Botswana

Standard Chartered

Annual Report 2010

Leading the way

in Africa, Asia and the Middle East

Here for good


Standard Chartered House
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ENTRANCE ONLY
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EXIT ONLY

Annual Report and Accounts 2010

for the year ended 31 December 2010

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Performance Review

Key financial highlights

- Net Operating Income reduced by
3.0% to BWP 718.5 million
in 2010 from
BWP 740.5 million in 2009

- Operating Expenses increased by
8.1% in 2010

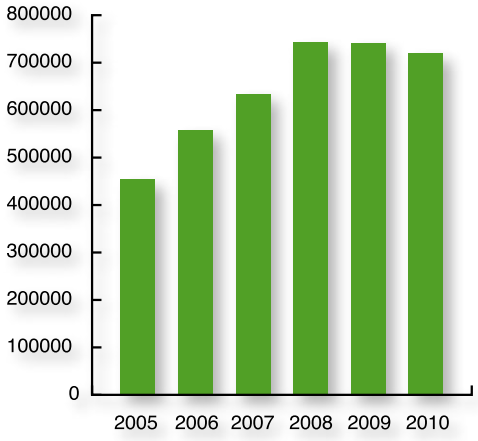
- Net impairment loss
on financial assets was
BWP 25.2 million
in 2010 against
BWP 75.4 million in 2009

- Pre-tax profit
declined marginally by
1.0% to BWP 282.7 million
compared to
BWP 285.4 million in 2009

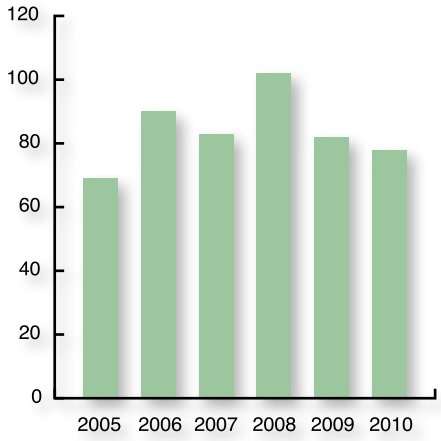
- **Earnings per share was 77.8 Thebe**
in 2010 against
81.7 Thebe in 2009

Performance Review - Graphs

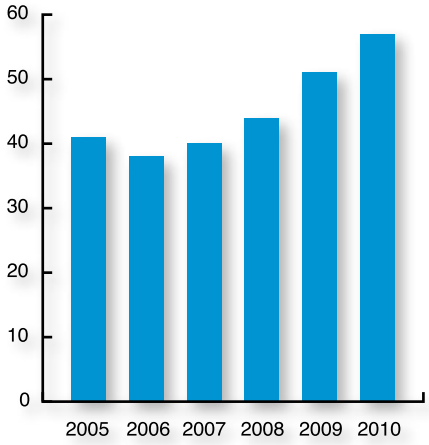
Operating Revenue



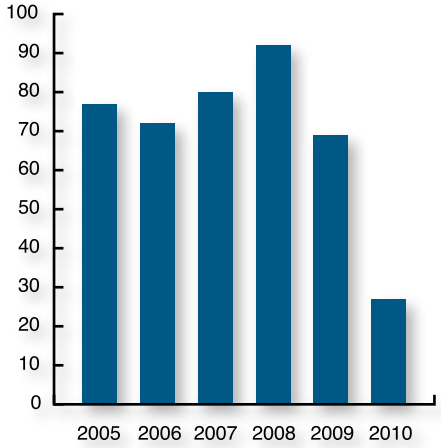
Earning per share (Thebe)



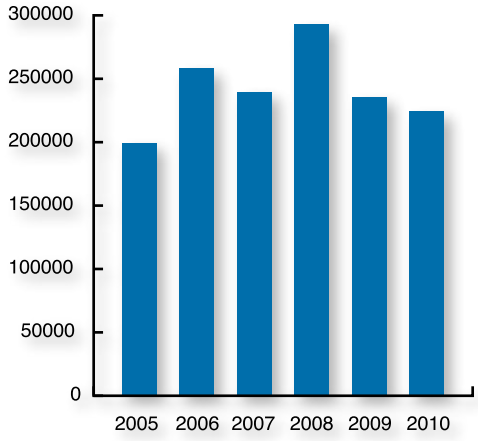
Cost to Income Ratio



Dividend per share (Thebe)



Total Comprehensive Income and Profit for the Period (P'000)



Chairman's Statement

Gaborone City Marathon

National Paralympic Games

It has been another challenging yet fruitful year for Standard Chartered Bank Botswana. We stuck to the fundamentals of our strategy, which combined a continuous enhancement of our value proposition with a commitment to deepen our relationship with our clients, to deliver a solid performance in 2010.

Washington Matsaira
Acting Chairman of the Board

Central to our accomplishments was the launch of our new brand promise, Here for good. Overall, the Bank has continued to make good progress during 2010, building on the 2009 momentum. We are strongly liquid and well capitalised with a conservative and well diversified balance sheet.

In summary, Standard Chartered has seen continued growth in business segments and products, despite the challenging environment. Our fundamentals are strong and we are well placed to take advantage of the unique opportunities, particularly in the current economic environment. We have good momentum underpinned by our strategic focus on our customers.

I would like to thank our customers and all staff for their contribution and support to the Bank's performance.

Washington Matsaira
Acting Chairman

HRH Prince Harry with Standard Chartered Bank Senior Management for the birthday of Her Majesty Queen Elizabeth II at the British High Commission

Staff planted trees for World Water Day at Baylor Clinic

Miss Interbanks 2010 was won by Standard Chartered Bank

Chief Executive Officer's Review

The first Liverpool FC game under Standard Chartered Bank's sponsorship

Gaborone City Marathon

While 2010 was a tough year financially, we made good progress against our strategic priorities and showed improved performance in the second half of the year. This led to relatively flat pre-tax profit for 2010 against 2009.

David D. Cutting
Chief Executive Officer
(Resigned 31 December 2010)

Michael Wiegand
Head of Consumer Banking & Acting Chief Executive Officer

Business Performance

Our Consumer Banking business reported an excellent performance for the year under review. This segment achieved impressive growth levels compared with the previous year, with record sales reported for some of the product lines. This is a result of our concerted efforts to be more customer focused, and our commitment to improving the quality of our customer service. Our investment in these areas has paid off, as evidenced by the substantial reduction in our turn around times as well as a 50% decrease in customer complaints.

We also launched our Priority Banking offering during 2010. Priority Banking is an exclusive service offering for our high net worth clients, and demonstrates our commitment to continuously providing our customers with value adding solutions.

Although our Wholesale Banking performance was adversely impacted by the persistent low interest environment last year, which compressed our margins, and limited our ability to maximize revenue, the segment is well positioned for further growth in 2011. We introduced Asset Backed Financing in 2010, once again expanding our product capabilities and solutions for our clients, and in the process, created a more diverse income stream. We also introduced Virtual Accounts to our corporate customers, which enable much more efficient reconciliation of customer accounts. We continue to deepen our relationships with our clients by understanding their requirements and providing appropriate solutions through the expansion of our product capabilities. This is an ongoing priority, which we will achieve organically, or through capability acquisitions. This year, we successfully enhanced our product capabilities through the acquisition of Barclays Africa Custody services.

The addition of Custodial and Trustee services to our product offering enhances our Transaction Banking and Securities proposition, and enables the Bank to further develop relationships with regional and international clients. We are very excited to be able to offer

these specialist services to our clients, and look forward to the significant contribution that the Custody business will make to our Wholesale Banking offering.

as it enhances the visibility of our brand in Botswana and across the globe. We will continue to undertake initiatives that reinforce our brand promise and enhance our visibility in the market.

in mining exports are encouraging; however, it is important that as we pull out of recession, we all play a role in ensuring that we emerge a stronger economy with a more efficient banking system.

Gaborone City Marathon

Here for good

2010 saw the official launch of our new brand promise, Here for good. Here for good is a logical evolution of our previous brand promise to be the Right Partner. It attests to our long history and partnership with the people of Botswana, it is testimony to our conduct and our commitment to always doing the right things, and it represents our allegiance to our customers and our stakeholders. It represents what we stand for, and what makes us different. We are here to create value for our shareholders, to support and partner with our clients, customers and our staff, and to make a positive contribution to the broader community. We are here for progress, and for the long run.

In line with Here for good, we introduced a Customer Charter to ensure a service experience consistent with the new brand promise. We have already seen a considerable improvement in customer service, and we will continue to work hard to ensure that our service levels meet our customers' expectations.

To enhance the physical appearance of our brand, we embarked on a significant branch refurbishment exercise, and are pleased that the look and feel of 2 of our 16 branches has been greatly improved.

We also launched our sponsorship of the Liverpool football club. We are extremely excited about this partnership

Staff Development

People are our single most important resource, and we have made significant progress in the area of staff development. We now have 6 Batswana working abroad on long term international assignments, while more than double this number completed short term assignments outside the country in 2010. We have also been successful in increasing the number of Batswana entering the International Graduate program, enabling graduates to gain international experience within a highly competitive environment.

Sustainability

At the heart of our sustainability agenda is our community initiatives. This year, Standard Chartered Bank increased the employee volunteering days to 3, allowing every staff member 3 days off from their official work obligations to give back to our communities. Our staff have embraced this development fully, actively volunteering their time and energy towards a variety of worthy causes. We will continue to become more involved in our communities as an integral part of our business objectives, and in line with Here for good.

Outlook

While the global economy is in better shape than it was last year, we are still far from a complete recovery. The Botswana economy is also continuing to gain momentum. Improvements

On our part, it means doing what we can to make banking more accessible to the wider public, and we are already making great strides with our alternative banking channels. Perhaps more importantly, it also means enhancing our risk management framework. We have made substantial progress in putting in place the infrastructure to ensure a sustainable, robust, control environment, in preparation for greater self regulation going forward.

Summary

I am very pleased about what we have been able to achieve in 2010. We have expanded our product capability, and greatly enhanced our brand. We have a clear strategy, and have laid a solid foundation for growth in 2011.

We could not have achieved all this without the hard work and dedication of our staff. I would therefore like to thank each and every one of our staff members for their contribution to our performance.

I am also extremely grateful for the support we have received from our loyal clients and customers, investors, and regulators. We look forward to the opportunities that lie ahead, and to building deeper partnerships with our stakeholders in the coming years.

Michael Wiegand
Acting Chief Executive Officer

Consumer Banking

The year 2010 was a good year for the Consumer Bank, as our multi-year transformation program really gained steam, and we started to see this impact our bottom line.

We have great momentum in the business, and we are entering 2011 in very strong shape, both financially and in terms of the products and services we offer.

Michael Wiegand
Head of Consumer Banking & Acting Chief Executive Officer

Improving customer service remained our number one strategic priority in 2010, and customers started seeing the benefits of the changes and investments we have been making. Our Net Promoter Scores (our monthly measure of customer feedback) grew significantly throughout the year, and customer complaints were cut in half. The turn-around-time for our customers to open new loan and deposit accounts was reduced by more than 35%. We continue to be a market leader in alternative channels, and are still the only bank in Botswana to provide free Mobile Banking, Internet Banking, eStatements, and ATM banking services to all of our customers. Customers flocked to these services, and we registered 37,000 new customers on these channels in 2010, increasing our registered users six-fold.

We also invested heavily in adding branch staff and equipment in order to reduce customer queues, and we renovated several branches to bring them up to world-class standards. We also launched a market-leading innovation in December, with extended hours at our Game City Branch, which is now open until 7pm during the week, 4pm on Saturdays, and 1pm on Sundays. This is another way that Standard Chartered Bank is the most convenient bank for customers in Botswana.

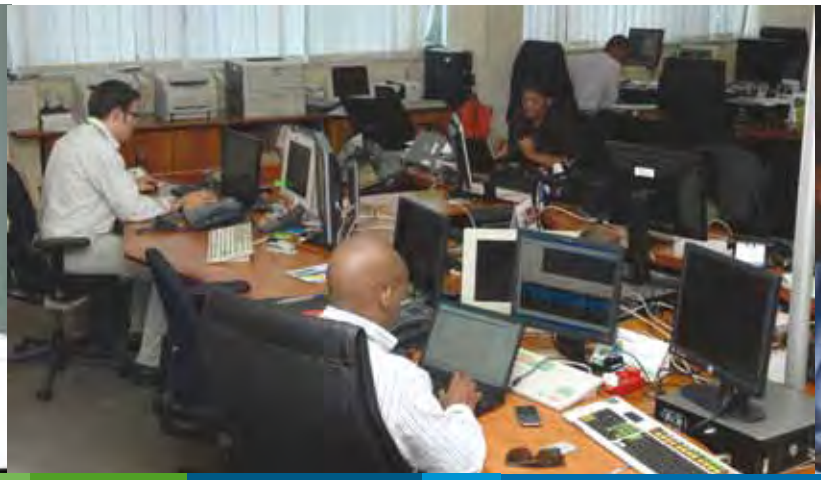
We continued our strategy of growing personal loans while focusing on lower-risk segments. Our personal loan portfolio grew by 17%, which was well ahead of the market, driving up our market share. At the same time, we had a sharp drop in bad debt losses. This was due to both our refocus on lower-risk segments and an improvement in our collections and recoveries capabilities. Overall, this portfolio continues to perform very well.

After a difficult first quarter, we showed stable deposit growth through the year. We launched our new Priority Banking offering in September. This is a leading banking offering for affluent customers, with market leading service and travel benefits. We were the first bank in Botswana to offer the Visa Infinite debit card, Visa's most prestigious card with the greatest benefits. We have opened a dedicated Priority Banking Branch in the Square Mart in Gaborone. We have received enthusiastic and positive customer feedback on this new offering.

We had a strong increase in profit contribution in 2010 versus 2009. While our income growth was not as robust as we would have liked, we showed tremendous growth during the year, with third quarter income up five percent over second quarter, and fourth quarter up an additional five percent.

We ended the year in a very strong position with record income in the fourth quarter, and we are poised to deliver robust top-line and bottom-line growth in 2011.

Wholesale Banking



From 2009 and into 2010, Botswana has been characterized by one of the sharpest growth contractions of any African economy as a result of the global crisis.

The medium-term outlook, especially for the non-mining economy, remains subdued.

Given the dependence of the non-mining economy on government spending (which averaged 40%+ of GDP pre-crisis), Botswana may not see a sustained return to pre-crisis growth rates for some time.

Austerity measures will therefore remain a key focus in 2011 and in the years ahead, particularly requiring increased vigilance and more prudent lending habits. Despite serving a diverse client base across a number of industry segments, this will require that we know our customers even more intimately.

Our strategy therefore has not changed: to be a core bank to our key clients by deepening relationships and growing our capabilities across product and client segments, providing targeted market information and delivery of creative solutions to match client requirements. Added to this, we continue to strengthen our partnerships with the Regulator and with Government entities.

Tight management of costs, together with efficient utilization of liquidity and capital will also continue to take prime concern.

Our now well-established Straight2Bank platform is a powerful electronic tool that allows the Bank to provide efficient integration between our network and our client's own accounting systems. Benefits include integrated collections and payments solutions, simplified reconciliations and enhanced overall liquidity.

In 2011, we will focus on:

- Continuing to build and deliver on our promise – Here for Good – requiring us to invest further in our customer relationships.
- Further empowering our teams by concentrating on talent and development to ensure seamless global coverage and superior service.
- Economic management of costs and on improving further our risk control environment.

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

Olebile Makhupe
Head of Global Markets and Co-Head of Wholesale Banking

People

The Bank is committed to creating a healthy, safe and fulfilling working environment in which people can grow, individuals can make a difference and teams win. We aim to attract, retain and develop talented people, provide them with competitive incentives, skills and leadership capability to drive business growth in Botswana.

Our staff continue to be guided by the Bank's values; Courageous, Responsive, Creative, International and Trustworthy. Our behavior and culture motivates our staff to continue working for Standard Chartered and have clearly differentiated us from our competitors. These have also sustained us through the tough economic times.

In 2010 the Bank made significant progress in the area of staff development and building leadership capability, as more Batswana were sent out on both long and short term external attachments/assignments. We also saw some of the local talent being appointed to sub-regional roles where they are managing diverse teams across different countries thus giving them the skills and experience which will enable them to compete for bigger roles internationally. Additionally Standard Chartered Bank continues to invest significantly in Learning and Development. An increasing number of managers have gone through the Great Manager program and the Bank has also increased its focus on leadership training.

In living out our Brand promise "Here For Good" – "Here for Our People", The Bank hosted a family fun day for its staff and their families, we also had the Loyalty Awards in recognition of staff who have been loyal to the Bank in the categories of 5, 10, 15, 20, 25, 30 and 35 years. Reinforcement of high Performance also continues to be a priority and among others is done by rewarding staff who have contributed to the Bank's performance.

Equally to promote Diversity and Inclusion and the new Brand promise the following were introduced: Paternity Leave for staff and Queue Fast Tracking for physically disabled, visibly pregnant, Senior Citizens and other visible health impairments.

Sustainability

Gaborone City Marathon

In 2010 Standard Chartered Bank was a major (Platinum) sponsor of the first ever Gaborone City Marathon. The event was held under the patronage of PGM Foundation, a not for profit, non-governmental organization and all the proceeds from the race were donated to 5 different charities, with Standard Chartered's Seeing is Believing being one of the beneficiaries. The beneficiaries were:

- Bana ba Metsi School; an institution which provides opportunities for youth-at-risk to develop skills, attitudes and personal qualities through the dignity of learning and work, in order to re-enter the formal education system and become productive members of the community.

- Lady Khama Charitable Trust (LKCT), an organization which assists vulnerable women and children by raising and disbursing funds to suitable organisations that support these groups.

- Mothers for All, a centre that ensures no child is left alone. The organisation provides skills training and support to women in Botswana who are caring for children orphaned by AIDS.

- The Y-Care Charitable Trust, an organisation that raises funds to support a broad base of country-wide causes, and finally;

- Seeing is Believing, a Standard Chartered Bank initiative that helps prevent blindness through cataract operations and awareness programmes

Other benefits that come with the Gaborone City Marathon include economic growth and the promotion of Botswana's image through sports tourism. Such tourism is generated during the event itself whilst also enhancing Botswana's image abroad from added exposure through advertising and international media coverage.

Set over a largely flat course, the Gaborone City Marathon is a very competitive and unpredictable event, and conducive to fast times. Spanning slightly over 42km, it is run from Phakalane, through some picturesque loops in the capital city Gaborone then back to the suburbs of Phakalane.

Participants chose from various distances – the scenic 42km ultra marathon, the 10km half marathon or 4km fun run. The marathon attracted over 2500 participants across all the categories, some from as far as Kenya. They were treated to a mixture of the scenery of Gaborone, a grueling test of fitness for both the elite and recreational runner, and unrivalled race organization and atmosphere.

Standard Chartered Bank was proud to be associated with this significant inaugural event in 2010, and will continue with the partnership in the foreseeable future.

HIV and AIDS

Living with HIV, is our global HIV and AIDS education programme that aims to reduce the number of new HIV infections, reduce the stigma associated with HIV and encourage living positively with HIV.

Education is the key to reducing new infections or beating the pandemic and educational sessions are run by our staff volunteers, called 'HIV Champions'. This year the champions visited, amongst others, the Botswana Police at Urban Police station to create awareness and train staff on HIV and living positively. Apart from fund raising initiatives, the Champions also carry out community activities such as distributing valentine's gifts to underprivileged children affected or infected by HIV in the Mantshwabisi and Sirinane villages.

Standard Chartered Bank HIV Champions also participated in national activities including the World Aids Day on December 1st 2010 which this year was held in Palapye. Awareness activities were carried out by staff. The President, HE Lt Gen

Standard Chartered Bank staff building in partnership with Habitat for Humanity

World Water Day at SOS Children's Village

Seretse Khama Ian Khama visited the Standard Chartered Bank stall at the commemoration. The HIV Committee has formalized a partnership with Tebelopele. Through this partnership, November was declared a month of wellness, testing and counseling by Tebelopele, for all staff. SCB staff tested and received counseling and tips on healthy living. The HIV Champions also join forces with Tebelopele to train and educate the public and spread awareness of the virus and how to combat it.

Seeing Is Believing

Established in 2003, the Botswana Eye Care Providers Society (BECPS), a non-profitable, non-governmental organization, sets minimum standards for all Eye Care Professionals by providing continuing education and insisting all members keep abreast of developments in the profession. In this way, they hope to achieve the elimination of preventable blindness in Botswana, as advocated by Vision 2020: The Right to Sight.

Standard Chartered Bank Botswana has been a major partner of the BECPS since its launch in 2004. Over the past six years Standard Chartered Bank has donated two portable operating microscopes, enabling surgeons to perform over 7500 cataract surgeries and restoration of vision countrywide. Other contributions include the donation of flexible frames for children, as the leading cause of visual impairment in children in Botswana remains uncorrected refractive error.

The BECPS has partnered with Cambridge's Addenbrookes Hospital and they are focusing on the prevention of diabetic retinopathy in the country. This partnership has been made possible through Standard Chartered Bank's Seeing is Believing Phase III. Through it, eyecare staff in Botswana have received training in the UK and a retinal camera has been purchased to be used in the screening process.

Through the Botswana Eye Care Providers Society (BECPS), a major center, which will be responsible for cataract surgeries and restoration of vision, will be opened in Serowe at Sekgoma Memorial Hospital. Standard Chartered Bank will be closely involved with this project as it develops.

Further, Standard Chartered Bank participated in the 2010 World Sight Day Commemorations which were held

Liverpool FC Home, Away and Third kit

HIV Committee Fundraising Activities

in Maun. The Ministry of Health applauded the efforts of the bank to support the prevention of blindness.

The bank also assists other eyecare centres such as the Mochudi Resource Centre for the blind, Pudulugong Rehabilitation Centre, and other institutes across the country. Funds are raised through various means, such as sponsored walks, car washes or fundraising dinners, as well as direct contributions to projects by the bank.

The Botswana Music Camp

In keeping with the bank's desire to encourage the youth to excel through culture and music, Standard Chartered continues to be the major and headline sponsor of this initiative. Participants spend a week-long residential camp making music guided by experts with whom they would not otherwise have the opportunity to train. With limited or no musical institutions in the country, it is costly for the average citizen to go across borders or abroad for musical training.

The Botswana Music Camp, which Standard Chartered Bank has been sponsoring for the past 5 years, is an opportunity for the young participants to get training, at grass roots, from professionals. It gives them the opportunity to achieve their dreams and ambitions in the fields of music, dance and culture. Training includes solo singing, saxophone, dance, marimbas and drums amongst others, all offered by both local and international maestros.

This year the Botswana Music Camp celebrated its Silver Anniversary, having been established in 1985.

Branch Sustainability Efforts

Country wide, branches are encouraged to identify local initiatives that are in need of any form of assistance. Staff will then raise funds to assist these organizations. As part of


House built for destitute family by Staff

its Sustainability efforts, Standard Chartered Bank believes in being be part of the solution, hands-on, to the problems faced by the communities in which we operate. Therefore, staff are encouraged to take Employee Volunteer days. These 3 days are extra paid leave for every member of staff. As a result we have seen standard Chartered bank employees taking part in clean-up campaigns, donations to charities, house building both as Standard Chartered alone, or in partnership with organizations such as Habitat for Humanity, Family fun days and games for orphans, doing car washes, sponsored walks and donating part of their salaries as a way to fund raise for community projects.
2011


Branch Community project

Standard Chartered Bank will continue to work with, amongst others, Tebelopele, the National Disability Games and the Botswana Music Camp. The Gaborone City Marathon will be a major part of the Botswana sporting calendar going forward, with Standard Chartered Bank backing it and assisting with its growth both locally and internationally. The bank will also encourage staff to keep up their efforts, in partnership with Habitat for Humanity, to build homes for the underprivileged.

New partnerships are always being sought, with a focus on sustainable projects with the maximum impact to the target group in particular, and the country as a whole

Employee Volunteer days will also remain a significant part of the strategy at Standard Chartered Bank, allowing staff to personally take part in the sustainable development of the communities in which they operate.

Corporate Governance

Corporate Governance

Governance is the way Standard Chartered Bank is managed and controlled. The Governance structure specifies the distribution of roles and responsibility among management and defines rules and procedures for making decisions. Governance in the bank includes the scope and approach.

The scope includes strategic agenda, performance, customers and other relationships, people and talent, external regulatory and legal requirements and corporate responsibility. The approach includes the Boards and Committees, senior management accountability, internal policies and procedures, delegated authorities and monitoring internal controls.

Boards and Committee

The Board of Standard Chartered Bank Botswana Limited has ultimate responsibility for ensuring an appropriate and effective Governance framework is established and maintained to manage and control the Bank's activities. The Board allocates responsibilities to its Committees and establishes standards for the control and governance of Standard Chartered Bank. Committees have responsibilities and authorities to monitor and control specific aspects as defined in their Terms of Reference (e.g. Audit Committee etc).

Board of Directors

Strong governance is dependant upon a board of directors that is cohesive, independent in nature, fully engaged and committed to the role, as a result, operates effectively.

The board comprises of Executive and Non-Executive Directors who meet quarterly.

Executive Directors:
David D Cutting - Managing Director**
Serty Leburu
Non Executive Directors:
Washington Matsaira
- Acting Chairman
Bojosi Otlhogile*
Reginald Motswaiso*
Ebeneezer Essoka*
Secretary:
Thato Mmile

** Member of the Audit Committee*
*** Resigned 31 December 2010*

Governance Committees

Audit Committee

The Audit Committee has the responsibility for the appropriateness of accounting policies and oversight of internal controls and risk management processes. It reviews statutory accounts and published financial statements and considers both internal and external audit findings and regulatory reports. The committee meets quarterly and comprises of at least two Non Executive Directors.

Country Management Committee (MANCO)

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

MANCO meets at least twice a month and membership comprises of Country Chief Executive Officer / Chairman), Heads of Consumer Banking, Origination & Client Coverage, Financial Markets, Technology & Operations, Finance, Human Resources, Legal/ Company Secretary, Corporate Affairs, Compliance and Assurance and Country Chief Risk Officer (CCRO)].

Assets and Liability Committee (ALCO)

ALCO ensures the efficient implementation of balance sheet management policies. It receives and reviews reports on liquidity, market risk and capital management. ALCO identifies balance sheet management issues that are leading to under-performance and reviews deposit pricing strategy for the market. ALCO meets monthly and comprises of Country Chief Executive Officer (Chairman), Heads of Consumer Banking, Origination & Client Coverage, Financial Markets], and Finance.

Country Operational Risk Group (CORG)

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

Country Operational Risk Group (CORG)

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

Early Alert and Credit Portfolio Committees

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

Pensions Executive Committee (PEC)

PEC oversees the Bank's pension scheme arrangements although specific responsibility for the Bank's pension schemes is vested in elected and appointed trustees. PEC comprises of Country Chief Executive Officer/ (Chairman), Heads of Finance and Human Resources. PEC meets at least twice per year.

Risk Management

During 2010 the credit environment remained challenging. Notwithstanding the slowdown and continued turbulence in certain financial markets, Standard Chartered Bank has not seen a material downturn.

As a reflection of market conditions, stress testing activity has increased across a range of product and customer segments. The stress testing exercises address different types of risk and cover the impact of possible specific shocks as well as the impact of possible downturn in macro economic factors.

The Bank is very liquid, the balance sheet is in good shape, conservatively positioned and we have firm grasp of risk and cost.

Standard Chartered Bank's approach to risk management remains highly disciplined. Through its risk management framework the Bank seeks to efficiently manage credit, market, liquidity and operational risk, which arise through the Bank's commercial activities, as well as operational, regulatory and reputational risks which arise as a normal consequence of any business undertaking. Risk Management Framework provides a structured and coherent top-down approach to risk management. It provides clarity around management of risks faced by the Bank and clear linkages between risks, the establishment of risk appetite and capital management processes.

Credit Risk

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

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

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

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

Market Risk

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

Derivatives

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

Hedging

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

Liquidity Risk

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Banks seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks. The Country Chief Executive Officer is accountable for the effective management of operational risk. The Country Operational Risk Group (CORG) is the CEO's forum for ensuring that operational risk is being managed appropriately.

Board of Directors

David D. Cutting
Chief Executive Officer
(Resigned 31 December 2010)

Washington Matsaira
Acting Chairman of the Board

Serty Leburu
Deputy Chief Executive Officer

Thato Mmile
Company Secretary

Bojosi Otlhogile
Non-Executive Director

Ebeneezer Ngea Essoka
Non-Executive Director

Reginald Motswaiso
Non-Executive Director

Board of Directors

David Cutting

David Cutting was appointed to the Standard Chartered Bank Botswana Board in May 2007 when he took over as CEO. David brought a wealth of experience to Standard Chartered Bank Botswana. He has been in the banking industry since 1970. He has worked in North America, Egypt, Singapore, Hong Kong, Nigeria and Uganda.

His extensive experience covers Retail Banking, Operations, Credit Relationship Management and Country Management. He resigned from his position as CEO/MD on 31 December 2010.

Washington Matsaira

Washington Matsaira is the Chief Executive Officer of Standared Chartered Bank Zimbabwe, and Area CEO for Southern Africa (Zimbabwe, Botswana and Zambia). He joined the Bank in 1977, and became CEO in July 2001. He has previously held the positions of CEO in Uganda, Head of Corporate & Institutional Banking, Account Relationship Manager, and Branch Manager, and Branch Manager in Zimbabwe.

He was appointed to the Board of Standard Chartered Bank Botswana in November 2004. he is currently the Acting Chairman of the Board.

Serty Leburu

Serty Leburu is an Executive Director of Standard Chartered Bank of Botswana, She was appointed to the Board in May 2009, and as Deputy CEO in 2010. She joined the Bank in May 2007 as the Chief Finance Officer and was promoted to Chief Operations Officer in December 2008. she holds a Bachelor of Commerce and CIMA qualifications.

Serty is a Board member of Botswana Telecommunication Corporation, The Touch Holdings and MNK Enterprises. She is also a member of the Botswana International University of Science and Technology. She is a former Board Member of Botswana Power Corporation.

Thato Mmile

Thato Mmile was appointed Company Secretary in February 2005 ad is Head of Legal at Standard Chartered Bank Botswana. That graduated from UB in 1999, obtaining a degree in Law (LLB).She sits on the Northside School Council and is the Chairperson of the Botswana Football Association Disciplinary Committee.

Prior to joining the bank she worked for the Administration of Justice. She left the Judiciary after having been a Senior Magistrate in December 2004.

Bojosi Otlhogile

Bojosi Otlhogile was appointed to the board of Standard Chartered Bank in September 2008.Otlhogile holds a law degree (LLB) from University of Botswana and an LLM and PHD in Law from the University of Cambridge. He has held various posts including Head of Law (1993-99), Dean Faculty of Social Sciences (1999-2003) and Vice Chancellor (2003-2011). Until recently he was a member of the University of Botswana Council and Senate and was Councillor of the International Africa Institute, UK.

He is Chairman of the boards of Southern Africa Media Development Fund (SAMDEF) (1997-208) and Botswana Housing Corporation (BHC), is a Director of Longman Botswana and also chairs Special Olympics Botswana.

He is a Council member of the Universities of Zambia and Swaziland.

Mr Ebenezer Ngea Essoka

Mr Ebenezer Ngea Essoka was appointed to the board as a Non-Executive Director in June 2010. He holds a Bachelor of Sciences Degree in Finance, which he obtained from Seton Hall University, South Orange New Jersey.

He also holds an MBA Finance and a Certificate in International Business from the same institution. He is also a director of First Africa South Africa (FASA) and of Chestnut Hills Investment company.

Mr Reginald Mootiemang Motswaiso

Mr Reginald Mootiemang Motswaiso is a Non-Executive Director of Standard Chartered Bank since his appointment in April 2010. His qualifications include Bachelor of Commerce, FCCA, and ACMA.

He holds directorships with African Union of Housing Finance, Sefalana Holdings, Botswana Stock Exchange and the Central Securities Depository.

Senior Management

David D. Cutting
Chief Executive Officer
(Resigned 31 December 2010)

Michael Wiegand
Head of Consumer Banking &
Acting Chief Executive Officer
from 1 January 2011

Serty Leburu
Deputy Chief Executive Officer

Ediretse Ramahobo
Chief Information Officer

Dayo Omolokun
Chief Finance Officer

Thato Mmile
Head of Legal

Olebile Makhupe
Head of Global Markets and
Co-Head of Wholesale Banking

Michael Shirley
Head of Origination &
Client Coverage

Kamogelo Chiusiwa
Head of Human Resources

Umakanth Pai
Risk Head (Consumer Banking)
Southern Africa

Godwin Tanyongana
Country Chief Risk Officer

Ithabeleng Letsunyane
Head of Corporate Affairs

Annual Group Financial Statements 2010

for the year ended 31 December 2010

Contents

Standard Chartered

Report of the Directors

for the year ended 31 December 2010

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Bank for the year ended 31 December 2010.

Activities

The Bank continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Bank also has an insurance brokerage company and an investment services company. The results of these companies are incorporated in the group results.

Results

The Group results for the year are disclosed in the statement of comprehensive income on page 27 which reflects the following changes over 2009:

- **Net income before taxation P282.7 million (down 1.0% from 2009)**
- **Net income after taxation P224.2 million (down 4.7% from 2009)**

Dividends

An interim dividend of P60.7 million (20.82 thebe per share gross) was declared during the year of which P20.7 million (6.94 thebe per gross share) was unpaid as at year end.

Stated Capital

The company issued 10 288 041 shares to existing shareholders through a rights issue of 1 offer share for every 28 existing shares held during the year. The total number of shares in issue as at 31 December 2010 was 298 350 611 (2009: 288 062 570). The result of this is the increase in stated capital to P179 273 000 from P 44 518 000.

Directors

The following were directors of the Bank as at 31 December 2010.

W Matsaira	(Acting Chairman)
D Cutting	(Managing Director; resigned 31 December 2010)
B Otlhogile	
S Leburu	
R Motswaiso	(Appointed 01 April 2010)
E. Essoka	(Appointed 07 June 2010)

Auditors

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

By order of the Board

Thato Mmile
Secretary

Board approval of the Group Financial Statements

for the year ended 31 December 2010

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

The directors are responsible for the preparation and fair presentation of the annual group financial statements, comprising the statement of financial positions at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act, 2003 (No. 32 of 2004) as well as the Banking Act (Cap 46:04).

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

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

The directors have made an assessment of the Group's ability to continue as a going concern and have no reason to believe these entities will not continue as going concerns in the foreseeable future.

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

Approval of the annual group financial statements:

The annual group financial statements were approved by the directors on 10 March, 2011 and are signed on their behalf by:

Washington Matsaira
Acting Chairman

Michael Wiegand
Acting Managing Director

Independent Auditor's Report
To The Shareholders Of
Standard Chartered Bank Botswana Limited

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements of Standard Chartered Bank Botswana Limited and its subsidiaries, which comprise the statements of financial position as at 31 December 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements as set out on pages 27 to 67.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies Act, 2003 (No. 32 of 2004) of Botswana, and with the Banking Act (Cap 46:04).

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 present fairly, in all material respects the consolidated and separate financial position of Standard Chartered Bank Botswana Limited as at 31 December 2010, and of 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 and in compliance with the Companies Act, 2003 (no 32 of 2004) of Botswana and with the Banking Act (Cap 46:04).

KPMG
10 March, 2011
Practicing Member: AG DEVLIN (19960060.23)

Consolidated Statements Of Comprehensive Income

	Notes	Group		Company	
		2010	**2009**	**2010**	**2009**
Interest income	5	811 613	923 712	811 613	923 712
Interest expense	6	(327 778)	(426 850)	(327 778)	(426 850)
Net interest income		483 835	496 862	483 835	496 862
Fee and commission income		155 913	157 965	130 658	138 228
Less: commission expense		(12 311)	(15 048)	(12 311)	(15 048)
Net fee and commission income		143 602	142 917	118 347	123 180
Net trading income	7	90 251	94 096	90 251	94 096
Dividend income		-	-	18 014	6 298
Other income		784	6 585	784	6 585
Operating income		718 472	740 460	711 231	727 021
Operating expenses					
Net impairment loss on financial assets	8	(25 223)	(75 440)	(25 223)	(75 440)
Personnel expenses	9	(151 622)	(152 170)	(151 473)	(151 810)
Operating lease expenses		(16 646)	(13 338)	(16 646)	(13 338)
Depreciation and amortisation		(10 355)	(7 420)	(10 355)	(7 420)
Other administration and general expenses	10	(231 908)	(206 739)	(231 209)	(206 726)
Profit before income tax		282 718	285 353	276 325	272 287
Income tax expense	11	(58 495)	(50 045)	(54 837)	(47 554)
Profit for the year		**224 223**	**235 308**	**221 488**	**224 733**
Other comprehensive income					
Revaluation reserve movement		-	(697)	-	(697)
Net change in fair value of available for sale investments		1 367	-	1 367	-
Total other comprehensive income		**1 367**	**(697)**	**1 367**	**(697)**
Total comprehensive income for the year		**225 590**	**234 611**	**222 855**	**224 036**
Dividend per share (Thebe)		27.05	68.55	27.05	68.55
Basic and diluted earnings per share (Thebe)	13	77.84	81.68	76.43	78.01

The notes on pages 33 to 67 are an integral part of these consolidated financial statements

Consolidated Statements Of Financial Position

	Notes	Group 2010	Group 2009	Company 2010	Company 2009
Assets					
Cash and cash equivalents	14	573 446	425 038	573 446	425 038
Loans and advances to banks	15	878 089	1 010 372	878 089	1 010 372
Loans and advances to customers	17	3 491 994	3 487 961	3 491 994	3 487 961
Investment securities	16	5 429 425	3 277 364	5 429 425	3 277 364
Property and equipment	19	24 314	30 461	24 314	30 461
Intangible asset	20	102 671	-	102 671	-
Other assets	18	106 232	94 744	106 232	94 744
Total assets		**10 606 171**	**8 325 940**	**10 606 171**	**8 325 940**
Liabilities					
Deposits from other banks	21	118 911	236 129	118 911	236 129
Deposits from non bank customers	22	9 211 452	7 262 070	9 237 322	7 276 538
Subordinated debt securities	25	241 129	241 656	241 129	241 656
Deferred taxation	24	1 232	2 117	1 232	2 117
Other liabilities	23	358 836	172 893	353 712	174 240
Current taxation		33 568	38 587	33 568	40 786
Total liabilities		**9 965 128**	**7 953 452**	**9 985 874**	**7 971 466**
Equity					
Stated capital		179 273	44 518	179 273	44 518
Reserves		461 770	327 970	441 024	309 956
Total equity		**641 043**	**372 488**	**620 297**	**354 474**
Total liabilities and equity		**10 606 171**	**8 325 940**	**10 606 171**	**8 325 940**

The notes on pages 33 to 67 are an integral part of these consolidated financial statements

Consolidated Statements Of Changes In Equity - Group

Group	Stated capital	Revaluation reserve	Statutory credit risk reserve	Retained earnings	Dividend reserve	Capital contribution	Available for sale reserve	Total
Balance at 01 January 2009	44 518	7 024	8 223	198 112	77 476	-	-	335 353
Total comprehensive income for the period								
Profit	-	-	-	235 308	-	-	-	235 308
Adjustments arising on disposal of property	-	(697)	-	-	-	-	-	(697)
Transactions with owners, recorded directly in equity								
Dividends to equity holders – paid	-	-	-	(120 000)	(77 476)	-	-	(197 476)
Dividends to equity holders – proposed	-	-	-	(60 000)	60 000	-	-	-
Total contributions by and distributions to owners	-	-	-	(180 000)	(17 476)	-	-	(197 476)
Balance 31 December 2009	**44 518**	**6 327**	**8 223**	**253 420**	**60 000**	**-**	**-**	**372 488**
Total comprehensive income for the period								
Profit	-	-	-	224 223	-	-	-	224 223
Fair value adjustment: Available for sale securities	-	-	-	-	-	-	1367	1367
Transactions with owners, recorded directly in equity								
Proceeds from shares issued: rights issue	134 755	-	-	-	-	-	-	134 755
Capital contribution	-	-	-	-	-	28 210	-	28 210
Dividends to equity holders – paid	-	-	-	(60 000)	(60 000)	-	-	(120 000)
Dividends to equity holders – proposed	-	-	-	(20 705)	20 705	-	-	-
Total contributions by and distributions to owners	**134 755**	**-**	**-**	**(80 705)**	**(39 295)**	**28 210**	**-**	**42 968**
Balance 31 December 2010	**179 273**	**6 327**	**8 223**	**396 938**	**20 705**	**28 210**	**1 367**	**641 043**

The notes on pages 33 to 67 are an integral part of these consolidated financial statements

Statements Of Changes In Equity - Company

Company	Stated capital	Revaluation reserve	Statutory credit risk reserve	Retained earnings	Dividend reserve	Capital contribution	Available for sale reserve	Total
Balance 01 January 2009	**44 518**	**7 024**	**8 223**	**190 673**	**77 476**	**-**	**-**	**327 914**
Total comprehensive income for the period								
Profit	-	-	-	224 733	-	-	-	224 733
Adjustment arising on disposal of property	-	(697)	-	-	-	-	-	(697)
Transactions with owners, recorded directly in equity								
Dividends to equity holders – paid	-	-	-	(120 000)	(77 476)	-	-	(197 476)
Dividends to equity holders – proposed	-	-	-	(60 000)	60 000	-	-	-
Total contributions by and distributions to owners	-	-	-	(180 000)	(17 476)	-	-	(197 476)
Balance 31 December 2009	**44 518**	**6 327**	**8 223**	**235 406**	**60 000**	**-**	**-**	**354 474**
Total comprehensive income for the period								
Profit	-	-	-	221 488	-	-	-	221 488
Fair value adjustment: Available for sale securities	-	-	-	-	-	-	1 367	1 367
Transactions with owners, recorded directly in equity								
Proceeds from shares issued during the year: rights issue	134 755	-	-	-	-	-	-	134 755
Group capital contribution		-	-	-	-	28 213		28 213
Dividends to equity holders – paid	-	-	-	(60 000)	(60 000)	-	-	(120 000)
Dividends to equity holders – proposed	-	-	-	(20 705)	20 705	-	-	-
Total contributions by and distributions to owners	**134 755**	**-**	**-**	**(80 705)**	**(39 295)**	**28 213**		**42 968**
Balance 31 December 2010	**179 273**	**6 327**	**8 223**	**376 189**	**20 705**	**28 213**	**1 367**	**620 297**

The notes on pages 33 to 67 are an integral part of these consolidated financial statements

Statement Of Changes In Equity

Additional information at 31 December 2010

Stated capital

Issued

298 350 611 ordinary shares of no par value (2009: 288 062 570).

As at 31 December 2010 un-issued shares totalled 101 649 389.

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

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

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

Rights issue

The company issued 10 288 041 shares to existing shareholders through a rights issue of 1 offer share for every 28 existing shares held during the year.

Revaluation reserve

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

Statutory credit risk reserve

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

Dividends

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

Capital Contribution

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

Available for sale reserve

This represents the movement in fair value of investment securities

Consolidated Statements Of Cash Flows

	Note	Group 2010	Group 2009	Company 2010	Company 2009
Cash flow from operating activities					
Profit for the period		224 223	235 308	221 488	224 733
Adjustments for:					
- Depreciation	19	9 274	7 420	9 274	7 420
- Amortisation		1 081	-	1 081	-
- Net adjustment of property and equipment		(183)	-	(183)	-
- Gains on disposal of property and equipment		93	(5 866)	93	(5 866)
- Reversal of revaluation on disposal of property		-	(697)	-	(697)
- Net impairment loss on loans and advances	8	25 223	75 440	25 223	75 440
- Unrealised exchange gain on subordinated debt		(527)	(2 191)	(527)	(2 191)
- Unrealised exchange loss on outstanding deals		-	14 792	-	14 792
Income tax expense		58 495	50 045	54 837	47 554
		317 679	374 251	311 286	361 185
Change in investment securities		33 924	(229 463)	33 924	(229 463)
Change in loans and advances to customers		(41 828)	(441 490)	(41 828)	(441 490)
Change in other assets		(11 488)	23 068	(11 488)	23 068
Change in deposits from banks		(117 218)	43 742	(117 218)	43 742
Change in amounts due to non-bank customers		1 949 382	(715 637)	1 960 784	(709 100)
Change in other liabilities and provisions		197 186	(134 682)	190 718	(133 106)
		2 327 637	**(1 080 211)**	**2 326 178**	**(1 085 164)**
Income tax paid	26	(63 514)	(36 240)	(62 055)	(31 287)
Net cash used in operating activities		**2 264 123**	**(1 116 451)**	**2 264 123**	**(1 116 451)**
Cash flows from investing activities					
Acquisition of property and equipment		(2 592)	(6 374)	(2 595)	(6 374)
Acquisition of intangibles assets		(103 752)		(103 752)	
Proceeds from the sale of assets		-	8 033	-	8 033
Net cash generated from / (used in) investing activities		**(106 344)**	**1 659**	**(106 344)**	**1 659**
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		134 755	-	134 755	-
Group capital contribution		28 213	-	28 213	-
Dividends paid		(120 000)	(197 476)	(120 000)	(197 476)
Net cash (used in) / generated from financing activities		**42 968**	**(197 476)**	**42 968**	**(197 476)**
Net increase / (decrease) in cash and cash equivalents		2 200 747	(1 312 268)	2 200 747	(1 312 268)
Cash and cash equivalents at 1 January		4 431 135	5 743 403	4 431 135	5 743 403
Cash and cash equivalents at 31 December	**27**	**6 631 882**	**4 431 135**	**6 631 882**	**4 431 135**

The notes on pages 33 to 67 are an integral part of these consolidated financial statements

1.Reporting entity

Standard Chartered Bank Botswana Limited (the "Company") was incorporated in Botswana as a Bank with limited liability under the Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in investment, corporate, retail banking, securities and in asset management services. The Bank is a subsidiary of Standard Chartered Bank PLC, London, its ultimate holding company.

2. Basis of preparation

(a) Statement of compliance

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

(b) Functional and presentation currency

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

(c) Basis of measurement

Basis of consolidation

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

Transactions eliminated on consolidation

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

(d) Operating Segments

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

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

(e) Key sources of estimation uncertainty

Allowances for credit losses

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

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

(f) Determining fair values

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

(g) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities.

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

  Details of the Group's classification of financial assets and liabilities are given in note 4.

Significant accounting policies

The accounting policies set out below have been applied consistently in all material respects to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities except as explained in note 3(v) which addresses changes in accounting policies.

(a) Interest

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

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

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

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

(b) Fees and commission

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

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

(c) Net trading income

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

(d) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as other operating income.

(e) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(f) Instalment credit agreements

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

(f) Financial assets and liabilities (excluding derivatives)

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

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

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity

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

(d) Available-for-sale

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

Initial recognition

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

Subsequent measurement

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

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

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

The fair values of quoted financial assets or financial liabilities inactive markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Reclassifications

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

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

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

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

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

Renegotiated loans

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

Derecognition

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

Income recognition

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

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

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

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

Impairment of financial assets

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

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

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

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

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

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

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

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Available-for-sale assets

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

Cash and cash equivalents

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

(h) Trading assets and liabilities

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

(i) Property and equipment

Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.
Properties are shown at valuation less related accumulated depreciation and impairment losses (see accounting policy). Revaluations are carried out every three years by independent valuers, and periodically by the directors, on the open market basis. Surpluses and deficits arising on the revaluation of properties are transferred to or from a revaluation reserve

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

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

(k) Subsequent cost

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

(k) Depreciation

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

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

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

(l) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

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

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

(m) Impairment of non financial assets

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

(n) Deposits, debt securities and subordinated liabilities

Deposits, debt securities and subordinated liabilities are the Group's sources of debt funding.

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

(o) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation. Deferred 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 profits or loss differences relating to investments in subsidiaries to the extent that it is probable that they 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be utilised. Deferred 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.

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

Withholding tax at rates varying between 5% and 15% is payable on the gross value of the dividends. This withholding tax is treated as an advance payment of company taxation and is set off, to extent available, against additional company tax in the financial year in which it is paid.

(p) Employee benefits

Retirement benefits

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

(q) Restricted Share Scheme

Standard Chartered PLC operates a discretionary Restricted Share Scheme ("RSS") for high performing and high potential staff at any level of the organisation whom the Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the RSS is not applicable to executive directors, as it has no performance conditions attached to it. 50 per cent of the award vests two years after the date of grant and the balance after three years. The awards can be exercised within seven years of the grant date. The value of shares

awarded in any year to any individual may not exceed two times their base salary. In addition, the Group operates a Supplementary Restricted Share Scheme which can be used to defer part of an employee's annual bonus in shares. The plan is principally used for employees in the Financial Markets area and is similar to the RSS outlined above except for three important factors: directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit.

International Sharesave Schemes

Employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the all employee sharesave schemes.

Short term employee benefits

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

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

(r) Earnings per share

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

(s) Comparative information

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

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group with the exception of:

- IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

  The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified in profit or loss, at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

  The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirely as to whether it should be measured at amortised cost or fair value.

  The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statement.

- **IAS 32**

  The amendment to IAS 32 will be adopted by the Group for the first time for its financial reporting period ending 31 December 2011.
  The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

  The Bank currently has not issued any rights, options or warrants in respect of its own shares and therefore currently there is no impact on its financial statements.

- **IFRS 7**
  The amendments to IFRS 7 will be adopted by the Group for the first time for its financial reporting period ending 31 December 2012.

  In terms of the amendments additional disclosure will be provided regarding transfers of financial assets that are:
- not derecognised in their entirety and
- derecognised in their entirety but for which the Group retains continuing involvement.

- **IFRIC 19**
  IFRIC 19 will be adopted by the Group for the first time for its financial reporting period ending 31 December 2011. The standard will be applied retrospectively.
  IFRIC 19 addresses the accounting treatment for the extinguishment of financial liabilities with equity instruments.

  Under IFRIC 19 , equity instruments issued to a creditor to extinguish all or part of a financial liability would represent "consideration paid". The equity instruments will be measured on initial measurement at their fair value, unless such fair value cannot be reliably measured, in which case the fair value of the financial liability will be used. The difference between the carrying amount of the financial liability (or part thereof) extinguished and the initial measurement amount of the equity instruments shall be recognised in profit or loss.

4. Financial risk management

4.1 Introduction and overview

The Group has exposure to the following risks from financial instruments:
- capital risk
- credit risk
- liquidity risk
- market risks
- country cross border risk
- operational risks

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit Committee and Risk Committee, which are responsible for developing and monitoring Group's risk management policies. These Board committees have non-executive members and report regularly to the Board of Directors on their activities.

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

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

4.2 Credit risk

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

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in note 3.

Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Larger facilities require approval by the Head of Credit, Group Regional Credit department and the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management of the attendant risks. The risk grading system is used in determining where impairment provisions may be required

against specific credit exposures. The current risk grading framework consists of fourteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Early Alert. Risk grades are subject to regular reviews by Group Risk.

- Reviewing compliance of business units with agreed exposure limits, including those of selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

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

4 Financial risk management (continued)
Exposure to credit risk

	Loans and advances to customers		Loans and advances to bank		Financial investments	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Carrying amount	3 491 994	3 487 961	878 089	1 010 372	5 429 425	3 277 364
Assets at amortised cost						
Individually impaired:						
Grade 14: Doubtful	23 678	70 861	-	-	-	-
Allowance for impairment	(9 158)	(50 879)	-	-	-	-
Carrying amount	14 520	19 982	-	-	-	-
Collectively impaired:						
Grade 1 – 9: Good	-	-	-	-	-	-
Grade 10 – 12: Early alert	280 708	222 730	-	-	-	-
Grade 13: Substandard	287	1 047	-	-	-	-
Gross amount	280 995	223 777				
Allowance for impairment	(45 613)	(49 753)	-	-	-	-
Carrying amount	235 382	174 024	-	-	-	-
Past due but not impaired:						
Grade 1 – 9: Good	198 089	190 625	-	-	-	-
Grade 10 – 12: Early alert	35 072	68 732	-	-	-	-
Grade 13: Substandard	18 413	15 969	-	-	-	-
Carrying amount	251 574	275 326	-	-	-	-
Past due comprises:						
01 – 30 days	198 089	190 625	-	-	-	-
30 – 60 days	35 072	68 732	-	-	-	-
60 – 90 days	18 413	15 969	-	-	-	-
Carrying amount	251 574	275 326	-	-	-	-
Neither past due nor impaired:						
Grade 1 – 9: Good	2 990 518	3 018 629	878 089	1 010 372	-	-
Carrying amount – amortised cost	3 491 994	3 487 961	878 089	1 010 372		
Available-for-sale assets						
Low to fair risk	-	-	-	-	5 429 425	3 277 364
Carrying amount – fair value	-	-	-	-	5 429 425	3 277 364
Total carrying amount	3 491 994	3 487 961	878 089	1 010 372	5 429 425	3 277 364

In addition to the above, the Group had entered into lending commitments of P 494 432 thousands (2009: P 289 413 thousands) with counterparties graded 1 to 9. Refer to note 30 for financial guarantee contracts in respect of debtors graded 1 to 9.

4. Financial risk management (continued)
Exposure to credit risk (continued)

Impaired loans

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

Past due but not impaired loans

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

Allowances for impairment

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

Write off policy

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

Set our below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Loans and advances to banks		Available for sale investment debt securities	
	Gross	Net	Gross	Net	Gross	Net
In thousands of Pula						
31 December 2010						
Grade 14: Doubtful	23 678	14 520	-	-	-	-
31 December 2009						
Grade 14: Doubtful	70 861	19 982	-	-	-	-

4 Financial risk management (continued)

Exposure to credit risk (continued)

The loans and advances of the group and its exposure to credit risk comprises:

	Group		Company	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
Performing	3 271 513	3 242 406	3 271 513	3 242 406
Past due but not impaired	251 574	275 326	251 574	275 326
Impaired	23 678	70 861	23 678	70 861
	3 546 765	3 588 593	3 546 765	3 588 593
Past due but not impaired loans and advances comprise:				
Past due up to 30 days	198 089	190 625	198 089	190 625
31-60 days	35 072	68 732	35 072	68 732
61-90 days	18 413	15 969	18 413	15 969
	251 574	275 326	251 574	275 326

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowed activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 or 2008.

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

	Group		Company	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
Against individually impaired				
Others	261	40	261	40
Against past due but not impaired				
Property	5 456	-	5 456	-
Against neither past due nor impaired				
Property	878 957	884 634	878 957	884 634
Debt securities	570 786	570 786	570 786	570 786
Others	126 863	127 084	126 863	127 084
	1 582 323	1 582 544	1 582 323	1 582 544

4 Financial risk management (continued)

Exposure to credit risk (continued)

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

	Group		Company	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
Segmental analysis by industry				
Agriculture	50 099	10 075	50 099	10 075
Mining	55 534	69 844	55 534	69 844
Finance and Insurance	95 275	28 607	95 275	28 607
Construction	2 350	2 650	2 350	2 650
Manufacturing	4 026	1 084	4 026	1 084
Wholesale and retail	624 736	930 021	624 736	930 021
Community, social and personal services	3 162	1 260	3 162	1 260
Transport	344	39 814	344	39 814
Consumer	2 711 239	2 505 238	2 711 239	2 505 238
	3 546 765	3 588 593	3 546 765	3 588 593
Loans and advances to customers				
Loans and advances are receivable as follows				
Maturing within 3 months	566 564	926 087	566 564	926 087
Maturing between 3 and 12 months	231 681	144 529	231 681	144 529
Maturing after 12 months	2 748 520	2 517 977	2 748 520	2 517 977
	3 546 765	3 588 593	3 546 765	3 588 593
Special allowances for impairment				
Balance at 1 January	100 632	76 728	100 632	76 728
Charge for the year	59 703	119 047	59 703	94 709
Write offs	(83 766)	(69 987)	(83 766)	(45 649)
Recoveries	(21 798)	(25 156)	(21 798)	(25 156)
Balance at 31 December	54 771	100 632	54 771	100 632
Net loans and advances	**3 491 994**	**3 487 961**	**3 491 994**	**3 487 961**

Cash and cash equivalents

The Group held cash and cash equivalents of P6 632million at 31 December 2010 (2009: P4 431 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and other financial institution counterparties. A majority of the latter is held within the larger group as detailed in note 27.

4.2 Credit risk (continued)

Settlement risk

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

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

4.3 Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

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

Compliance with The Bank of Botswana liquidity ratio has been assessed as noted below:

	Group		Company	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
Total liquid assets	6 631 882	2 811 447	6 631 882	2 811 447
Total deposits	9 211 452	7 498 199	9 211 452	7 512 667
Ratio	**72%**	**37%**	**72%**	**37%**

Maturity gap analysis

Group - 31 December 2010

LIABILITIES AND SHAREHOLDERS FUNDS

	Carrying amount	Gross nominal (outflow)	Less than I month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	5 816 542	(5 816 542)	5 816 542	-	-	-	-	-
Term deposits accounts	3 394 910	(3 394 910)	180 676	1 249 872	1 919 896	39 418	5 048	
Deposits to banks	118 911	(118 911)	118 911		-	-	-	-
Total Liabilities to Customers and banks	**9 330 363**	**(9 330 363)**	**6 116 129**	**1 249 872**	**1 919 896**	**39 418**	**5 048**	
Other liabilities	358 836	(358 836)	358 836	-	-	-	-	-
Current tax	33 568	(33 568)	-	33 568	-	-	-	-
Deferred tax	1 232	(1 232)	-	1 232	-	-	-	-
Subordinated loan	241 129	(241 129)	16 129	-	-	-	50 000	175 000
Equity	641 043	(641 043)	-	-	-	-	-	641 043
Total liabilities and shareholder's funds	**10 606 171**	**(10 606 171)**	**6 491 094**	**1 284 672**	**1 919 896**	**39 418**	**55 048**	**816 043**

Company - 31 December 2010

LIABILITIES AND SHAREHOLDERS FUNDS

	Carrying amount	Gross nominal (outflow)	Less than I month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	5 816 542	(5 816 542)	5 816 542	-	-	-	-	-
Term deposits accounts	3 394 910	(3 394 910)	180 676	1 249 872	919 896	39 418	5 048	
Deposits from banks	118 911	(118 911)	118 911		-	-	-	-
Total Liabilities to Customers and banks	**9 356 233**	**(9 356 233)**	**6 116 129**	**1 249 872**	**1 919 896**	**39 418**	**5 048**	
Other liabilities	353 712	(353 712)	353 712	-	-	-	-	-
Current tax	33 568	(33 568)	-	33 568	-	-	-	-
Deferred tax	1 232	(1 232)	-	1 232	-	-	-	-
Subordinated loan	241 129	(241 129)	16 129	-	-	-	50 000	620 247
Equity	620 297	(620 297)	-	-	-	-	-	-
Total liabilities and shareholders funds	**10 606 171**	**(10 606 171)**	**6 491 094**	**1 284 672**	**1 919 896**	**39 418**	**55 048**	**795 297**

Maturity gap analysis

Group - 31 December 2009

LIABILITIES AND SHAREHOLDERS FUNDS

	Carrying amount	Gross nominal (outflow)	Less than I month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	5 590 119	(5 590 119)	5 590 119	-	-	-	-	-
Term deposits accounts	1 671 951	(1 671 951)	1 042 999	377 338	41 690	26 137	133 787	50 000
Deposits to banks	236 129	(236 129)	236 129	-	-	-	-	
Total Liabilities to Customers and banks	**7 498 199**	**(7 498 199)**	**6 869 247**	**377 338**	**41 690**	**26 137**	**133 787**	**50 000**
Other liabilities	172 893	(172 893)	172 893	-	-	-	-	-
Current tax	38 587	(38 587)	-	38 587	-	-	-	
Deferred tax	2 117	(2 117)	-	2 117	-	-	-	
Subordinated loan	241 656	(479 904)	-	-	12 926	10 980	145 609	310 389
Equity	372 488	(372 488)	-	60 000	20 000	-	292 488	-
Total liabilities and shareholder's funds	**8 325 940**	**(8 564 188)**	**7 042 140**	**478 042**	**74 616**	**37 117**	**571 884**	**360 389**

Company - 31 December 2009

LIABILITIES AND SHAREHOLDERS FUNDS

	Carrying amount	Gross nominal (outflow)	Less than I month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Current and savings account	5 604 587	(5 604 587)	5 604 587	-	-	-	-	-
Term deposits accounts	1 671 951	(1 671 951)	1 042 999	377 338	41 690	26 137	133 787	50 000
Deposits from banks	236 129	(236 129)	236 129	-	-	-	-	
Total Liabilities to Customers and banks	**7 512 667**	**(7 512 667)**	**6 883 715**	**377 338**	**41 690**	**26 137**	**133 787**	**50 000**
Other liabilities	174 240	(174 240)	174 240	-	-	-	-	-
Current tax	40 786	(40 786)	-	40 786	-	-	-	-
Deferred tax	2 117	(2 117)	-	2 117	-	-	-	-
Subordinated loan	241 656	(479 904)	-	-	12 926	10 980	145 609	310 389
Equity	354 474	(354 474)	-	60 000	20 000	-	274 474	-
Total liabilities and shareholders funds	**8 325 940**	**(8 564 188)**	**7 057 955**	**480 241**	**74 616**	**37 117**	**553 870**	**360 389**

4.4 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorization 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 relevant Audit Committees.

Capital management

Bank of Botswana sets and monitors the capital requirements for the group and requires the bank to maintain a minimum total capital of 15 percent of risk-weighted assets. The group's regulatory capital is analyzed in two parts:-

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

The calculation of both the above ratios is given below:-

	Company	
	2010	**2009**
	P'000	**P'000**
Capital Adequacy		
Core capital		
Stated capital	179 274	44 518
Other revenue reserves	269 856	206 337
Less intangible assets	(102 671)	-
	346 459	250 855
Supplementary capital		
Current years unpublished profits	184 224	115 308
Revaluation reserve subject to a 50% risk-adjustment	3 163	3 163
Portfolio provision	45 613	36 635
Subordinated loan	113 459	87 524
	692 918	**475 470**
Risk adjusted exposure		
Balance sheet items	3 034 673	2 592 514
Off-balance sheet items	591 193	338 180
	3 625 866	**2 930 694**
Capital adequacy ratio *(a/b x 100)*	19.1%	16.8%

4.6 Market risks

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

Exposure to market risks

The principal book used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 8-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- An 8-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependant upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vise versa.

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

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

In thousands of Pula	At 31 December	Average	Maximum	Minimum
2010				
Foreign currency risk	76	102	229	34
Interest rate risk	66	65	168	31
Overall	142	167	397	65
2009				
Foreign currency risk	68	76	157	7
Interest rate risk	227	74	242	9
Overall	295	150	399	16

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

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

4.6 Exposure to interest rate risk – non-trading portfolios

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

Group – 31 December 2010

	Zero rate	Floating rate	Fixed rate Instruments					
			0 – 1 Month	1-6 Months	6-12 Months	1 to 5 years	Over 5 years	Total
Total assets	876 963	9 729 208	-	-	-	-	-	10 606 171
Total liabilities and - shareholders' funds	(1 712 548)	(8 793 623)	-	-	-	(50 000)	(50 000)	(10 606 171)
Net mismatch	(835 585)	935 585	-	-	-	(50 000)	(50 000)	-
Interest Sensitivity Gap								
Impact of increase in interest rates								
50 basis points		4 678						
+1%		9 356						

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

Company – 31 December 2010

	Zero rate	Floating rate	Fixed rate Instruments					
			0 – 1 Month	1-6 Months	6-12 Months	1 to 5 years	Over 5 years	Total
Total assets	806 663	9 799 508	-	-	-	-	-	10 606 171
Total liabilities and shareholders' funds	(1 034 678)	(9 471 493)	-	-	-	(50 000)	(50 000)	(10 606 171)
Net mismatch	(228 015)	328 015	-	-	-	(50 000)	(50 000)	-
Interest Sensitivity Gap								
Impact of increase in interest rates								
50 basis points		1 640						
+1%		3 280						

Group – 31 December 2009

	Zero rate	Floating rate	Fixed rate Instruments					
			0 – 1 Month	1-6 Months	6-12 Months	1 to 5 years	Over 5 years	Total
Total assets	550 243	7 775 697	-	-	-	-	-	8 325 940
Total liabilities and shareholders' funds	(586 085)	(7 639 855)	-	-	-	(50 000)	(50 000)	(8 325 940)
Net mismatch	(35 842)	135 842	-	-	-	(50 000)	(50 000)	-
Interest Sensitivity Gap – Group and Company								
Impact of increase in interest rates								
50 basis points		679						
+1%		1 358						
Company – 31 December 2009								
Total assets	550 243	7 775 697	-	-	-	-	-	8 325 940
Total liabilities and shareholders' funds	(586 085)	(7 639 885)	-	-	-	(50 000)	(50 000)	(8 325 940)
Net mismatch	(35 842)	135 842	-	-	-	(50 000)	(50 000)	-
Interest Sensitivity Gap – Group and Company								
Impact of increase in interest rates								
50 basis points		679						
+1%		1 358						

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

4.6 Market risk management policy (continued)

Effective interest rates of financial assets and liabilities

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

4.7 Foreign Exchange Rate Risk Management

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

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

Group financial markets is responsible for:-

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

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

The table below sets out principal structural foreign exchange exposures of the group for major currencies only at 31 December 2010 and 2009.

Group and Company

	2010	2009
	Assets	**Assets**
American Dollars	806 629	1 050 960
British Pound	39 755	39 962
EURO	109 078	134 043
South African Rand	252 535	57 190

4.8 Financial assets and liabilities

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

Group – 31 December 2010

	Note	Trading	Available for sale	Held to maturity	Loans & receivables	Cash and bank balances	Other amortized cost	Total carrying amount	Fair value
Due from central bank	14	-	-	-	-	573 446	-	573 446	573 446
Due from other banks	15	-	-	-	-	878 089	-	878 089	878 089
Investment Securities	16	-	5 429 425	-	-	-	-	5 429 425	5 429 425
Loans and Advances to customers	17	-	-	-	3 491 994	-	-	3 491 994	3 491 994
			5 429 425	**-**	**3 491 994**	**1 451 535**	**-**	**10 372 954**	**10 372 954**
Deposits from banks	21	-	-	-	-	-	118 911	118 911	118 911
Deposits from customers	22	-	-	-	-	-	9 211 452	9 211 452	9 211 452
Debt securities issued	25	-	-	100 000	-	-	-	100 000	100 000
Subordinated liabilities	25	-	-	141 129	-	-	-	141 129	141 129
		-	**-**	**241 129**	**-**	**-**	**9 330 363**	**9 571 492**	**9 571 492**
Company – 31 December 2010									
Due from central bank	14	-	-	-	-	573 446	-	573 446	573 446
Due from other banks	15	-	-	-	-	878 089	-	878 089	878 089
Financial investments	16	-	5 429 425	-	-	-	-	5 429 425	5 429 425
Loans and Advances to customers	18	-	-	-	3 491 994	-	-	3 491 994	3 491 994
			5 429 425	**-**	**3 491 994**	**1 451 535**	**-**	**10 372 954**	**10 372 954**
Deposits from banks	21	-	-	-	-	-	118 911	118 911	118 911
Deposits from customers	22	-	-	-	-	-	9 211 452	9 211 452	9 211 452
Debt securities issued	25	-	-	100 000	-	-	-	100 000	100 000
Subordinated liabilities	25	-	-	141 129	-	-	-	141 129	141 129
		-	**-**	**241 129**	**-**	**-**	**9 330 363**	**9 571 492**	**9 571 492**

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

Group – 31 December 2009

	Note	Trading	Available for sale	Held to maturity	Loans & receivables	Cash and bank balances	Other amortized cost	Total carrying amount	Fair value
Due from central bank	14	-	-	-	-	425 038	-	425 038	425 038
Due from other banks	15	-	-	-	-	1 010 372	-	1 010 372	1 010 372
Financial investments	16	-	3 277 364	-	-	-	-	3 277 364	3 277 364
Loans and Advances to customers	18	-	-	-	3 487 961	-	-	3 487 961	3 487 961
		-	**3 277 364**	**-**	**3 487 961**	**1 435 410**	**-**	**8 200 735**	**8 200 735**
Deposits from banks	21	-	-	-	-	-	236 129	236 129	236 129
Deposits from customers	22	-	-	-	-	-	7 262 070	7 262 070	7 262 070
Debt securities issued	25	-	-	100 000	-	-	-	100 000	100 000
Subordinated liabilities	25	-	-	141 656	-	-	-	141 656	141 656
		-	**-**	**241 656**	**-**	**-**	**7 498 199**	**7 739 855**	**7 739 855**
Company – 31 December 2009									
Due from central bank	14	-	-	-	-	425 038	-	425 038	425 038
Due from other banks	15	-	-	-	-	1 010 372	-	1 010 372	1 010 372
Financial investments	16	-	3 277 364	-	-	-	-	3 277 364	3 277 364
Loans and Advances to customers	18	-	-	-	3 487 961	-	-	3 487 961	3 487 961
		-	**3 277 364**	**-**	**3 487 961**	**1 435 410**	**-**	**8 200 735**	**8 200 735**
Deposits from banks	21	-	-	-	-	-	236 129	236 129	236 129
Deposits from customers	22	-	-	-	-	-	7 276 538	7 276 538	7 276 538
Debt securities issued	25	-	-	100 000	-	-	-	100 000	100 000
Subordinated liabilities	25	-	-	141 656	-	-	-	141 656	141 656
		-	**-**	**241 656**	**-**	**-**	**7 512 667**	**7 754 323**	**7 754 323**

4.8 Financial assets and liabilities (continued)

Valuation of financial instruments

The Group's accounting policy on fair value measurements in discussed in accounting policy outlined on page 15.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

For more complex instruments, the Group uses propriety valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations.

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

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

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

In thousands of Pula	Note	Level 1	Level 2	Level 3	Total
31 December 2010					
Investment securities	16	-	5 429 425	-	5 429 425
		-	**5 429 425**	**-**	**5 429 425**
31 December 2009					
Investment securities	16	-	3 277 364	-	3 277 364
		-	**3 277 364**	**-**	**3 277 364**

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
5. Interest income				
Loans and advances to customers	501 252	554 870	501 252	554 870
Investment securities	286 869	323 514	286 869	323 514
Balances with banks and investments	23 492	45 328	23 492	45 328
	811 613	923 712	811 613	923 712
6. Interest expense				
Amounts due to banks	70 589	45 080	70 589	45 080
Subordinated loan capital	19 922	24 027	19 922	24 027
Amounts due to customers	237 267	357 743	237 267	357 743
	327 778	426 850	327 778	426 850
7. Net trading income				
Foreign currency	87 632	83 279	87 632	83 279
Trading securities	2 619	10 817	2 619	10 817
	90 251	94 096	90 251	94 096
8. Loan loss impairment				
Specific	64 890	94 709	64 890	94 709
Non specific	(4 147)	24 338	(4 147)	24 338
Recoveries / write-offs	(35 520)	(43 607)	(35 520)	(43 607)
Charge per income statement	25 223	75 440	25 223	75 440
Movement in specific impairments				
Balance at beginning of the year	50 879	50 325	50 879	50 325
Charge for the year	64 890	94 709	64 890	94 709
	115 769	145 034	115 769	145 034
Write-offs during the year	(59 046)	(68 999)	(59 046)	(68 999)
Provisions no longer required	(47 565)	(25 156)	(47 565)	(25 156)
Balance at end of the year	9 158	50 879	9 158	50 879
Movement in non-specific impairments				
Balance at beginning of the year	49 753	26 403	49 753	26 403
Charge for the year	(4 147)	24 338	(4 147)	24 338
Write-offs during the year	7	(988)	7	(988)
Balance at end of the year	45 606	49 753	45 606	49 753
Total specific and non-specific Impairment at end of year	54 771	100 632	54 771	100 632

	Group		Company	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
9. Personnel expenses				
Directors' remuneration – management services	3 050	1 632	3 050	1 632
Salaries and wages	119 044	117 640	118 895	117 280
Pension fund costs	7 717	8 464	7 717	8 464
Other	21 811	24 434	21 811	24 434
	151 622	152 170	151 473	151 810
10. Other administration and general expenses				
Professional fees- audit	1 379	1 028	1 379	1 028
- consultancy	6 223	6 390	6 223	6 390
Directors' fees	200	240	200	240
Repairs and maintenance	18 763	14 408	18 763	14 408
Communication costs	19 973	20 869	19 973	20 869
Group recharges	125 250	115 677	125 250	115 677
Advertising & sponsorship	4 716	6 024	4 716	6 024
Other expenses	55 404	42 103	54 705	42 090
	231 908	**206 739**	**231 209**	**206 726**
11. Income tax expense				
Taxation charge for the year:				
Current taxation at 15%	43 165	43 128	40 970	41 633
Additional Company taxation at 10%	28 777	28 752	27 314	27 756
Less: Withholding tax utilised during the year	(12 562)	(17 967)	(12 562)	(17 967)
Deferred tax charge	(885)	(3 868)	(885)	(3 868)
Taxation per income statement	58 495	50 045	54 837	47 554

The Bank has P 55 379 027 of additional company taxation (ACT) reserves available for set-off against withholding tax payable on future dividends. ACT reserves are scheduled to fall away with effect from 1 July 2011 if not utilised.

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
11. Income tax expense (continued)				
Taxation reconciliation:				
Taxation at the current year rate on the profit for the year	70 680	71 880	66 403	69 389
Non deductible items	2 797	(1 432)	2 527	(1 432)
ACT utilised on dividends	(12 562)	(17 967)	(12 562)	(17 967)
Disallowable impairment losses	-	1 733	-	1 733
Dividend income	-	-	-	(1 456)
Other	(2 420)	(4 169)	(1 531)	(2 713)
Current taxation per income statement	58 495	50 045	54 837	47 554
12. Dividends				
Interim dividend paid/proposed	60 000	120 000	60 000	120 000
3rd interim dividend declared	20 705	60 000	20 705	60 000
	80 705	180 000	80 705	180 000

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

13. Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of P224 223 thousand (2009:P235 308), and a weighted average number of ordinary shares outstanding of 288 919 907 (2009:288 062 570), calculated as follows:

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
Weighted average number of ordinary shares *In thousands of shares*				
Issued ordinary shares at 1 January	288 063	288 063	288 063	288 063
Effect of the new issues during the year	1 714	-	1 714	-
Weighted average number of ordinary shares at 31 December	289 777	288 063	289 777	288 063
14. Cash and balances with Central Bank				
Notes and coins	155 978	150 882	155 978	150 882
Balances with the central bank	417 468	274 156	417 468	274 156
	573 446	425 038	573 446	425 038

Included in bank balances is an amount of P426 871 000. (2009: P274 058 000) which is a restricted minimum statutory reserve balance not available for the Group's daily operations.

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
15. Loans and Advances to banks				
Bank balances	61 182	126 588	61 182	126 588
Placements and other investments	816 907	883 784	816 907	883 784
	878 089	1 010 372	878 089	1 010 372
Maturity profile				
On demand to one month	878 089	1 010 372	878 089	1 010 372
Placements and other investments due from other banks are part of the Bank's money market activities and comprise short term lending to other banks				
16. Financial Investments				
Bank of Botswana Certificates	5 180 347	3 013 468	5 180 347	3 013 468
Government bonds: quoted	249 078	263 896	249 078	263 896
	5 429 425	3 277 364	5 429 425	3 277 364
Maturity profile:				
0 – 3 months	5 180 347	2 995 725	5 180 347	2 995 725
4 – 6 months		17 743		17 743
Over 1 year	249 078	263 896	249 078	263 896
	5 429 425	3 277 364	5 429 425	3 277 364
At 31 December 2010 Bank of Botswana Certificates amounting to P455 000 000 (2009: P353 000 000) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility.				
17. Loans and advances to customers				
Loans and advances – originated	3 546 765	3 588 593	3 546 765	3 588 593
Less: provision for impairment	(54 771)	(100 632)	(54 771)	(100 632)
	3 491 994	3 487 961	3 491 994	3 487 961

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
17 Loans and advances to customers (continued)				
Impaired loans net of provisions				
Loans neither past due nor impaired	3 240 660	3 242 406	3 240 660	3 242 406
Less: portfolio impairment provisions	(45 613)	(49 753)	(45 613)	(49 753)
	3 195 047	3 192 653	3 195 047	3 192 653
Gross impaired loans	53 099	70 861	53 099	70 861
Less: individual specific provisions	(9 158)	(50 879)	(9 158)	(50 879)
Impaired loans net of specific provisions	43 941	19 982	43 941	19 982
Loans past due but not impaired	253 006	275 326	253 006	275 326
Net loans	3 491 994	3 487 961	3 491 994	3 487 961

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

Loans and advances include the following aggregate amounts, on which interest has not been accrued during the year	1 836	46 104	1 836	46 104
18 Other assets				
Prepayments and accrued income	105 311	72 101	105 311	72 101
Remittances and in transit items	921	22 643	921	22 643
	106 232	94 744	106 232	94 744

19 Property and equipment – Group and Company

	Premises P'000	Equipment P'000	Total P'000
Cost or valuation			
At 1 January 2010	9 909	105 851	115 760
Transfers	357	(357)	-
Additions	1 719	876	2 595
Disposals	(165)	(38 293)	(38 458)
Adjustments	299	1 925	2 224
At 31 December 2010	12 119	70 002	82 121
Accumulated Depreciation			
At 1 January 2010	2 204	83 096	85 300
Charge for the year	448	8 826	9 274
Disposal	(97)	(38 268)	(38 365)
Adjustments	(118)	1 716	1 598
At 31 December 2010	2 437	55 370	57 807
Net book value			
31-Dec-10	**9 682**	**14 632**	**24 314**
At 31 December 2009	**8 063**	**22 398**	**30 461**

Premises are shown at valuation less accumulated depreciation and impairment losses. Revaluations are carried out every three years by independent valuers and periodically by directors, on open market basis. The last valuation was performed by Knight Frank, an independent firm of professional property valuers on 25th February 2007.

20 Intangible assets

	Customer Relationships P'000
Cost - Addition	103 752
Accumulated amortisation and impairment	
Charge for the year	(1 081)
Net book value as at 31 December 2010	102 671

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

21 Deposits due to other banks

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
Bank balances	79 402	11 281	79 402	11 281
Placements	39 509	224 848	39 509	224 848
	118 911	236 129	118 911	236 129
Maturity profile				
On demand to one month	118 911	236 129	118 911	236 129

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
22 Deposit from non-bank customers				
Demand deposits	6 842 405	5 602 749	6 868 275	5 617 217
Time deposits	2 369 047	1 659 321	2 369 047	1 659 321
	9 211 452	7 262 070	9 237 322	7 276 538
Maturity profile				
On demand to one month	7 523 403	6 633 118	7 549 273	6 647 586
One month to six months	1 421 067	419 028	1 421 067	419 028
Six months to one year	86 982	26 137	86 982	26 137
Greater than one year	180 000	183 787	180 000	183 787
	9 211 452	7 262 070	9 237 322	7 276 538
23 Other liabilities				
Deferred income and accruals	232 916	20 478	221 899	20 478
Accounts payable	125 920	152 415	131 813	153 762
	358 836	172 893	353 712	174 240
24 Deferred taxation				
Balance at the beginning of the year	2 117	5 985	2 117	5 985
Current year charge	(885)	(3 868)	(885)	(3 868)
Balance at the end of the year	1 232	2 117	1 232	2 117
The deferred tax balance comprises of:				
Deferred tax on fixed assets	1 232	2 117	1 232	2 117
	1 232	2 117	1 232	2 117

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
25 Debt securities				
USD Loan	16 129	16 656	16 129	16 656
Local note issue (1)	50 000	50 000	50 000	50 000
Local note issue (2)	75 000	75 000	75 000	75 000
Senior debt	100 000	100 000	100 000	100 000
	241 129	241 656	241 129	241 656

The USD loan amount to USD2.5 million raised in 2002 and to be repaid no later than the tenth anniversary which is the 15th of October 2012 and no earlier than five years before that date. Interest rate on the loan is LIBOR plus 1% per annum.

The local note issue (1) includes a subordinated debt of BWP 50 million with a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 70 basis points per annum for first 5 years and the same reference rate plus a stepped up margin of 120 basis points. The debt matures on 20 December 2015.

Local note issue (2) comprise of BWP 75 million raised through a new debt issue on 19 November 2007 as part of the P500 Million Debt Issuance Programme and is to be repaid no later than on the tenth anniversary which is 27th November 2017 and no earlier than five years before that date. The interest rate is a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 40 basis points per annum for first 5 years and the same reference rate plus a stepped up margin of 90 basis points.

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

None of the loan capital is secured or convertible.

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
26 Income tax paid				
Opening balance	38 587	20 914	40 786	20 651
Charge for the year	58 495	53 913	54 837	51 422
Closing balance	(33 568)	(38 587)	(33 568)	(40 786)
	63 514	36 240	62 055	31 287

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
27. Cash and cash equivalents				
Cash and bank balances with Central Bank	573 446	425 038	573 446	425 038
Financial investments	5 180 347	2 995 725	5 180 347	2 995 725
Balances due from other banks	878 089	1 010 372	878 089	1 010 372
	6 631 882	4 431 135	6 631 882	4 431 135

Cash and cash equivalents include financial investments with a maturity of less than 3months.

28. Related parties

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

Transactions with other companies in the Standard Chartered Group are in the ordinary course of business on an arms length basis.

Details of related parties transactions and balances during the year are as follows:

Balances due from:				
Standard Chartered Bank PLC London	538 733	836 944	538 733	836 944
Standard Chartered Bank New York	117 218	42 485	117 218	42 485
Other group companies	5 713	4 355	5 713	4 355
	661 664	883 784	661 664	883 784
Balances due to				
Standard Chartered Bank PLC London	(116 782)	-	(116 782)	-
Standard Chartered Bank New York	-	1 616	-	1 616
Other group companies	116 655	76 793	116 655	76 793
	(127)	78 409	(127)	78 409

No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end

Directors' Fees	200	240	200	240
Executive Directors' Remuneration	3 051	1 633	20	1 633
Interest Income	4 862	6 731	4 862	6 731
Interest Expense	6 191	159	6 191	159
Group Recharges	114 896	95 174	114 896	95 174
Group share scheme expense	2 212	2 056	2 212	2 056
Directors' holding in company shares	4 500	4 500	4 500	4 500

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

Executive officers also participate in Group share scheme programme.

29. Operating leases

	2008	2009	2010	2011	2012	2013
Long-term accrual	1 025 058	1 048 290	723 839	284 536	99 970	6 692
Short-term accrual	45 384	288 980	552 575	450 890	156 332	93 278
Total accrual	**1 070 442**	**1 337 270**	**1 276 414**	**735 426**	**256 302**	**99 970**

	2008	2009	2010	2011	2012	2013
Minimum lease payments						
Cash flow within 1 year	5 457 768	7 346 150	9 322 564	5 241 479	1 521 848	625 249
Cash flow between 2 - 5 years						
Future cash flows	13 582 094	10 348 776	7 762 213	2 520 734	669 172	43 923
Total future cash flows	**19 039 863**	**17 694 926**	**17 084 777**	**7 762 213**	**2 191 020**	**669 172**
Already accrued	(1 070 442)	(1 337 270)	(1 276 414)	(735 426)	(256 302)	(99 970)
Future expenses	17 969 421	16 357 656	15 808 363	7 026 787	1 934 718	569 201

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

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
30. Contingent liabilities and commitments				
Un-drawn commitments	494 432	14 125	494 432	14 125
Acceptances and letters of credit	722 675	546 720	722 675	546 720
Performance and bid bonds	-	305 990	-	305 990
Guarantees and standby letters of credit	2 214 275	1 130 411	2 214 275	1 130 411
	3 431 382	**1 997 246**	**3 431 382**	**1 997 246**

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

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

	Group		Company	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
31. Fiduciary activities				
The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.	11 260	6 500	11 260	6 500

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

32. Average balances for the Group

The following are the average daily balances for the full year 2010 and 2009:

	2010 P'000	2009 P'000
Total Assets	8 431 587	7 824 145
Total Liabilities	9 614 828	7 626 689
Shareholders' Equity	500 179	372 488
Contingent liabilities and un-drawn commitments	494 432	289 413

33 Business combination

On 26 November 2010, the Group acquired 100 per cent of the share capital of Barclays Nominees (Pty) Ltd. This was part of the Group acquisition of the Africa Custody business from Barclays. The acquisition resulted in the recognition of the intangible asset refered to in note 20." The business acquired recorded a loss of P 419 thousand before tax from the acquisition date to year end. Had the business been acquired on 01 January 2010, a possible loss before tax of P 400 thousand would have been recorded.

	2010	2009
34 Investment in wholly owned subsidiary companies		
Standard Chartered Bank Insurance Agency (Pty) Ltd	100	100
Standard Chartered Investments (Pty) Ltd	100	100
Standard Chartered Nominees (Pty) Ltd	100	-

35. Segmental reporting

	Consumer Banking	Wholesale Banking	Total
2010			
Statement of Comprehensive Income			
Net interest income	363 813	120 022	483 835
Non funded income	156 549	78 088	234 637
Net income before impairment	**520 362**	**198 110**	**718 472**
Impairment charge	(27 499)	2 276	(25 223)
Net interest income after impairment	**492 863**	**200 386**	**693 249**
Operating Expenses	(255 200)	(155 331)	(410 531)
Profit before taxation	**237 663**	**45 055**	**282 718**
Taxation			(58 495)
Profit after taxation	**237 663**	**45 055**	**224 223**
Statement of Financial Position			
Performing advances and financial investments	2 711 239	6 015 873	8 727 112
Non performing advances	21 842	31 257	53 099
Total Deposits	2 789 915	6 421 537	9 211 452
2009			
Statement of Comprehensive Income			
Net interest income	365 798	138 497	504 295
Net funded income	139 815	96 350	236 165
Net interest income before impairment	**505 613**	**234 847**	**740 460**
Impairment charge	(74 446)	(994)	(75 440)
Net interest income after impairment	**431 167**	**233 853**	**665 020**
Operating Expenses	(241 132)	(138 535)	(379 667)
Profit before taxation	**190 035**	**95 318**	**285 353**
Taxation			(50 045)
Profit after taxation	**190 035**	**95 318**	**235 308**
Statement of Financial Position			
Performing advances and financial investments	2 398 244	4 146 965	6 495 209
Non performing advances	24 757	82 136	106 893
Total Deposits	2 673 000	4 589 070	7 262 070

36. Segmental reporting (continued)

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

In millions of pula	**2010**	**2009**
Revenues		
Total revenue for reportable segments	718 472	740 460
Profit or loss before taxation		
Total profit or loss for reportable segments	282 718	285 353
Assets		
Total assets for reportable segments	10 130 894	8 039 551
Other unallocated amounts	475 277	286 389
Consolidated assets	10 606 171	8 325 940
Liabilities		
Total liabilities for reportable segments	10 058 982	7 870 687
Other unallocated amounts	547 189	455 253
Consolidated total liabilities	10 606 171	8 325 940

Notice to Members

Notice is hereby given that the 36th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Thursday 26th May 2011 at 1500 hours at Gaborone Sun for the following purposes:

- To receive, consider and adopt the Chairman's report.
- To receive, consider and adopt the Chief Executive Officer's report.
- To receive, consider and approve the Annual Financial Statement for the year ended 31st December 2010, together with the Auditor's reports therein.
- To note the resignations of Messr David D. Cutting in accordance with Article 89 (e) of the Articles of Association.
- To Approve the appointment of Abdul Raheem Khan as a non-executive director in accordance with article 90 of the Articles of Association.
- To approve the remuneration of the auditors for the year ended 31st December 2010.
- To confirm the appointment of the auditors for the year 2011.
- To receive and consider questions and or comments from the shareholders.

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

By order of the Board

Thato Mmile
Secretary

Notes

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Proxy Form

Please complete in block letters

I/We_____

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

_____ or failing him or her

_____or failing him or her

_____or failing him or her

The chairman of the meeting, as my proxy to vote on my behalf at the annual general meeting of the company to be held on the 26th May 2011.

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

Signature_____ Date _____2011

Notes

1. Any alteration of this form must be initialed by the signatory.
2. This form of proxy should be completed and returned so as to reach the Secretary of the company on the 5th floor, Standard House, The Mall, P O Box 496, Gaborone, no later than Tuesday 24th May 2010.

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