Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
– Help executives improve the control and co-ordination of risk taking across the business.

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

Steps	Activity
Identify	– Establish the process for identifying and understanding business-level risks.
Assess	– Agree and implement measurement and reporting standards and methodologies.
Control	– Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. – Monitor the operation of the controls and adherence to risk direction and limits. – Provide early warning of control or appetite breaches. – Ensure that risk management practices and conditions are appropriate for the business environment"
Report	– Interpret and report on risk exposures, concentrations and risk-taking outcomes. – Interpret and report on sensitivities and Key Risk Indicators. – Communicate with external parties."
Manage & challenges	– Review and challenge all aspects of the Bank's risk profile. – Assess new risk-return opportunities. – Advise on optimising the Bank's risk profile. – Review and challenge risk management practices."

Assigning responsibilities

Responsibility for risk management resides at all levels within the Bank, from the Board and the Executive Committee down through the organisation to each business manager and risk specialist. Barclays distributes these responsibilities so that risk/return decisions are taken at the most appropriate level; as close as possible to the business, and subject to robust and effective review and challenge. The responsibilities for effective review and challenges reside with senior managers, risk oversight committees, Barclays Internal Audit, the independent Bank Risk function, the Board Risk Committee and, ultimately, the Board.

The Board of Directors main focus is on the business policies and strategies of the Bank as well as responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit Committee to monitor financial controls, accounting systems and shareholder reporting. The Country Asset and Liability Management Committee ("ALCO") main purpose is to achieve sustainable and stable profits within a framework of acceptable financial risks and controls. The Governance and Control Committee is responsible for establishing and/or operation of the governance and control framework. The Country Management Committee ("CMC") acts as the operational management forum responsible for delivering the Banks operating plan and results. Certain Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. All other committees have executive Directors and senior management members and report via the CMC to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, 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 Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Risk management responsibilities are laid out in the Principal Risks Policy, which covers the categories of risk in which Barclays has its most significant actual or potential risk exposures.

The Principal Risks Framework:

- creates clear ownership and accountability;
- ensures the Bank's most significant risk exposures are understood and managed in accordance with agreed risk appetite (for financial risks) and risk tolerances (for non-financial risks); and
- ensures regular reporting of both risk exposures and the operating effectiveness of controls.

Each Principal Risk comprises individual Key Risk Types. The four Principal Risks are : Credit, Market, Funding and Operational, each owned by a senior individual within the Bank Risk function known as the Principal Risk Owner. The first three Principal Risks are risks that Barclays actively seeks to manage and have direct income implications. The fourth Principal Risk relates to operational risks, exposure which arises directly from undertaking business processes in support of Barclays activities, which the Bank seeks to minimise.

The five steps required by the Principal Risks Policy are: Identify, Assess, Control, Report, and Manage and Challenge.

Each Key Risk is owned by a senior individual known as the Key Risk Owner who is responsible for proposing a risk appetite statement and managing the risk in line with the Principal Risks Policy. This includes the documentation, communication and maintenance of a risk control framework which makes clear, for every business across the firm, the mandated control requirements in managing exposures to that Key Risk.

These control requirements are given further specification, according to the business unit or risk type, to provide a complete and appropriate system of internal control. Business Unit function heads are responsible for obtaining ongoing assurance that the key controls they have put in place to manage the risks to their business objectives are operating effectively.

Credit risk

Credit risk is the risk that the Bank's customers, clients or counterparties will not be able or willing to pay interest, repay capital or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities. Credit risk also arises through the downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall. Furthermore, credit risk is manifested as sector risk where difficulties experienced by the sector in which the exposure is domiciled may impede payment or reduce the value of the asset. Settlement risk is another special form of credit risk which is the possibility that the Bank may pay a counterparty – for example, a bank in a foreign exchange transaction – and fail to receive the corresponding settlement in return.
Credit risk is the Bank's largest risk and considerable resources, expertise and controls are devoted to managing it.

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

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

Financial Risk Management (Continued)

For the year ended 31 December 2012

Credit risk (continued)

All loans and advances are categorised as either

- neither past due nor individually impaired
- past due but not individually impaired; or
- individually impaired; or

The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment

Credit risk loans comprise loans and advances to banks and customers 90 days overdue or more and those subject to individual impairment. The coverage ratio is calculated by reference to the total impairment allowance and the carrying value (before impairment) of credit risk loans.

As at 31 December 2012

In thousands of Pula	Neither past due nor individualy Impaired	Past due but not individualy Impaired	individually impaired	Total	Impairment allowance	Total carrying value	Credit Risk	Coverage ratio
Cash and balances with central bank	842,514	-	-	842,514	-	842,514	-	-
Loans and advances to banks	159,633	-	-	159,633	-	159,633	-	-
Loans and advances to customers	6,045,534	618,080	234	6,663,848	(366,875)	6,296,973	424,175	86%
Investment securities	2,369,268	-	-	2,369,268	-	2,369,268	-	-
Balances with related parties	1,311,539	-	-	1,311,539	-	1,311,539	-	-
Other assets	221,256	-	-	221,256	-	221,256	-	-
Total	10,949,744	618,080	234	11,568,058	(366,875)	11,201,183	424,175	86%

As at 31 December 2011

In thousands of Pula	Neither past due nor individualy Impaired	Past due but not individualy Impaired	individually impaired	Total	Impairment allowance	Total carrying value	Credit Risk	Coverage ratio
Cash and balances with central bank	893,452	-	-	893,452	-	893,452	-	-
Loans and advances to banks	698,368	-	-	698,368	-	698,368	-	-
Loans and advances to customers	5,848,662	642,524	779	6,491,965	(399,656)	6,092,309	477,504	84%
Investment securities	2,195,479	-	-	2,195,479	-	2,195,479	-	-
Derivatives	278	-	-	278	-	278	-	-
Balances with related parties	905,867	-	-	905,867	-	905,867	-	-
Other assets	196,849	-	-	196,849	-	196,849	-	-
Total	10,738,955	642,524	779	11,382,258	(399,656)	10,982,602	477,504	84%

Financial Risk Management (Continued)

For the year ended 31 December 2012

Credit risk (continued)

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

The following table presents the maximum exposure at 31 December 2012 and 2011 to credit risk of balance sheet and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements after allowance for impairment and netting where appropriate.

For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the exposure is the maximum committed facilities before any collateral.

In Thousands of Pula	2012	2011
On balance sheet:		
Cash and balances with central banks	842,514	893,452
Loans and advances to banks	159,633	698,368
Loans and advances to customers:		
Overdrafts	105,075	84,278
Mortgages	871,213	764,042
Term loans	3,466,600	3,413,161
Credit card	341,626	343,439
Scheme loans	1,365,385	1,329,958
Lease instalments	147,074	157,431
Total loans and advances to customers	6,296,973	6,092,309
Investment securities		
– Treasury and other eligible bills	2,364,193	2,190,357
– Equity securities	4,995	4,995
– Debt securities	80	127
Investment securities	2,369,268	2,195,479
Derivative financial assets	-	278
Balances with related parties	1,311,539	905,867
Other assets	221,256	196,849
Total on balance sheet	11,201,183	10,982,602
Off balance sheet:		
Guarantees and letters of credit pledged as collateral security	257,472	366,657
Undrawn commitments	425,856	452,204
Total off balance sheet	683,328	818,861
Total maximum exposure at 31 December	11,884,511	11,801,463

Financial Risk Management (Continued)

For the year ended 31 December 2012

(b) Credit Risk (continued)

iii) Credit quality of financial assets neither past due nor impaired

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

For the purposes of the analysis of credit quality, the following internal measures of credit quality have been used:

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

Financial statement descriptions can be summarised as follows:

– Strong – there is a very high likelihood of the asset being recovered in full.

– Satisfactory – whilst there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Bank, the asset may not be collateralised, or may relate to retail facilities, such as credit card balances and unsecured loans, which have been classified as satisfactory, regardless of the fact that the output of internal grading models may have indicated a higher classification. At the lower end of this grade there are customers that are being more carefully monitored, for example, corporate customers which are indicating some evidence of some deterioration, mortgages with a high loan to value ratio, and unsecured retail loans operating outside normal product guidelines.

– Higher risk – there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	2012			
In Thousands of Pula	Strong	Satisfactory	Higher risk	Total
Cash and balances with central bank	842,514	-	-	842,514
Loans and advances to banks	159,633	-	-	159,633
Loans and advances to customers:				
Overdrafts	27,738	23,641	29,217	80,596
Mortgages	-	788,905	51,561	840,466
Term loans	2,350,922	579,505	422,484	3,352,911
Credit card receivables	260,743	7,002	46,605	314,350
Scheme loans	1,257,366	559	78,383	1,336,308
Lease instalments	99,012	6,515	15,376	120,903
Total loans and advances to customers	3,995,781	1,406,127	643,626	6,045,534
Investment securities				
Treasury bills and other eligible bills	2,364,193	-	-	2,364,193
Equity securities	4,995	-	-	4,995
Debt securities	80	-	-	80
Investment securities	2,369,268	-	-	2,369,268
Balances with related parties	1,311,539	-	-	1,311,539
Other assets	221,256	-	-	221,256
Total financial assets subject to credit risk neither past due nor impaired	8,899,991	1,406,127	643,626	10,949,744

Financial Risk Management (Continued)

For the year ended 31 December 2012

(b) Credit Risk (continued)

iv) Credit quality of financial assets neither past due nor impaired

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

In Thousands of Pula	2011 Strong	Satisfactory	Higher risk	Total
Cash and balances with central bank	893,452	-	-	893,452
Loans and advances to banks	698,368	-	-	698,368
Loans and advances to customers:				
Overdrafts	39,372	45,037	-	84,409
Mortgages	11,924	732,268	-	744,192
Term loans	2,515,662	732,976	8,418	3,257,056
Credit card receivables	336,247	-	-	336,247
Scheme loans	1,288,754	-	-	1,288,754
Lease instalments	85,243	52,761	-	138,004
Total loans and advances to customers	4,277,202	1,563,042	8,418	5,848,662
Investment securities				
Treasury bills and other eligible bills	2,190,357	-	-	2,190,357
Equity securities	4,995	-	-	4,995
Debt securities	127	-	-	127
Investment securities	2,195,479	-	-	2,195,479
Derivative financial instruments	278	-	-	278
Balances with related parties	905,867	-	-	905,867
Other assets	196,849	-	-	196,849
Total financial assets subject to credit risk neither past due nor impaired	9,167,495	1,563,042	8,418	10,738,955

Financial Risk Management (Continued)

For the year ended 31 December 2012

(b) Credit Risk (continued)

v) Financial assets renegotiated

Certain of the Bank's financial assets would have been past due if their terms had not been renegotiated.

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. At 31st December 2012, there were no such assets.

vi) Financial assets that are past due but not individually impaired

In Thousands of Pula	Past due 1 month	Past due 1-2 month	Past due 2-3 months	Past due >3 months	Total
			2012		
Loans and advances to customers:					
Overdrafts	5,674	826	766	21,951	29,217
Mortgages	21,721	4,896	1,572	15,432	43,621
Term loans	64,067	27,957	20,500	255,655	368,179
Credit card receivables	9,016	5,492	3,712	38,124	56,344
Scheme loans	12,999	8,289	6,690	51,344	79,322
Lease instalments	21,379	5,269	2,572	12,177	41,397
Total loans and advances to customers	134,856	52,729	35,812	394,683	618,080
As at 31st December	134,856	52,729	35,812	394,683	618,080
			2011		
Loans and advances to customers:					
Overdrafts	5,613	579	857	17,976	25,025
Mortgages	3,520	5,452	1,537	9,407	19,916
Term loans	77,677	25,879	22,431	289,052	415,039
Credit card receivables	13,019	5,348	4,906	48,122	71,395
Scheme loans	20,722	8,100	5,499	45,588	79,909
Lease instalments	9,878	4,213	1,858	15,291	31,240
Total loans and advances to customers	130,429	49,571	37,088	425,436	642,524
As at 31st December	130,429	49,571	37,088	425,436	642,524

Financial Risk Management (Continued)

For the year ended 31 December 2012

vii) Impaired financial assets

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

In Thousands of Pula	2012			2011		
	Original carrying amount	Impairment allowance	Revised carrying amount	Original carrying amount	Impairment allowance	Revised carrying amount
Loans and advances to customers:						
Overdrafts	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-
Term loans	234	(234)	-	779	(252)	527
Credit card receivables			-	-	-	-
-	-					
Lease instalments	-	-	-	-	-	-
Total loans and advances to customers	234	(234)	-	779	(252)	527
Total financial assets individually assessed as impaired	234	(234)	-	779	(252)	527
Financial assets collectively assessed as impaired	394,681	(311,915)	82,766	413,661	(335,857)	77,804
Total impaired financial assets	394,915	(312,149)	82,766	414,440	(336,109)	78,331

Financial assets individually assessed as impaired is as follows:

In Thousands of Pula	At beginning of year	Amounts written off	Recoveries	Amounts charged to profit	Balance 31st December
			2012		
Loans and advances to corporate customers:					
Overdrafts	-	-	-	-	-
Term loans	779	-	(545)	-	234
Lease instalments	-	-	-	-	-
Total loans and advances to customers	779	-	(545)	-	234
Total impairment allowance	252	-	-	(18)	234
			2011		
Loans and advances to corporate customers:					
Overdrafts	7,641	-	-	(7,641)	-
Term loans	43,616	(9,603)	(32,607)	(627)	779
Lease instalments	26,088	-	(26,088)	-	-
Total loans and advances to customers	77,345	(9,603)	(58,695)	(8,268)	779
Total impairment allowance	17,367	(9,603)	(6,213)	(1,299)	252

Financial Risk Management (Continued)

For the year ended 31 December 2012

(b) Credit Risk (continued)

viii) Collateral and other credit enhancements held

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

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

In Thousands of Pula	2012 Fair value	2011 Fair value
Nature of assets		
– Residential property	37,078	8,182
– Other credit enhancements	795	3,242
Total	37,873	11,424

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

Collateral and other credit enhancements obtained

The carrying value of assets held by the Bank as at 31st December 2012 as a result of the enforcement of collateral was as follows:

	2012 Carrying amount	2011 Carrying amount
Nature of assets		
– Other credit enhancements	-	124
Total	-	124

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

Financial Risk Management (Continued)

For the year ended 31 December 2012

(c) Liquidity risk

Exposure to liquidity risk

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

Ratio of net liquid assets to deposits from customers:

	Consolidated		Company	
	2012	2011	2012	2011
At 31 December				
Foreign currency	17.74%	19.19%	17.74%	19.19%
Local currency	34.82%	29.40%	34.82%	29.40%
Average for the period				
Foreign currency	21.90%	18.89%	21.90%	18.89%
Local currency	29.51%	26.42%	29.51%	26.42%
Maximum for the period				
Foreign currency	24.86%	22.72%	24.86%	22.72%
Local currency	34.82%	29.91%	34.82%	29.91%
Minimum for the period				
Foreign currency	17.74%	15.27%	17.74%	15.27%
Local currency	24.43%	25.22%	24.43%	25.22%

The table below shows the residual contractual maturities of financial liabilities. The financial liabilities are reflected at an undiscounted future cashflows based on contractual obligations.

In Thousands of Pula	Less than 1 months	1-3 months months	3-12 months	1 - 5 years	Over 5 years	Total
At 31 December 2012						
Liabilities						
Deposits from banks	270,037	-	-	-	-	270,037
Deposits due to customers	7,824,855	650,493	680,246	29,447	-	9,185,041
Derivative financial instruments	-	16,134	-	-	-	16,134
Balances with related companies	57,876	-	-	-	-	57,876
Debt securities in issue	-	-	50,613	568,575	-	619,188
Other liabilities	220,135	-	-	-	-	220,135
Undrawn loan commitments	425,856	-	-	-	-	425,856
Total liabilities	8,798,759	666,627	730,859	598,022	-	10,794,267

Financial Risk Management (Continued)

For the year ended 31 December 2012

(c) Liquidity risk (continued)

In Thousands of Pula	Less than 1 months	1-3 months months	3-12 months	1 - 5 years	Over 5 years	Total
At 30 December 2011						
Liabilities						
Deposits from banks	9,233	-	-	-	-	9,233
Deposits due to customers	7,667,333	669,144	773,397	45,590	-	9,155,464
Derivative financial instruments	18,472	27,709	-	-	-	46,181
Balances with related companies	97,213	-	-	-	-	97,213
Debt securities in issue	-	6,649	42,544	497,000	-	546,193
Other liabilities	168,158	-	-	-	-	168,158
Undrawn loan commitments	442,856	-		-	-	442,856
Total liabilities	8,403,265	703,502	815,941	542,590	-	10,465,298

(d) Market risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies the value at risk methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored daily.

Management of market risks

Overall authority for market risk is vested in ALCO. ALCO is responsible for the development of detailed risk management policies (subject to review and approval by Bank Market Risk) and for the day-to-day review of their implementation.

Market risk measurement

The techniques used to measure and control market risk include:
- Daily value at risk
- Stress tests
- Stop loss

Daily value at risk (Dvar)

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

In 2010, the confidence level was changed from 98% to 95% as an increasing incidence of significant market movements made the existing measure more volatile and less effective for risk management purposes. Switching to 95% made DVaR more stable and consequently improved management, transparency and control of the market risk profile

Stress tests

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

Stop loss

A stop loss policy has been instituted incorporating a ‘management trigger level’ at USD100,000. If this trigger level is reached then all open positions must be closed immediately so as to protect the bank against any further exchange rate losses.

Financial Risk Management (Continued)

For the year ended 31 December 2012

(d) Market risk (continued)

Analysis of trading market risk exposures

The table below shows the Dvar statistics for 2012

In Thousands of Pula	12 months to 31 December 2012 Average	 High	 Low
Interest rate risk	4,465	15,986	19
Foreign currency risk	271	2,730	24
	4,736	18,716	43
	12 months to 31 December 2011		
Interest rate risk	8,835	30,846	1,157
Foreign currency risk	226	1,270	19
	9,061	32,116	1,176

The high (and low) Dvar figures reported for each category did not necessarily occur on the same day as the high (and low) Dvar reported as a whole.

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

In Thousands of Pula	Consolidated and Company 100 bp parallel increase	 100 bp parallel decrease	 50 bp increase after 1 year	 50 bp decrease after 1 year
At 31 December 2012	(4,792)	4,792	(2,396)	2,396
Average for the period	(4,485)	4,485	(2,243)	2,243
Maximum for the period	(7,339)	7,339	(3,669)	3,669
Minimum for the period	544	(544)	272	(272)
At 31 December 2011	6,102	(6,102)	3,051	(3,051)
Average for the period	5,724	(5,724)	2,862	(2,862)
Maximum for the period	12,923	(12,923)	6,461	(6,461)
Minimum for the period	1,471	(1,471)	735	(735)

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

(e) Interest rate risk

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

Financial Risk Management (Continued)

For the year ended 31 December 2012

	Interest rates Low*	Interest rates High*
Assets:		
Loans and advances to banks	4.50%	6.80%
Bank of Botswana certificates	4.52%	5.30%
Loans and advances to customers	11.00%	20.50%
Loans and advances to staff	7.00%	8.00%
Balances with related companies	0.00%	5.52%
Available for sale financial instruments	5.04%	7.30%
Liabilities:		
Deposits due to customers	0.00%	6.25%
Deposits from banks	1.10%	8.50%
Balances with related companies	0.00%	5.00%
Medium term notes	6.50%	11.25%
Floating rate notes	6.78%	6.78%

* Range of interest rates for each class of asset / liability

Exposure to interest rate risk – non-trading portfolios

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

Financial Risk Management (Continued)

For the year ended 31 December 2012

(e) Interest rate risk

In Thousands of Pula	Less than month	1-3 months	3 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
At 31 December 2012							
Assets							
Cash and cash equivalents	-	-	-	-	-	198,447	198,447
Balances with the Bank of Botswana	6,447	-	-	-	-	836,067	842,514
Financial assets designated at fair value	-	-	-	-	-	41,326	41,326
Derivative financial instruments	-	-	-	-	-	-	-
Loans and advances to banks	159,633	-	-	-	-	-	159,633
Loans and advances to customers	35,711	74,258	410,639	3,528,250	2,614,990	-	6,663,848
Investment securities	1,917,368	446,825	-	-	-	5,075	2,369,268
Trading portfolio assets	4,858	-	-	-	-	-	4,858
Other assets	-	-	-	-	-	175,072	175,072
Balances with related companies	1,310,409	1,130	-	-	-	-	1,311,539
Property, plant and equipment	-	-	-	-	-	97,678	97,678
Intangible assets	-	-	-	-	-	49,218	49,218
Retirement benefit asset	-	-	-	-	-	-	-
Current tax assets	-	-	-	-	-	39,367	39,367
Total assets	3,434,426	522,213	410,639	3,528,250	2,614,990	1,442,250	11,952,768
Liabilities							
Deposits from banks	269,944	-	-	-	-	-	269,944
Deposits due to customers	7,806,230	650,493	680,246	29,447	-	-	9,166,416
Derivative financial instruments	-	-	-	-	-	16,134	16,134
Balances with related companies	57,876	-	-	-	-	-	57,876
Debt securities in issue	-	-	6,649	497,000	-	-	503,649
Other liabilities	-	-	-	-	-	214,566	214,566
Provisions	-	-	-	-	-	10,693	10,693
Deferred tax liabilities	-	-	-	-	-	5,227	5,227
Total liabilities	8,134,050	650,493	686,849	526,447	-	246,620	10,244,459
Total interest sensitivity gap	(4,699,624)	(128,280)	(276,210)	3,001,803	2,614,990	1,195,630	1,708,309

Financial Risk Management (Continued)

For the year ended 31 December 2012

(e) Interest rate risk (continued)

In Thousands of Pula	Less than month	1-3 months	3 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
At 31 December 2011							
Assets							
Cash and cash equivalents	-	-	-	-	-	168,571	168,571
Balances with the Bank of Botswana	60,175	-	-	-	-	833,277	893,452
Investment securities	-	2,195,479	-	-	-	-	2,195,479
Financial assets designated at fair value	-	-	-	-	-	27,561	27,561
Derivative financial instruments	-	-	-	-	-	278	278
Loans and advances to banks	698,368	-	-	-	-	-	698,368
Loans and advances to customers	23,452	45,144	54,882	1,585,803	4,782,684	-	6,491,965
Trading portfolio assets	-	-	-	-	-	22,839	22,839
Other assets	-	-	-	-	-	146,449	146,449
Balances with related companies	905,867	-	-	-	-	-	905,867
Property, plant and equipment	-	-	-	-	-	94,632	94,632
Intangible assets	-	-	-	-	-	37,432	37,432
Retirement benefit asset	-	-	-	-	57,551	-	57,551
Current tax assets	-	-	-	-	-	17,221	17,221
Deferred tax assets	-	-	-	-	-	4,929	4,929
Total assets	1,687,862	2,240,623	54,882	1,585,803	4,840,235	1,353,189	11,762,594
Liabilities							
Deposits from banks	9,233	-	-	-	-	-	9,233
Deposits due to customers	7,562,732	943,579	586,868	25	-	-	9,093,204
Derivative financial instruments	15,591	-	-	-	-	-	15,591
Balances with related companies	97,213	-	-	-	-	-	97,213
Debt securities in issue	-	-	6,649	497,000	-	-	503,649
Other liabilities	-	-	-	-	-	168,158	168,158
Provisions	-	-	-	-	-	34,727	34,727
Total liabilities	7,684,769	943,579	593,517	497,025	-	202,885	9,921,775
Total interest sensitivity gap	(5,996,907)	1,297,044	(538,635)	1,088,778	4,840,235	1,150,304	1,840,819

Financial Risk Management (Continued)

For the year ended 31 December 2012

(f) Hedge accounting

The Bank uses interest rate swaps and foreign exchange contracts to hedge its exposure to changes in exchange rates and interest rates. The Bank has entered into a hedging relationship with Barclays PLC.

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

During the year, P192,111 was recognised in the profit or loss as hedge ineffectiveness.

The fair value of the hedge as at 31 December 2012 is as follows;

In Thousands of Pula	2012	2011
Fair value of interest rate swap assets	15,778	13,092
Fair value of interest rate swap liabilities	(16,133)	(13,802)
Net Fair value of interest rate risk	(355)	(710)
Notional amount	65,866	66,227

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

(g) Foreign currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. As a result of the Bank's net exposure to statement of financial position assets and liabilities denominated in foreign currency at the year end, foreign exchange translation gains / (losses) for the period would have been P0.54m more had the Pula been 1% stronger / (weaker) against all foreign currencies to which the balance sheet was exposed at 31 December 2012.

Treasury manages foreign exchange exposures in line with ALCO and Barclays Bank market risk guidelines. Typically, all currencies other than US dollar are fully matched with open trading positions being taken on the US dollar up to a maximum open position at US$25 million at any time.

The Bank conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intra day limit is set at US$25million and the overnight limit is US$17 million. These limits were adhered to throughout the year.

The maximum limit allowed by the Bank of Botswana for the overall foreign exchange risk position is 30% of the bank's unimpaired capital. For USD, ZAR, GBP and EUR, the prescribed limit is 15% of unimpaired capital, per currency. For all other currencies, the prescribed limit is restricted to no more than 5% of unimpaired capital per currency. No bank may exceed its intra-day overall foreign exchange position by more than 5% of the overall limit, without prior approval of the Bank of Botswana. The overall foreign exchange exposure shall be the greater of the sum of the domestic currency equivalent of all net short or long positions in currencies in which the bank has a position.

(h) Operational risks

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

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

Financial Risk Management (Continued)

For the year ended 31 December 2012

(h) Operational risks (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk 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 Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

The Bank's operational risk is monitored by the Risk and Control Committee and the Audit Committee.

(i) Geographical analysis of assets and liabilities

The Bank operates mainly in Botswana, with its main activities being corporate, retail banking and treasury services.

(j) Capital management

Capital ratios

Capital adequacy and the use of regulatory capital are monitored by the Bank, applying techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practices (Basel Committee) and European Community Directives, as implemented by the Bank of Botswana for supervisory purposes.

These techniques include the risk asset ratio, which the Bank of Botswana regards as a key supervisory tool. The Bank of Botswana has set the individual minimum ratio requirements for banks in Botswana at 15% which is above the Basel Committee minimum guideline of 8%. The ratio calculation involves the application of designated risk weightings to reflect an estimate of credit, market and other risk associated with broad categories of transactions and counterparties.

The concept of risk weighting, as applied to banking activities, assumes that such activities generally include some risk of loss. For risk weighting purposes, commercial lendings are taken as a benchmark to which a risk weighting of 100% is ascribed. Other transactions considered to generate lower levels of risk than commercial lending may qualify for reduced weightings. Off-balance sheet items are converted to credit risk equivalents by applying credit conversion factors laid down by the Basel Committee, as implemented by the Bank of Botswana. The resultant amounts are then risk weighted according to the nature of the counterparty.

Regulatory guidelines define two tiers of capital resources: Tier 1 (core) capital, comprising mainly shareholders' funds, is the highest tier. Tier 2 capital includes perpetual, medium and long term subordinated debt, general provisions for bad and doubtful debts as well as property and equipment revaluation reserves. Both tiers can be used to meet trading and banking activity requirements although Tier 2 capital, included in the risk asset ratio calculation, may not exceed Tier 1 capital.

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

There have been no material changes in the Bank's management of capital during the period.

Financial Risk Management (Continued)

For the year ended 31 December 2012

(j) Capital management (continued)

The Bank's regulatory capital position at 31 December was as follows:

In Thousands of Pula	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
Core capital				
Stated capital	8,522	8,522	8,522	8,522
Share premium	8,586	8,586	8,586	8,586
Share capital reserve	2,060	2,060	2,060	2,060
Retained earnings	1,141,241	914,416	1,056,043	849,264
Total core capital (Tier 1)	1,160,409	933,584	1,075,211	868,432
Secondary capital				
Subordinated redeemable debt	83,333	118,167	83,333	118,167
Unencumbered general provisions	12,023	14,012	12,023	14,012
General risk reserve	60,923	60,923	60,923	60,923
Total secondary capital (Tier 2)	156,279	193,102	156,279	193,102
Total regulatory capital	1,316,688	1,126,686	1,231,490	1,061,534
Risk weighted assets				
Total risk weighted assets	6,204,101	5,719,872	6,204,101	5,719,872
Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%)	18.7%	16.3%	17.3%	15.2%
Risk asset ratio (Basel Committee guide: minimum 8%)	21.2%	19.7%	19.8%	18.6%
Bank of Botswana preferred minimum risk asset ratio	15.0%	15.0%	15.0%	15.0%
Tier 1 / Total capital	88.1%	82.9%	87.3%	81.8%

Shareholders Information

For the year ended 31 December 2012

	2012		2011	
BARCLAYS BANK PLC	577,964,146	67.82%	577,964,146	67.82%
FNB NOMS BW(PTY)LTD RE:BIFM BPOPF ACTIVE MEMBER	36,209,416	4.25%	26,927,586	3.16%
FNB BW NOMS(PTY) LTD RE: IAM BPOPFP 10001031	35,731,165	4.19%	36,548,697	4.29%
FNB NOMS BW(PTY) LTD RE:FAM BPOPF1-10001028	28,830,291	3.38%	30,673,885	3.60%
MOTOR VEHICLE ACCIDENT FUND	23,736,440	2.79%	26,736,440	3.14%
STANBIC NOMINEES RE: BIFM	23,162,767	2.72%	22,973,713	2.70%
FNB NOMINEES (PTY)LTD RE:SIMS BPOPF 10001009	13,022,383	1.53%	13,022,383	1.53%
FNB NOMS BW(PTY) LTD RE:BIFM BPOPLF WP 10001027	9,280,652	1.09%	7,782,750	0.91%
SCBN{PTY} LTD RE: IAM 203/001	8,270,009	0.97%	8,270,009	0.97%
FNB NOMS BW(PTY) LTD RE: FAM BPOPF3-10001030	6,641,015	0.78%	7,688,166	0.90%
SCBN (PTY) LTD RE: BIFM DPF	6,103,775	0.72%	5,081,236	0.60%
FNB NOMINEES (PTY)LTD RE:AGRAY BPOPF 10001010	4,276,398	0.50%	4,276,398	0.50%
SCBN (PTY) LTD RE:IAM 030/30	3,753,266	0.44%	3,478,658	0.41%
STANBIC NOMINEES BOTSWANA RE:IBMF	3,244,470	0.38%	1,742,313	0.20%
FNB NOMINEES (PTY)LTD RE:CFM BPOPF 10001010	2,956,735	0.35%	5,708,600	0.67%
SCBN(PTY) LTD RE:SSB 001/77	2,425,925	0.28%	2,425,925	0.28%
FNB NOMINEES BOTSWANA (PTY) LTD RE: SIMS BBDCSPF	2,308,318	0.27%	2,308,318	0.27%
BOTSWANA MEDICAL AID SOCIETY	1,590,000	0.19%	1,590,000	0.19%
SCBN(PTY) LTD RE: IAM 3292505	1,358,446	0.16%	1,358,446	0.16%
STANBIC NOMINEES RE: BIFM BLAF	1,335,331	0.16%	1,335,331	0.16%
SCBN (PTY) LTD RE: IAM 030/40	1,333,663	0.16%	1,671,734	0.20%
SCBN (PTY) LTD RE: SSB 001/81	1,308,506	0.15%	-	0.00%
SCBN (PTY) LTD RE: IAM 030/27	1,263,269	0.15%	-	0.00%
SCBN (PTY) LTD RE:JPM BW000001037-2	1,243,487	0.15%	-	0.00%
STANBIC NOMINEES RE: BIFM BPOPF	-	0.00%	2,207,235	0.25%
SCBN [PYT] LTD RE: FAM 3582252	-	0.00%	1,407,246	0.17%
Other	54,811,377	6.43%	58,982,035	6.92%
TOTAL	852,161,250	100%	852,161,250	100.0%

Value Added Statement

For the year ended 31 December 2012

	Consolidated 2012	2011
Value created		
Income from services	1,563,426	1,647,049
Cost of services	(252,860)	(316,045)
Value created by operations	1,310,566	1,331,004
Non-operating income	961	13,050
Operating expenditure excluding staff costs and depreciation	(362,741)	(368,194)
Total value created	948,786	975,860
Value distributed		
Employees - salaries and benefits	354,875	313,968
Shareholders - dividends	542,000	349,976
Government - taxation	121,778	117,194
Total value distributed	1,018,653	781,138
Value retained		
Retained income	(99,675)	189,035
Depreciation and amortisation	29,808	18,189
Total value (utilised)/retained	(69,867)	207,224
Total value distributed and retained	948,786	988,362

Notice to Shareholders

Annual General Meeting of the Members of Barclays Bank of Botswana Limited

Notice is hereby given that the twenty-seventh Annual General Meeting of Shareholders of Barclays Bank of Botswana Limited will be held at Gaborone Sun on Wednesday 26th June 2013 at 12:30pm for the following purpose:

1. To receive, approve and adopt the financial statements for the year ended 31 December 2012 together with the directors' and independent auditor' reports thereon.

2. To elect directors in the place of Alfred M. Dube, Mokgadi K. Nteta, and Kenneth Molosi who retire by rotation in accordance with Section 20.10 of the Constitution and, who being eligible, offer themselves for re-election,

3. To fix the remuneration of the directors for the ensuing year.

4. To approve the remuneration of the auditors for the year ended 31 December 2012.

5. To appoint auditors for the ensuing year.

6. To approve, by special resolution, substantial gifts made by the Company, details of which are available at the Company's registered office for perusal.

In the event that you wish to nominate any person(s) as directors or auditors other than one of the directors retiring or incumbent auditors, you must deliver to the Company Secretary, not less than seven nor more than 14 clear days before the date of the meeting, a nomination signed by a member qualified to attend and vote at the meeting with notice by the nominated persons that they are willing to be elected as directors or auditors, as the case may be.

Proxies
A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend, speak and to vote In his/her stead. A proxy need not also be a member. A proxy form is available at the end of the Annual Report. Further proxy forms are available at the office of the Company Secretary at Barclays Bank of Botswana Limited, Head Office, Barclays House, 3rd Floor, Khama Crescent.Gaborone,

Completed proxy forms must be deposited there not less than 48 hours before the meeting.

BY ORDER OF THE BOARD

Mr. S. Palmer
Company Secretary

Proxy Form

Please complete in block letters.

I/We ____

of ____

being a shareholder of Barclays Bank of Botswana Limited, hereby appoint ______________________

or failing him/her ____

or failing him/her ____

as my/our proxy to vote for me/us on my/our behalf at the TWENTY-SEVENTH ANNUAL GENERAL MEETING of the company to be held at Gaborone Sun on the 26th of June 2013 at 12:30pm

As witness my hand this ____________ day of __________ 2013 ______________________

SIGNATURE ____

WITNESS ____

NOTE:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.

2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/signatories.

3. This form of proxy should be signed and returned so as to reach the Registered Office of the Company (6th Floor, Barclays House, Khama Crescent, P O Box 478, Gaborone) no later than 48 hours before the meeting.