Standard Chartered

Standard Chartered Bank Botswana Limited Annual Report 2011

Leading the way

in Asia, Africa and the Middle East

Standard Chartered


Standard Chartered House
B 231 AOZ

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Performance highlights
Growing income and profits

Net revenue up by

21% to BWP866.5m

from BWP718.5m in 2010

Cost to income ratio down to

53% in 2011

from 57% in 2010

Profit before taxation up by

24% to BWP351.4m

from BWP282.7m in 2010

Profit after taxation up by

26% to BWP281.4m

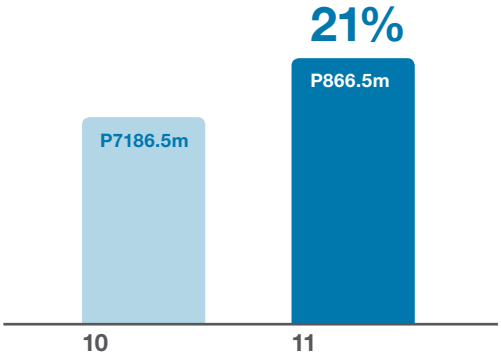
from BWP224.2m in 2010

Dividend per share increased by

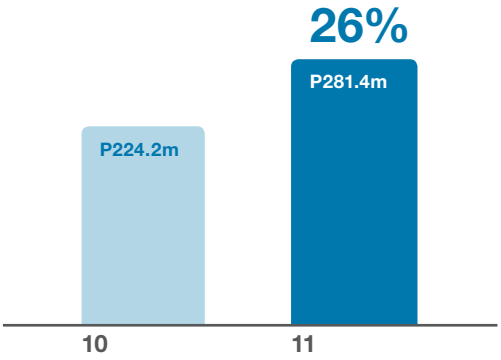
98% to 54t

compared to 27.1t in 2010

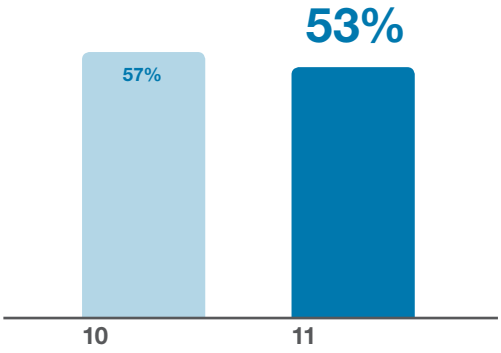
Net revenue



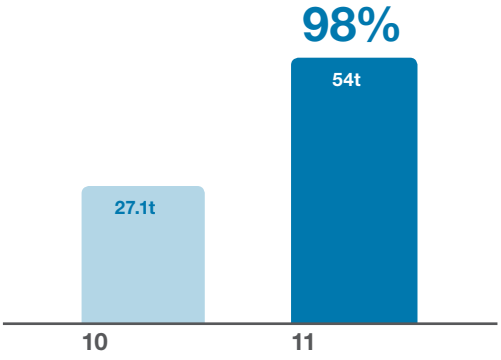
Profit after taxation



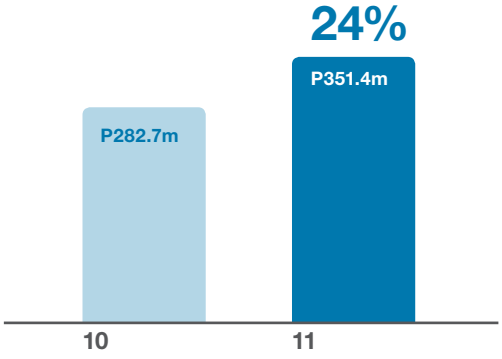
Cost to income ratio



Dividend per share



Profit before taxation



Chairman's statement

Bojosi Otlhogile
Chairman

Botswana's economic environment

Botswana's economy contracted by 5.8% quarter-on-quarter in the fourth quarter of 2011 from a growth of 5.5% recorded in the third quarter due to a sharp reduction in mining output. On a year-on-year basis, GDP only expanded by 1.4% in the fourth quarter, an abrupt slowdown from the 7.1% recorded in the third quarter.

During 2011, Bank of Botswana Monetary Policy Committee kept the Bank Rate unchanged at 9.5% and this was consistent with the Bank's forecast that inflation will converge within the 3-6.0% objective range in the medium-term. Although the market expected domestic demand to be subdued as growth in personal income remained sluggish, the upside risk to the inflation outlook emanating from administered prices continued to persist. While headline inflation averaged 8.5% in 2011, core inflation excluding administered prices averaged 7.5% indicating that other factors besides administered prices were fuelling inflation. We remain worried about rising food and fuel prices in South Africa as we import most of our goods from that market, Botswana's imported inflation averaged 10.7% indicating the adverse effects rising prices in South Africa have in our market. Domestic inflation remained slightly above the upper end of the objective range, ending the year at an average of 6.5%.

Earnings and growth continue to soar every year

It is Standard Chartered Bank Botswana's objective to create a high performance bank, denoted by customer-oriented superior products and sustained rewards for shareholders and staff. The 2011 results have clearly demonstrated the Bank's commitment to this objective with success stories in the following key areas:

- Strong revenue momentum
- Continued cost/income ratio improvement
- Discipline on operating costs
- Excellent trading profit growth (24.3% pre-tax)
- 39% return on equity

Initiatives and innovative products, such as Swaps, Forwards, Currency Options and improved use of well-trained Direct Sales Representatives (DSRs), continue to deliver positive results. The Bank has:

- trained and grown the DSR team
- upgraded the technology in the Bank's call centre that handles customer queries

Consumer Banking continues as an engine of strong asset growth. Wholesale Banking has registered phenomenal growth with improved performance across most products. Higher contributions from cash management have produced good sales momentum in all our businesses, coupled with effective cost control, very robust risk management and a well-organised compliance framework. We continually strive to keep these at the highest standards.

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

We have laid a solid foundation for our Consumer Banking business and believe that opportunities still exist to take us to the next level of performance. Fundamentally, the consumer lending market is still driven by a large and diversified portfolio. We are seeing opportunities and good growth in the mortgage book and envisage this becoming a pillar of our business.

Wholesale Banking, which comprises Global Markets and Origination and Client Coverage, also had a very good year, registering phenomenal growth across all segments.

The Financial Markets segment, which was driven by an aggressive FX sales team, also achieved tremendous growth in profitability. The Bank continues to excite customers with innovative products, such as Currency Options and Interest Rate Trading.

The Board thanks every member of staff for the outstanding financial results for 2011, following a difficult period in both the Botswana and global economies. Standard Chartered Bank Botswana is also proud to announce the appointment of our first Motswana CEO, Moatlhodi Lekaukau, and we take great pleasure in welcoming him to the team.

Bojosi Otlhogile
Chairman

Chief Executive Officer's statement

Michael Wiegand
Acting Chief Executive Officer

Standard Chartered Bank Botswana achieved record results in 2011. After three years of relatively flat growth, we have delivered a sterling performance with double digit growth in income and profit. These strong results reflect consistency in the execution of our strategy throughout the financial crisis.

Performance overview

Wholesale Banking presented excellent results with a 50% increase in performance, making Standard Chartered Bank Botswana one of the best performing countries in Standard Chartered Bank's African operations. Despite the challenging environment, we stuck with our strategy and values, and continued to deepen relationships with customers and provide innovative products and solutions. The Bank has been consistent in leveraging the capabilities of product partners to develop tailored solutions for our customers. We were especially successful in offering superior risk management solutions for our clients to better manage ongoing market volatility. We are also very pleased with our level of participation in landmark transactions, which has facilitated major projects in the economy.

Consumer Banking continues to be the largest revenue generator for the Bank, and consistently delivers solid performance. The year under review, which was particularly exciting, saw the introduction to the market of some very innovative, market-first products, such as Salary Advance and Scheme Savings. We also launched our Proof Points campaign to educate the public on the various ways in which our value proposition is superior to what is currently available in the market. We continue to drive our customer-centric approach, and to focus on delivering products and services that meet the evolving requirements of our customers.

Customer service is an ongoing priority. We made further investments in systems and processes to provide greater convenience and speed. Improving our distribution reach is also of key importance, and we continued to leverage the capabilities of our alternate channels to make banking more accessible. A significant development in this area is the launch of our extended hours initiative. Standard Chartered Bank Botswana was the first bank in the market to extended branch opening hours to 7pm during the week, and to open on Sundays at our Game City branch. This was an exciting development for our customers and demonstrates the Bank's commitment to serving them better.

Risk management

As a global bank, Standard Chartered continues to invest in improving its risk management frameworks to ensure sound management of risks and controls. We are constantly aligning our processes and procedures with best international

practices to enable us to manage our risks more effectively. The Bank remains well capitalised with good oversight of our liquidity, which allows us to grow and continue to meet the market's requirements. We look forward to the implementation of Basel II, and to working together as an industry with the Bank of Botswana to ensure a smooth transition.

Our people

People continue to be our single biggest asset, and the main driver of performance. We have strong teams in place and continue to focus on developing leadership capacity for our present and future needs. The growth of our business as the Southern Africa hub for Consumer Banking presents opportunities for further development and advancement of our local staff as they assume regional responsibilities.

Our geographical footprint allows us to tap into Standard Chartered Bank's global workforce and harness the strength of our international brand. During the year under review, we managed to infuse diverse skills into our business from different markets. We value the benefit of skills migration, and a key priority is to continue to expose our people to other markets.

Our communities

Our communities are an integral part of our business. During 2011 we undertook a number of important initiatives to give back to society. We took our financial literacy campaign to the youth through the launch of our Adopt-a-School campaign. This programme enabled staff to share the basics of banking with school children, and to instill in them the important role that banks play in the economy and in daily life. We also contributed towards a campaign to raise money for the prevention of blindness through cataract operations. The Bank raised funds that enabled 150 sight restoring operations to take place.

Other initiatives that we undertook included the donation of two portable water tanks to Tsholofelo community, and ten stand pipes and a tree-planting programme at Legodimo Camphill to mark World Food Day. We will continue to seek ways to make a difference in the lives of the people in the communities that we serve.

Outlook

Botswana continues to recover steadily from the effects of the global financial crisis. 2011 saw improvement in growth rates, primarily on the back of increased activity in the mining sector. Globally, we see the beginning of a shift in economic power from the West to the East. The economies of the West remain deeply affected by the impact of the financial crisis, with the possibility of Europe and the UK falling back into recession, while the East remains resilient and posting strong growth rates.

Both of these dynamics are likely to have an effect on our economy, which presents challenges and opportunities for the Bank. Europe continues as Botswana's biggest trading partner, and any major problems there will impact our economy. On the other hand, the emergence of China and India as powerful economic forces has the potential to have the reverse effect.

Our Bank is perfectly positioned to capitalise on these developments, and to further support our customers. Our China/Africa proposition allows our customers to benefit from our extensive knowledge of both markets, and leverage our global capabilities for value-adding solutions. As Botswana looks to increase trade with some of the big Asian economies, we will be there to help our customers take advantage of the new trade links. We will continue to focus on key customer segments and existing and emerging trade corridors to facilitate business between the two continents, and within Africa itself.

Another exciting development is the investment in our distribution network. This year, we will install six additional ATMs, and open three new branches in Botswana, one of which will offer extended hours. This will enable us to reach more of our customers, and offer more convenient service delivery.

Summary

This was a great year with excellent performance. We adhered to the fundamentals of our strategy to deliver strong results. We have been innovative and responsive, and have delivered for our shareholders and our customers. We are very excited about 2012, and look forward to the opportunities that lie ahead.

I would like to thank our staff members for their commitment and hard work. These results would not have been possible without their immense contribution. I look forward to seeing even more dedication and teamwork as we serve our customers and strive to meet the challenging targets for 2012.

I would also like to extend my most sincere gratitude to our customers and clients, our regulators, investors and other stakeholders for their support. We look forward to continued collaboration and partnership in the years ahead.

Michael Wiegand
Acting Chief Executive Officer

Consumer Banking

Michael Wiegand
Head of Consumer Banking

The year 2011 was another great year for the Consumer Bank, as we continued to lead the market in service and product innovation and delivered strong financial results. We also significantly improved our brand presence, centered on our 'proof points', which articulate the many ways in which our products and services are the best in the market.

Our financial performance

We built on the back of strong balance sheet growth, with double-digit increases in both customer deposits and loans. We are particularly proud of our lending to small and medium sized enterprises, which nearly tripled during the year. We also had double-digit growth in mortgages, increasing our market share. While decreasing margins put downward pressure on our net interest income, we saw strong growth in fee income, driven largely by significant growth in foreign exchange sales. While our bad debt expense increased over exceptionally low levels in 2010, at 1.6% of average assets, the performance of our loan book continues to be very good. We see good momentum as we enter 2012, and are poised to deliver another year of great financial performance.

Beyond our financial performance, we are very proud of our continued leadership in product and service innovation in the Botswana retail banking market. Among our innovations were our Salary Advance product which brings unparalleled flexibility, value, and convenience to our customers when they have financial emergencies by allowing them instant access their salaries before month end.

Our Scheme Savings product enables employers to encourage savings by their employees, not just borrowing, and enables our customers to build a nest egg as they repay their loans, ending the cycle of indebtedness.

On the service front, we continue to be the only bank in Botswana with evening hours and seven-day-a-week branch service at our branch in Game City, and will offer these same extended hours at our new branch at Airport Junction. In December we became the only bank in Botswana to offer a full service 24-hour call centre to our customers. We continue to offer the best suite of online and mobile banking services to our retail and business customers, all for free, and with additional capabilities to come in 2012.

In addition to these major innovations, we continue to work hard to improve the day-to-day experience of our customers. To improve service and reduce waiting times we added more staff in our branches, and by addressing other service gaps, we have cut customer complaints in half. We have also greatly reduced the time it takes to acquire new products, including 30-minutes to open a new current account and receive your debit card and check book, and a guaranteed three-day disbursement on personal loans. We completed major renovations or relocations at our branches in Mahalapye, Palapye, Orapa and Letlhakane, and facelifts on our branches in Gaborone. All of these innovations and improvements have been recognized by our customers. Our Net Promoter Score, which is the proportion of our customers that would strongly recommend our products and services to their friends and colleagues, increased by an impressive 25%.

We look forward to a great 2012 when we will be adding new full-service branches to our network for the first time in many years. We will continue to lead the industry in product and service innovations, as we strive to be the 'Best Bank in Botswana' for our retail and business customers.

Wholesale Banking

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

In contrast to 2010, which saw continued contraction following the financial meltdown in 2008, 2011 produced very pleasing results with momentum picking up in the second half of the year following the conclusion of a high profile mining transaction.

Inflation has been stubborn throughout the year. Starting high at 7.9% and closing at 9.2%, it was above the 3-6% target band set by the authorities. The good news is that inflation saw some letting-off as the year closed with the January figure unchanged at 9.2%. GDP growth started strong at 6.3% in Q1, eased down to 5.7% in Q2 on account of weak mining numbers, and then picked up to 7.8% in Q3.

Undoubtedly some of the regulatory and market changes have created challenges:

- Minimum reserving requirements which remained high at 10% since July 2011.
- Market experienced excess liquidity at the beginning of November 2011 as a result of a low BOBC issuance by Bank of Botswana, which sought to cap the total issuance at BWP10bn. This saw short-term interest rates tumble to zero, and rebound at the end of December 2011 to only 4.5% from 6.5% levels prior to these changes.

Further, the imminent rolling-out of Basel II will impact capital requirements going forwards. Governance and anti-money laundering controls are becoming ever more stringent and the higher capital requirements will continue to exert pressure on pricing. However, credit appetite remains robust in a highly competitive market with low asset growth propensity.

Wholesale Banking has seen an increased interest in new products, including Chinese RMB; derivative transactions; and our diamond and jewellery capability. With the purchase of the Custody Business from Barclays, Standard Chartered Bank's reach to local and international institutional investors has been considerably extended. Essential to our strategy is the deepening of relationships with our core clients. As a result, our wallet share of our client's business has continued to grow.

Focus areas for 2012

With weak economic indicators emanating from the US and Europe, growth from 2012 to 2013 is expected to be passive. Diamond prices have flattened, although activity and demand in the cutting and polishing industry remains high. The move of DTC International from London to Botswana will not only boost our strong presence in this sector, but will also generate a host of opportunities for Botswana.

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

A low interest rate environment persists and this has impacted depositors, opening the market to stiff competition from alternative asset investments. The expectation is that the low rates will assist, over time, in bringing the overall cost of borrowing down, especially as competition for the scarce assets heats up. The market keenly awaits the Q1 2012 issuance of government paper following successful issues in March and September 2011.

The resourcing and processing environments at the Bank have evolved and strong monitoring and control measures will continue to be implemented. Our capital base is well positioned to accommodate our broad business pipeline and we expect another good year despite the threats of an economic slowdown on the back of the European debt crisis.

People

Great place to work

We strive to make Standard Chartered Bank Botswana a great place to work – an environment that is engaging, inclusive and safe. We seek to reward success and encourage employees to take control of their personal development.

We are continually guided by Standard Chartered Bank's five core values: Courageous; Responsive; Creative; International; and Trustworthy. Our behaviours and culture are a source of competitive advantage. They guide us in how we relate to one another and how we relate to our customers to create a great working environment.

Deloitte 'Best Company to Work For' Survey Award 2011

Employee engagement is integral in our focus on people. We encourage behaviours that bring out the very best of every employee, and assess their performances not only on results, but on how those results were achieved. In 2011 Standard Chartered Bank Botswana emerged as second runner up and received a Deloitte's 'Best Company to Work For' award. The Bank was invited to make a presentation and to share our experiences and best practice with other participants. The award provides an ideal opportunity to promote the Standard Chartered brand and position the Bank as a preferred employer in the marketplace.

Employee relations

To supplement our engagement initiatives, the Bank has increased its efforts to improve employee relations and communications. In each quarter of 2011, and in conjunction with the Country Leadership Team, the Bank held Town Hall meetings where employees were updated on the Bank's performance and new initiatives introduced, and questions were encouraged from participants. One of the Town Hall meetings was held in Francistown and was very well received by staff in the Bank's northern branches.

Towards the end of the year the Bank hosted Christmas parties in Gaborone and Francistown, at which loyalty awards were presented to staff members with loyal service ranging from five years to 35 years.

Furthermore, the bank is striving to improve working relationships with trade unions via engagement and mutual respect.

Sustainability

Standard Chartered Bank Botswana focuses its social responsibility activities on projects that are sustainable in the long term and that will make a difference in the communities in which it operates. Standard Chartered Bank Botswana has a long history of giving back to the community by supporting long and short-term projects, and it continues to encourage employees to volunteer for charitable causes. The bank's social responsibility programmes demonstrate that Standard Chartered Bank is 'Here for good'.

Seeing is Believing

Standard Chartered has renewed its commitment to the global Seeing is Believing initiative, which aims to make a difference in the lives of people who are affected by, or suffering from preventable blindness. The bank pledged to raise US$100m by 2020. Since 2003, Seeing is Believing has impacted the lives of 25 million people globally, has helped fund 2.78 million sight-saving cataract operations and has facilitated the distribution of medicine to treat Vitamin A deficiency and river blindness in 3.37 million people. The next round of funding will enable NGOs to develop projects that will benefit communities in the long-term. Botswana was selected as a Tranche 1 country, and the renewed funding will benefit the Botswana Eye Care Providers Society, which will focus on diabetes-related blindness.

Standard Chartered Bank Botswana participated in the 2011 World Sight Day commemorations that were held in Mahalapye, and we continue to raise funds through activities such as the Up Kgale Challenge and various raffles. Not only is the community benefiting from Seeing is Believing, but the bank's employees are as well. In partnership with Opticals Botswana, the bank offered its employees free eye tests on the ocassion of World Sight Day 2011. The exercise included colour vision, intraocular pressure, vision and glaucoma testing.

Diversity and Inclusion

Diversity and Inclusion is another Standard Chartered initiative that revolves around creating a workplace culture that enables employees to fulfil their potentials and to broaden their perspectives. The initiative brings diverse physical, cultural and thinking styles together, to enable employees to recognise their value and the skills they bring to the bank.

Diversity and Inclusion is not confined to Standard Chartered employees, it also includes customers, clients and communities. Standard Chartered Bank Botswana has embarked on various initiatives, one of which is the construction of access ramps for disabled people in all buildings that house our branches. So far, Francistown, Mahalapye, Orapa customers have benefited from this initiative, and other branches will have ramps constructed in due course. Standard Chartered Bank Botswana is also committed to hiring people with disabilities in its continued drive to be diverse and inclusive. In 2011 the bank observed International Men's Day for the first time, and it continued to actively promote International Women's Day, which promotes gender equality and empowerment of women in and outside of the workplace.

HIV and AIDS

Living with HIV (LwHIV) is a Standard Chartered HIV and AIDS workplace awareness programme, which empowers communities, through education, to make informed lifestyle choices. The programme seeks to raise awareness among employees and wider communities, to educate the public about the prevention and treatment of HIV, strengthen the Bank's position as HIV and AIDS thought leaders, and to share our knowledge with other stakeholders in the drive to reduce new infections. Standard Chartered Bank HIV Champions, who are trained to hold workshops, participated in national activities that included World Aids Day in Moshupa on 1 December 2011. The Champions also hosted an HIV awareness walk and a cultural fundraising dinner in Orapa. Funds raised were donated to orphanages in the Orapa and Letlhakane areas. Standard Chartered also partnered with the University of Botswana's Wellness Centre in the 'Lose the Shoes' football competition. The competition, which was played bare-foot, raised funds for Stepping Stones, a Mochudi-based

orphanage that assists with caring for children affected by HIV and AIDS.

Branch-led efforts

Standard Chartered also launched Adopt-a-School – a financial literacy programme through which branches and departments of the bank are encouraged to identify local schools with which to partner. This initiative is focused on long-term sustainability, requiring that each branch and department make a minimum one-year pledge to the school of its choice. Adopt-a-School is not only limited to financial literacy – staff members are also encouraged to become actively involved in the school's fundraising activities – to donate second hand books, computers and other equipment, to provide career counselling for students, to arrange motivational guest speakers, to develop life-skills enrichment programmes and after-school programmes, and to procure holiday job placements for secondary school students. The possibilities for cooperation include all the activities essential for building strong, long-term relationships with school management teams and their learners.

Branch and head office staff also work on various sustainability initiatives, including World Water Day, during which the Bank donated ten freshwater taps to underprivileged families in Francistown. Staff also donated office furniture and seedlings, which they planted, to various orphanages and institutions across the country during World Food Day.

2012

Standard Chartered will continue to build on existing relationships, such as with Legodimo Camphill, and to form new partnerships with other organisations that align with the Bank's sustainability strategy. Standard Chartered will continue to work with the National Paralympic Association as founding sponsor of the National Paralympics Games.

The Gaborone Marathon was cancelled in 2011, but the Bank has joined hands with the main sponsor, ensuring that the Steinmetz Gaborone Marathon takes place in 2012 and beyond.

Standard Chartered has identified lack of awareness as a major contributory factor in the increased incidence of cancer in Botswana, and intends to work closely with the Cancer Association of Botswana to reach out and sensitise the public on issues of cancer.

The Bank's Employee Volunteering initiative will be used to drive the Adopt-a-School financial literacy campaign, which will be the focal point of our social responsibility in 2012. Each department and branch of the bank has now adopted either a primary or secondary school, and throughout 2012 will assist in developing banking skills and knowledge among students, while also assisting schools with other projects they may wish to undertake.

Corporate governance

Corporate governance

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

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

Boards and Committees

The Board of Standard Chartered Bank Botswana has ultimate responsibility for ensuring that 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 the Bank. Committees have responsibilities and authorities to monitor and control specific aspects as defined in their Terms of Reference (eg 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, and as a result, operates effectively.

The Standard Chartered Bank Botswana Board comprises of Executive and Non-Executive Directors who meet quarterly.

Executive Directors:
Serty Leburu

Non-Executive Directors:
Washington Matsaira – Acting Chairman
Bojosi Otlhogile**
Reginald Motswaitso*
Ebenezer Essoka*

Secretary:
Thato Mmile

* Member of the Audit Committee
**Chairman since November 2011

Governance Committees

Audit Committee

The Audit Committee holds 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 at least two non-executive directors.

Country Management Committee (MANCO)

MANCO provides unified leadership by determining and reaching agreement on responses to cross-business challenges, particularly those relating to financial management, customer and franchise management, corporate governance, people and talent.

MANCO meets at least once a month and comprises Country Chief Executive Officer/Chairman), and heads of Consumer Banking, Origination and Client Coverage, Financial Markets, Technology and Operations, Finance, Human Resources, Corporate Affairs, Compliance, Internal Audit, and the Country Chief Risk Officer and Company Secretary.

Assets and Liability Committee (ALCO)

ALCO ensures the efficient implementation of balance sheet management policies, and receives and reviews reports on liquidity, market risk and capital management. ALCO identifies balance sheet management issues that lead to under-performance and reviews deposit pricing strategy for the market. The Committee meets at least once a month and comprises Country Chief Executive Officer/Chairman, and heads of Consumer Banking, Origination and Client Coverage, Financial Markets and Finance.

Country Operational Risk Committee (CORC)

CORC provides a forum for the identification, assessment, mitigation and subsequent monitoring of country-level operational risk trends and issues. This includes ensuring compliance with internal policies and relevant regulations, as well as the Bank's operational risk management and assurance framework. The Committee also ensures compliance in promoting and sustaining a culture of high-level operational risk management within the country, by reviewing Country Operational Risk Profiles and ensuring appropriate ownership, action and progress for all risks, as well as reviewing overdue audit points. CORC meets monthly and comprises Country Chief Executive Officer/Chairman, heads

of Consumer Banking, Origination and Client Coverage, Financial Markets, Technology and Operations, Group Internal Audit, Legal and Compliance, Human Resources, Finance and Corporate Affairs, and the Country Chief Risk Officer.

Early Alert and Credit Portfolio Committees
These committees, which meet monthly, provide overall direction and management of the Bank's credit portfolio. The committees comprise Country Chief Executive Officer/ Chairman, heads of Consumer Banking and Origination and Client Coverage, as well as the Country Chief Risk Officer and other credit staff members.

Pensions Executive Committee (PEC)
Together with the Board of Trustees, PEC oversees the Bank's pension scheme arrangements. PEC, which comprises Country Chief Executive Officer/Chairman, and heads of Finance and Human Resources, meets at least twice a year.

Group Internal Audit (GIA)

In 2011 GIA integrated with Country Assurance in order to fill skills gaps in the country audit team. Standard Chartered auditors from within the region or beyond can be engaged to take part in reviews at country level.
The role of GIA is to provide an independent assurance to management and to the Audit Committee that significant risks associated with all aspects of the business and operations have been identified and prioritised. In addition, an effective system of controls over these risks is in place and is working as intended. Standard Chartered Bank's plans, policies and principles have been effectively communicated and implemented in Botswana.

GIA reports are sent to the Audit Committee and the senior management of the bank, as well as to the External Auditors and Regulators as and when they are requested. There is a clear process of following up and closing all audit issues raised in the course of business.

Compliance

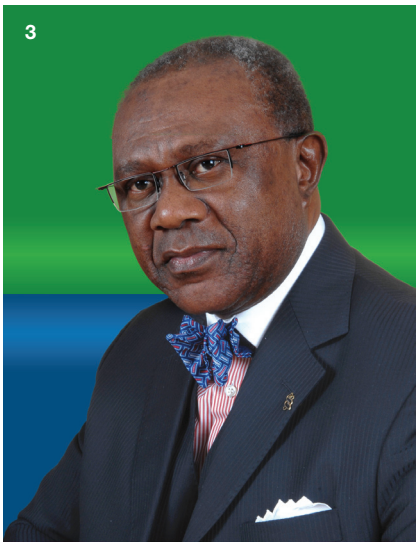
Compliance has two very important roles. Firstly, it ensures that the Bank adheres to the applicable laws and regulations, policies and procedures, and it supports senior management in developing and maintaining constructive relationships with regulators.

Secondly, it creates solutions for business problems and assists in the identification, assessment, monitoring and mitigation of compliance and regulatory risks. Compliance controls this process by independently monitoring the Banks activities in order to ensure intended controls are in order and are working to ensure compliance.

Compliance provides training and advice to the Bank's employees, when necessary, and assists them to operate within applicable compliance policies and standards, and within external legal and regulatory requirements.

Standard Chartered Bank's strategic vision is to have in place a compliance function that enables sustainable growth through expert advice and independent monitoring.

Board of directors



1. Bojosi Otlhogile,

Bojosi Otlhogile was appointed to the Board in September 2008. He holds an LL.B degree from the University of Botswana and an LL.M and PhD from the University of Cambridge's Faculty of Law. He has held various academic posts at the University of Botswana, including Head of Law (1993-99), Dean of Social Sciences (1999-2003) and is currently Vice- Chancellor. He is a member of UB's council and senate and was on the council of the International Africa Institute, UK. Bojosi was appointed Chairman of the Board of SCB Botswana in November 2011.

2. Washington Matsaira

Washington Matsaira is Chief Executive Officer of SCB Zimbabwe, and Area CEO for Southern Africa (Zimbabwe, Botswana and Zambia). He joined Standard Chartered in 1977 and became CEO in July 2001. He previously held the positions of CEO in Uganda, and Head of Corporate & Institutional Banking, Account Relationship Manager and Branch Manager in Zimbabwe. He was appointed to the Board of SCB Botswana in November 2004.

Washington is Chairman of the Board of the Southern Africa Media Development Fund (1997-208) and Botswana Housing Corporation. He is also a Director at Longman Botswana, chairs Special Olympics Botswana, and is a council member of the University of Zambia and the University of Swaziland.

Washington resigned as the Acting Chairman of the Board in November 2011 and resigned from Standard Chartered in early 2012.

3. Ebenezer Essoka

Ebenezer Essoka was appointed to the Board as a Non-Executive Director in June 2010. He holds a BSc degree in finance from Seton Hall University in New Jersey, US. Ebenezer also holds a MBA (Finance) and a Certificate in International Business from the same institution. He is a director of First Africa South Africa and of Chestnut Hills Investment Company.

4. Reginald Motswaiso

Reginald Motswaiso was appointed as a Non-Executive Director of SCB Botswana in April 2010. He holds a BCom degree and is a FCCA, ACCA, ACMA and CIMA accountant. Reginald holds directorships with African Union of Housing Finance, Sefalana Holdings, Botswana Stock Exchange and the Central Securities Depository.

5. Serty Leburu

Serty Leburu was appointed as an Executive Director of SCB Botswana in May 2009, and became Deputy CEO in 2010. She joined the Bank in May 2007 as Chief Finance Officer, before being appointed Chief Operations Officer in December 2008. She holds a BCom degree and CIMA qualifications.

Serty also serves on the Board of Botswana Telecommunication Corporation.

6. Thato Mmile

Thato Mmile was appointed as Company Secretary in February 2005 and is Head of Legal at Standard Chartered Bank Botswana. Thato holds a LL.B degree and sits on the Northside Primary School Council. She also chairs the Botswana Football Association Disciplinary Committee. Prior to joining the Bank, Thato worked for the Administration of Justice, where she was appointed senior magistrate in December 2004.

Senior management

Michael Wiegand
Acting CEO and Head of Consumer Banking

Moatlhodi Lekaukau
Incoming CEO (effective 1 February 2012)

Serty Leburu
Deputy Chief Executive Officer

Thato Mmile
Head of Legal and Company Secretary

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

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

Dayo Omolokun
Chief Finance Officer

Godwin Tanyongana
Country Chief Risk Officer

Juliana White
Head of Compliance

Ediretse Ramahobo
Chief Information Officer

Stephen Nzonzi
Acting Head of Human Resources

Umakanth Pai
Head of Credit Risk (Consumer Banking) Southern Africa

Marina Khan
Head of Internal Audit

Ithabeleng Letsunyane
Head of Corporate Affairs

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Report of the directors
For the year ended 31 December 2011

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 2011.

Activities
The Bank continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Bank also has an insurance brokerage company, an investment services company and a custodial services company. 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 2010:

- Profit before taxation P351.4 million (up 24.3% from 2010)
- Profit for the year P281.4 million (up 25.5% from 2010)

Dividends
An interim dividend of P 60 million (20.1 thebe per share gross) was declared during the year of which P20 million (6.70 thebe per gross share) was unpaid as at year end.

Stated capital
There has been no change to the bank's stated capital during the year. (2010: 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.)

Directors
The following were directors of the Bank as at 31 December 2011.

B Otlhogile (Chairman)
W Matsaira
S Leburu
R Motswaiso
E.Essoka

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 2011

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

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Standard Chartered Bank Botswana Limited, comprising the statement of financial positions at 31 December 2011, 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 are also responsible for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error and maintaining adequate accounting records and an effective system of risk management.

The directors' 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 Bank and its subsidiaries' 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 Group annual financial statements and annual financial statements of Standard Chartered Bank Botswana Limited are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual group financial statements

The Group annual financial statements and annual financial statements of the Bank as identified in the first paragraph were approved by the directors on 7 March, 2012 and are signed on their behalf by:

Bojosi Otlhogile

Chairman

Moatlhodi Lekaukau

Managing Director

Independent auditors' report

To the shareholders of Standard Chartered Bank Botswana Limited

Report on the financial statements

We have audited the group annual financial statements and the annual financial statements of Standard Chartered Bank Botswana Limited, which comprise the statements of financial position as at 31 December 2011, 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 to the financial statements as set out on pages 27 to 61.

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 a manner required by the Companies Act, 2003 (No. 32 of 2004) of Botswana, and the Banking Act (Cap 46:04) and for such internal controls as the directors determine is necessary to ensure the preparation of financial statements that are free from material misstatements whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 and Group'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 and Group'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 2011, 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 a manner required by the Companies Act, 2003 (No 32 of 2004) of Botswana and the Banking Act (Cap 46:04).

KPMG

7 March 2012

Practising member: FJ Roos

Membership number: 20010078.45

KPMG

Consolidated statement of comprehensive income
For the year ended 31 December 2011

	Notes	Group 2011 P000s	Group 2010 P000s	Company 2011 P000s	Company 2010 P000s
Interest income	5	845 913	811 613	845 913	811 613
Interest expense	6	(334 556)	(327 778)	(334 556)	(327 778)
Net interest income		**511 357**	**483 835**	**511 357**	**483 835**
Fee and commission income		208 861	155 913	178 714	130 658
Less: commission expense		(8 067)	(12 311)	(8 067)	(12 311)
Net fee and commission income		200 794	143 602	170 647	118 347
Net trading income	7	154 315	90 251	154 315	90 251
Dividend income		–	–	20 749	18 014
Other income		36	784	36	784
Operating income		**866 502**	**718 472**	**857 104**	**711 231**
Operating expenses					
Loan loss impairment	8	(56 471)	(25 223)	(56 471)	(25 223)
Personnel expenses	9	(164 484)	(151 622)	(163 272)	(151 473)
Operating lease expenses		(20 178)	(16 646)	(20 178)	(16 646)
Depreciation and amortisation		(22 055)	(10 355)	(22 055)	(10 355)
Other administration and general expenses	10	(251 907)	(231 908)	(251 883)	(231 209)
Profit before taxation		**351 407**	**282 718**	**343 245**	**276 325**
Income tax expense	11	(70 035)	(58 495)	(63 403)	(54 837)
Profit for the year		**281 372**	**224 223**	**279 842**	**221 488**
Other comprehensive income					
Net change in fair value of available for sale investments		11 975	1 367	11 975	1 367
Total other comprehensive income		11 975	1 367	11 975	1 367
Total comprehensive income for the year		**293 347**	**225 590**	**291 817**	**222 855**
Dividend per share (Thebe)	12	53.63	27.05	53.63	27.05
Basic and diluted earnings per share (Thebe)	13	94.31	77.84	93.80	76.43

The notes on pages 33 to 61 are an integral part of these consolidated financial statements

Consolidated statement of financial position
For the year ended 31 December 2011

	Notes	Group 2011 P000s	Group 2010 P000s	Company 2011 P000s	Company 2010 P000s
Assets					
Cash and cash equivalents	14	905 617	573 446	905 617	573 446
Loans and advances to banks	15	1 366 420	878 089	1 366 420	878 089
Investment securities	16	2 964 977	5 429 425	2 964 977	5 429 425
Loans and advances to customers	17	4 096 691	3 491 994	4 096 691	3 491 994
Property and equipment	18	28 154	24 314	28 154	24 314
Intangible assets and goodwill	19	107 164	102 671	107 164	102 671
Other assets	20	221 905	106 232	221 905	106 232
Total assets		**9 690 928**	**10 606 171**	**9 690 928**	**10 606 171**
Liabilities					
Deposits from other banks	21	237 346	118 911	237 346	118 911
Deposits from non bank customers	22	8 074 136	9 211 452	8 105 496	9 237 322
Subordinated debt	23	245 000	241 129	245 000	241 129
Current taxation	24	20 428	33 568	13 796	33 568
Deferred taxation	25	22 062	1 232	22 062	1 232
Other liabilities	26	318 268	358 836	315 819	353 712
Total liabilities		**8 917 240**	**9 965 128**	**8 939 519**	**9 985 874**
Equity					
Stated capital		179 273	179 273	179 273	179 273
Reserves		594 415	461 770	572 136	441 024
Total equity		**773 688**	**641 043**	**751 409**	**620 297**
Total liabilities and equity		**9 690 928**	**10 606 171**	**9 690 928**	**10 606 171**

The notes on pages 33 to 61 are an integral part of these consolidated financial statements

Consolidated statements of changes in equity
As at 31 December 2011

	Stated capital P000s	Revaluation reserve P000s	Statutory credit risk reserve P000s	Retained earnings P000s	Dividen reserve P000s	Capital contribution P000s	Available for sale reserve P000s	Total P000s
Group								
Balance at 01 January 2010	**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	–	–	–	–	–	–	1 367	1 367
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	–	42 965
Balance 31 December 2010	**179 273**	**6 327**	**8 223**	**396 938**	**20 705**	**28 210**	**1 367**	**641 043**
Total comprehensive income for the period								
Profit	–	–	–	281 372	–	–	–	281 372
Fair value adjustment: Available for sale securities	–	–	–	–	–	–	11 975	11 975
Transactions with owners, recorded directly in equity								
Adjustment	–	–	–	–	–	3	–	3
Dividends to equity holders – paid	–	–	–	(140 000)	(20 705)	–	–	(160 705)
Dividends to equity holders – proposed	–	–	–	(20 000)	20 000	–	–	
Total contributions by and distributions to owners	–	–	–	(160 000)	(705)	–	–	(160 705)
Balance 31 December 2011	**179 273**	**6 327**	**8 223**	**518 310**	**20 000**	**28 213**	**13 342**	**773 688**

The notes on pages 33 to 61 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity (continued)
For the year ended 31 December 2011

	Stated capital P000s	Revaluation reserve P000s	Statutory credit risk reserve P000s	Retained earnings P000s	Dividen reserve P000s	Capital contribution P000s	Available for sale reserve P000s	Total P000s
Company								
Balance 01 January 2010	**44 518**	**6 327**	**8 223**	**235 406**	**60 000**	**–**	**–**	**27 914**
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)
– proposed	–	–	–	(20 705)	20 705	–	–	–
Total contributions by and distributions to owners	**134 755**	–	–	**(80 705)**	**(39 295)**	**28 213**	**1 367**	**42 968**
Balance 31 December 2010	**179 273**	**6 327**	**8 223**	**376 189**	**20 705**	**28 213**	**1 367**	**620 297**
Total comprehensive income for the period								
Profit	–	–	–	279 842	–	–	–	279 842
Fair value adjustment: available for sale securities	–	–	–	–	–	–	11 975	11 975
Transactions with owners, recorded directly in equity								
Dividends to equity holders								
– paid	–	–	–	(140 000)	(20 705)	–	–	(160 705)
– proposed	–	–	–	(20 000)	20 000	–	–	–
Total contributions by and distributions to owners	–	–	–	**(160 000)**	**(705)**	–	–	**(160 705)**
Balance 31 December 2011	**179 273**	**6 327**	**8 223**	**496 031**	**20 000**	**28 213**	**13 342**	**751 409**

The notes on pages 33 to 61 are an integral part of these consolidated financial statements

Stated capital

Issued

298 350 611 ordinary shares of no par value (2010: 298 350 611)

As at 31 December 2011 un-issued shares totalled 101 649 389 (2010: 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 externally imposed capital requirements throughout the period.

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 Limited. 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 available for sale securities.

Consolidated statement of cash flows
For the year ended 31 December 2011

	Note	Group 2011	Group 2010	Company 2011	Company 2010
Cash flow from operating activities					
Profit for the period		281 372	224 223	279 842	221 488
Adjustments for:					
– Depreciation	19	5 718	9 274	5 718	9 274
– Amortisation		16 337	1 081	16 337	1081
– Net adjustment of property and equipment		–	(183)	–	(183)
– Gains on disposal of property and equipment			93		93
– Net impairment loss on loans and advances	8	56 471	25 223	56 471	25 223
– Unrealised exchange gain on subordinated debt		–	(527)	–	(527)
Income tax expense		70 035	58 495	63 403	54 8375
		429 933	317 679	421 771	311 286
Change in investment securities		(184 989)	33 924	(184 989)	33 924
Change in loans and advances to customers		(661 168)	(41 828)	(661 168)	(41 828)
Change in other assets		(115 673)	(11 488)	(115 673)	(11 488)
Change in deposits from banks		118 435	(117 218)	118 435	(117 218)
Change in amounts due to non-bank customers		(1 137 316)	1 949 382	(1 131 826)	1 960 784
Change in other liabilities and provisions		(40 568)	197 192	(37 893)	190 721
		(1 591 346)	**2 327 643**	**(1 591 343)**	**2 326 181**
Income tax paid	26	(83 175)	(63 514)	(83 175)	(62 055)
Net cash generated from operating activities		**(1 674 521)**	**2 264 129**	**(1 674 518)**	**2 264 126**
Cash flows from investing activities					
Acquisition of property and equipment		(9 558)	(2 595)	(9 558)	(2 595)
Acquisition of intangibles assets		–	(103 752)	–	(103 752)
Net cash generated from/(used in) investing activities		**(9 558)**	**(106 347)**	**(9 558)**	**(106 347)**
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		–	134 755	–	134 755
Increase in Subordinated Loan		3 871	–	3 871	–
Group capital contribution		3	28 210	–	28 213
Dividends paid		(160 705)	(120 000)	(160 705)	(120 000)
Net cash (used in) / generated from financing activities		**(156 831)**	**42 965**	**(156 834)**	**42 968**
Net increase / (decrease) in cash and cash equivalents		(1 840 910)	2 200 747	(1 840 910)	2 200 747
Cash and cash equivalents at 1 January		6 631 882	4 431 135	6 631 882	4 431 135
Cash and cash equivalents at 31 December	27	**4 790 972**	**6 631 882**	**4 790 972**	**6 631 882**

The notes on pages 33 to 61 are an integral part of these consolidated financial statements

Notes to the financial statements for the year ended 31 December 2011

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 2011 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:

Notes to the financial statements continued

- 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.

3. 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.

(g) 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.

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

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the 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-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

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

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.

Notes to the financial statements continued

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 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,

ability to pay all amounts due according to the contractual terms of the (?)

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.

(h) Cash and cash equivalents

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

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

(i) Trading assets and liabilities

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

(j) Property and equipment

Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment 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 periodically by the directors using independent valuers on the open market basis. Surpluses and deficits arising on the revaluation of properties are transferred to or from a revaluation reserve.

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

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

(l) 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.

Notes to the financial statements continued

(m) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group share of identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill included in the intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses at disposal of an entity include the carrying amount of goodwill relating to the entity sold Goodwill is allocating to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments.

Acquired Intangibles

At the date of acquisition of a subsidiary or associate intangible assets that are deemed and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date these assets are assessed for indicators of impairment, in the event that asset's carrying amount is determined to be greater than it's recoverable amount, the asset is written down immediately.

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 life for the current year is 8 years.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

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.

IFRS 9 – Financial instruments
IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The standard becomes effective for the Group's 2015 financial statements.

(t) IFRS 10 Consolidated financial statements

The standard introduces a single control model to assess whether an investee should be consolidated. This control model requires entities to perform the following in determining whether control exists:

- Identify how decisions about the relevant activities are made,
- Assess whether the entity has power over the relevant activities,
- Assess whether the entity is exposed to variability in returns, and
- Assess whether the entity is able to use its power over the investee to affect returns.

Control should be assessed on a continuous basis and should be reassessed as facts and circumstances change. The standard becomes effective for the Groups' 2013 financial statements.

IFRS 11 Joint arrangements
The standard establishes that classification of the joint arrangement depends on whether parties have rights to and obligations for the underlying assets and liabilities. According to the standard, joint

Notes to the financial statements continued

arrangements are divided into two types, each having its own accounting model:

- Joint operations whereby the jointly controlling parties have joint rights and obligations for the liabilities, relating to the arrangement, or
- Joint ventures whereby the joint controlling parties have rights to the net assets of the arrangement.

In terms of the standard, all joint ventures will have to be equity accounted. The standard, which becomes effective for the Group's 2013 financial statements, is not expected to have any impact on its financial statements.

IFRS 12 Disclosure of interests in other entities
The standard combines the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities in a single standard. The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The adoption of the new standard will increase the level of disclosure provided for an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard, which becomes effective for the Group's 2013 financial statements, is not expected to have any impact on its financial statements.

IFRS 13 – Fair value measurement
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. This standard will become effective for the Group's 2013 financial statements.

Amendment to IAS 1 – Financial statement presentation regarding other comprehensive income
The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment will become effective as from the 1 July 2012.

Amendment to IAS 12 Income Taxes – Income and deferred taxation
IAS 12, 'Income taxes', currently requires an entity to measure the deferred taxation relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred taxation assets or liabilities arising on investment property measured at fair value. The amendment, which becomes effective for the Group's 2013 financial statements, is not expected to have any impact on its financial statements.

Amendment to IAS 19 - Employee benefits
This amendment eliminates the corridor approach and calculates finance costs on a net funding basis. This amendment will become effective as from the 1 July 2013 and is not expected to have an impact on the Groups' 2014 financial statements.

IAS 27 (2011) Separate financial statements
IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The standard, which becomes effective for the Group's 2013 financial statements, is not expected to have a significant impact on its financial statements.

IAS 28 Investments in associates and joint ventures (2011)
IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. The amendments addresses that IFRS 5 is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest. The standard, which becomes effective for the Group's 2013 financial statements, is not expected to have any impact on its financial statements.

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 Internal Audit. 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 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.

Notes to the financial statements continued

Exposure to credit risk

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.

Exposure to credit risk

	Loans/advances to customers		Loans/advances to bank		Financial investments	
	2011	2010	2011	2010	2011	2010
	P000s	P000s	P000s	P000s	P000s	P000s
Carrying amount	4 096 691	3 491 994	1 366 420	878 089	2 964 977	5 429 425
Assets at amortised cost						
Individually impaired:						
Grade 14: Doubtful	61 167	52 099	–	–	–	–
Allowance for impairment	(28 883)	(9 158)	–	–	–	–
Carrying amount	32 284	43 941	–	–	–	–
Collectively impaired:						
Grade 1–9: Good	–	–	–	–	–	–
Grade 10–12: Early alert	82 721	280 708	–	–	–	–
Grade 13: Substandard	1 583	287	–	–	–	–
Gross amount	84 304	280 995)				
Allowance for impairment	(56 821)	(45 613)	–	–	–	–
Carrying amount	27 483	235 382	–	–	–	–
Past due but not impaired:						
Grade 1–9: Good	299 615	198 089	–	–	–	–
Grade 10–12: Early alert	55 416	35 072	–	–	–	–
Grade 13: Substandard	13 329	18 413	–	–	–	–
Carrying amount	368 360	251 574	–	–	–	–
Past due comprises:						
01-30 days	299 615	198 089	–	–	–	–
30-60 days	55 416	35 072	–	–	–	–
60-90 days	13 329	18 413	–	–	–	–
Carrying amount	368 360	251 574	–	–	–	–
Neither past due nor impaired:						
Grade 1-9: Good	3 668 564	2 961 097	1 366 420	878 089	–	–
Carrying amount – amortised cost	4 096 691	3 491 994	1 366 420	878 089		
Available-for-sale assets						
Low to fair risk	–	–	–	–	2 964 977	5 429 425
Carrying amount – fair value	–	–	–	–	2 964 977	5 429 425
Total carrying amount	4 096 691	3 491 994	1 366 420	878 089	2 964 977	5 429 425

In addition to the above, the Group had entered into lending commitments of P280 009 thousands (2010: P494 432 thousands) with counterparties graded 1 to 9. Refer to note 30 on page 64for financial guarantee contracts in respect of debtors graded 1 to 9.

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 P000s	Net P000s	Gross P000s	Net P000s	Gross P000s	Net P000s
31 December 2011						
Grade 14: Doubtful	61 167	32 284	–	–	–	–
31 December 2010						
Grade 14: Doubtful	23 678	14 520	–	–	–	–

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

	Group		Company	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
Performing	3 752 868	3 271 513	3 752 868	3 271 513
Past due but not impaired	368 360	251 574	368 360	251 574
Impaired	61 167	23 678	61 167	23 678
	4 182 395	3 546 765	4 182 395	3 546 765
Past due but not impaired loans and advances comprise:				
Past due up to 30 days	299 615	198 089	299 615	198 089
31-60 days	55 416	35 072	55 416	35 072
61-90 days	13 329	18 413	13 329	18 413
	368 360	251 574	368 360	251 574

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 2011 or 2010.

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	
	2011 P'000s	2010 P'000s	2011 P'000s	2010 P'000s
Against individually impaired				
Others	201	261	201	261
Against past due but not impaired				
Property	1 500	5 456	1 500	5 456
Against neither past due nor impaired				
Property	928 757	878 957	928 757	878 957
Debt securities	186 674	570 786	186 674	570 786
Others	142 404	126 863	142 404	126 863
	1 259 536	**1 582 323**	**1 259 536**	**1 582 323**

Notes to the financial statements 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	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
Segmental analysis by industry				
Agriculture	1 733	–	1 733	–
Mining	17 054	55 534	17 054	55 534
Finance and Insurance	4 707	95 275	4 707	95 275
Construction	51 312	2 350	51 312	2 350
Manufacturing	179 009	4 026	179 009	4 026
Wholesale and retail	1 305 843	674 835	1 305 843	674 835
Community, social and personal services	5 603	3 162	5 603	3 162
Transport	6 155	344	6 155	344
Consumer	2 610 979	2 711 239	2 610 979	2 711 239
	4 182 395	**3 546 765**	**4 182 395**	**3 546 765**
Loans and advances to customers				
Loans and advances are receivable as follows				
Maturing within 3 months	373 825	566 564	373 825	566 564
Maturing between 3 & 12 months	352 985	231 681	352 985	231 681
Maturing after 12 months	3 455 585	2 748 520	3 455 585	2 748 520
	4 182 395	**3 546 765**	**4 182 395**	**3 546 765**
Special allowances for impairment				
Balance at 1 January	54 771	100 632	54 771	100 632
Charge for the year	66 185	59 703	66 185	59 703
Write offs	(23 766)	(83 766)	(23 766)	(83 766)
Recoveries	(11 486)	(21 798)	(11 486)	(21 798)
Balance at 31 December	**85 704**	**54 771**	**85 704**	**54 771**
Net loans and advances	**4 096 691**	**3 491 994**	**4 096 691**	**3 491 994**

Cash and cash equivalents

The Group held cash and cash equivalents of P4 791million at 31 December 2011 (2010: P6 632million) 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 29.

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	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
Total liquid assets	1 973 784	5 493 733	1 973 784	5 493 733
Total deposits	8 587 965	8 210 450	8 587 965	8 210 450
Ratio	**23%**	**67%**	**23%**	**67%**

Maturity gap analysis
Group – 31 December 2011

Liabilities and shareholders funds

	Carrying Amount	Gross nominal (outflow)	Less than 1 month	1-3 mths	3-6 mths	6-12 mths	1-5 yrs	More than than 5 yrs
Current and savings account	6 278 266	(6 278 260)	6 278 266	–	–	–	–	–
Term deposits accounts	1 795 870	(1 795 870)	130 498	1 517 523	86 996	49 409	11 444	–
Deposits to banks	237 345	(237 345)	237 346	–	–	–	–	–
Total Liabilities to customers and banks	**8 311 481**	**(8 311 481)**	**6 646 110**	**1 517 523**	**86 996**	**49 409**	**11 444**	**–**
Other liabilities	318 268	(318 268)	318 268	–	–	–	–	–
Current tax	20 428	(20 428)	–	20 428	–	–	–	–
Deferred tax	22 062	(22 062)	–	22 062	–	–	–	–
Subordinated loan	245 000	(245 000)	–	–	–	50 000	–	195 000
Equity	773 688	(774 688)	–	–	–	–	–	774 688
Total liabilities and shareholder's funds	**9 690 928**	**(9 690 928)**	**6 964 378**	**1 560 013**	**86 996**	**99 409**	**11 444**	**968 688**

Company – 31 December 2011

Liabilities and shareholders funds

	Carrying Amount	Gross nominal (outflow)	Less than 1 month	1-3 mths	3-6 mths	6-12 mths	1-5 yrs	More than than 5 yrs
Current and savings account	6 309 626	(6 309 626)	6 309 626	–	–	–	–	–
Term deposits accounts	1 795 870	(1 795 870)	130 498	1 517 523	86 996	49 409	11 444	–
Deposits from banks	237 345	(237 345)	237 345	–	–	–	–	–
Total liabilities to customers and banks	**8 342 842**	**(8 342 842)**	**6 677 470**	**1 517 523**	**86 996**	**49 409**	**11 444**	**–**
Other liabilities	315 819	(315 819)	315 819	–	–	–	–	–
Current tax	13 796	(13 796)	–	13 796	–	–	–	–
Deferred tax	22 062	(22 062)	–	22 062	–	–	–	–
Subordinated loan	245 000	(245 000)	–	–	–	50 000	–	195 000
Equity	751 409	(751 409)	–	–	–	–	–	751 409
Total liabilities and shareholders funds	**9 690 928**	**(9 690 928)**	**6 993 289**	**1 553 381**	**86 996**	**99 409**	**11 444**	**946 409**

Notes to the financial statements continued

Maturity gap analysis
Group – 31 December 2010

Liabilities and shareholders funds

	Carrying Amount	Gross nominal (outflow)	Less than 1 month	1-3 mths	3-6 mths	6-12 mths	1-5 yrs	More than than 5 yrs
Current and savings account	5 816 542	(5 816 54)	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 1 month	1-3 mths	3-6 mths	6-12 mths	1-5 yrs	More than than 5 yrs
Current and savings account	5 842 412	(5 842 412)	5 842 412	–	–	–	–	–
Term deposits accounts	3 394 910	(3 394 910)	180 676	1 249 872	1 919 896	39 418	5 048	–
Deposits from banks	118 911	(118 911)	118 911	–	–	–	–	–
Total liabilities to customers and banks	**9 356 223**	**(9 356 233)**	**6 141 999**	**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	1232	(1 232)	–	1 232	–	–	–	–
Subordinated loan	241 129	(241 129)	16 129	–	–	–	50 000	175 000
Equity	620 297	(620 297)	–	–	–	–	–	620 247
Total liabilities and shareholders funds	**10 606 171**	**(10 606 171)**	**6 511 840**	**1 284 672**	**1 919 896**	**39 418**	**55 048**	**795 297**

The above tables show the undiscounted cash flows on the Group's non-derivative financial liabilities. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance. The gross nominal inflow / (outflow) represents the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes.

To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Group believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

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.

4.5 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 2011 P'000	Company 2010 P'000
Capital adequacy		
Core capital		
Stated capital	179 273	179 273
Other revenue reserves	441 106	269 856
Less Intangible assets	(107 164)	(102 671)
	513 215	**346 459**
Supplementary capital		
Current years unpublished profits	105 409	184 224
Revaluation reserve	9 834	3 163
Credit risk reserve	8 223	8 223
Non-specific impairment	55 682	45 613
Subordinated loan	145 000	113 459
	837 423	**692 918**
Risk adjusted exposure		
Balance sheet items	4 394 065	3 034 673
Off-balance sheet items	60 467	591 193
	4 452 532	**3 625 866**
Capital adequacy ratio (a/b x 100)	18.8%	19.1%

Notes to the financial statements continued

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 took 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 sever 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:

	At 31 December P000s	Average P000s	Maximum P000s	Minimum P000s
2011				
Foreign currency risk	88	62	172	21
Interest rate risk	88	86	176	31
Overall	176	148	348	52
2010				
Foreign currency risk	76	102	229	34
Interest rate risk	66	65	168	31
Overall	142	167	397	65

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.

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 2011

	Zero rate	Floating rate	Fixed rate Instruments					
			0-1 mth	1-6 mths	6-12 mths	1-5 yrs	Over 5 yrs	Total
	P000s	P000s	P000s	P000s	P000s	P000s	P000s	P000s
Total assets	1 262 839	8 428 089	–	–	–	–	–	9 690 928
Total liabilities and shareholders' funds	(1 142 807)	(8 448 121)	–	–	(50 000)	–	(50 000)	(9 690 928)
Net mismatch	120 032	(20 032)	–	–	(50 000)	–	(50 000)	–

Interest Sensitivity Gap

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

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

Company – 31 December 2011

	Zero rate	Floating rate	Fixed rate Instruments					
			0-1 mth	1-6 mths	6-12 mths	1-5 yrs	Over 5 yrs	Total
	P000s	P000s	P000s	P000s	P000s	P000s	P000s	P000s
Total assets	1 262 839	8 428 089	–	–	–	–	–	9 690 928
Total liabilities and shareholders' funds	(1 142 807)	(8 448 121)	–	–	(50 000)	–	(50 000)	(9 690 928)
Net mismatch	120 032	(20 032)	–	–	(50 000)		(50 000)	–

Interest Sensitivity Gap

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

Group – 31 December 2010

	Zero rate	Floating rate	Fixed rate Instruments					
			0-1 mth	1-6 mths	6-12 mths	1-5 yrs	Over 5 yrs	Total
	P000s	P000s	P000s	P000s	P000s	P000s	P000s	P000s
Total assets	876 963	9 799 508	–	–	–	–	–	10 606 171
Total liabilities and shareholders' funds	(1 712 548)	(8 893 623)	–	–	–	(50 000)	(50 000)	(10 606 171)
Net mismatch	(835 585)	935 585				(50 000)	(50 000)	–

Interest Sensitivity Gap
Group and Company

Impact of increase in interest rates	
50 basis points	4 678
+1%	9 356

Notes to the financial statements continued

Company – 31 December 2010

	Zero rate	Floating rate	Fixed rate Instruments					
			0-1 mth	1-6 mths	6-12 mths	1-5 yrs	Over 5 yrs	Total
	P000s	P000s	P000s	P000s	P000s	P000s	P000s	P000s
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)	–

Impact of increase in interest rates

50 basis points	1 640
+1%	3 280

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 2011 and 2010.

Group and Company assets

	2011	2010
American Dollars	1 648 400	806 629
British Pounds	128 895	39 755
Euros	97 737	109 078
South African Rands	526 596	252 535

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 2011

	Note	Available for sale	Held to maturity	Loans and receivables	Cash and bank balances	Other amortised cost	Total carrying amount	Fair Value
Due from central bank	13	–	–	–	905 617	–	905 617	905 617
Due from other banks	15	–	–	–	1 366 420	–	1 366 420	1 366 420
Investment securities	16	2 964 977	–	–	–	–	2 964 977	2 964 977
Loans and advances to customers	18	–	–	4 096 691	–	–	4 096 691	4 096 691
		2 964 977	**–**	**4 096 691**	**2 272 037**	**–**	**9 333 705**	**9 333 705**
Deposits from banks	21	–	–	–	–	237 346	237 346	237 346
Deposits from customers	22	–	–	–	–	8 074 136	8 074 136	8 074 136
Debt securities issued	25	–	100 000	–	–	–	100 000	100 000
Subordinated liabilities	25	–	145 000	–	–	–	145 000	145 000
		–	**245 000**	**–**	**–**	**8 311 482**	**8 556 482**	**8 556 482**

Company – 31 December 2011

Due from central bank	13	–	–	–	905 617	–	905 617	905 617
Due from other banks	15	–	–	–	1 366 420	–	1 366 420	1 366 420
Financial investments	16	2 964 977	–	–	–	–	2 964 977	2 964 977
Loans and advances to customers	18	–	–	4 096 691	–	–	4 096 691	4 096 691
		2 964 977	**–**	**4 096 691**	**2 272 037**	**–**	**9 333 705**	**9 333 705**
Deposits from banks	21	–	–	–	–	237 346	237 346	237 346
Deposits from customers	22	–	–	–	–	8 105 496	8 105 496	8 105 496
Debt securities issued	25	–	100 000	–	–	–	100 000	100 000
Subordinated liabilities	25	–	145 000	–	–	–	145 000	145 000
		–	**245 000**	**–**	**–**	**8 342 842**	**8 587 842**	**8 587 842**

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	Available for sale	Held to maturity	Loans and receivables	Cash and bank balances	Other amortised 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
Financial investments	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	–	–	–	–	9 237 322	9 237 322	9 237 322
Debt securities issued	25	–	100 000	–	–	–	100 000	100 000
Subordinated liabilities	25	–	141 129	–	–	–	141 129	141 129
		–	**241 129**	**–**	**–**	**9 356 233**	**9 597 362**	**9 597 362**

Notes to the financial statements continued

Financial assets and liabilities (continued)

Company – 31 December 2010

	Note	Available for sale	Held to maturity	Loans and receivables	Cash and bank balances	Other amortised 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
Financial investments	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	–	–	–	–	9 237 322	9 237 322	9 237 322
Debt securities issued	25	–	100 000	–	–	–	100 000	100 000
Subordinated liabilities	25	–	141 129	–	–	–	141 129	141 129
		–	**241 129**		**–**	**9 356 233**	**9 597 362**	**9 597 362**

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:

	Note	Level 1	Level 2	Level 3	Total
31 December 2011					
Investment securities	16	–	2 964 977	–	2 964 977
		–	**2 964 977**	**–**	**2 964 977**
31 December 2010					
Investment securities	16	–	5 429 425		5 429 425
		–	**5 429 425**	**–**	**5 429 425**

	Group		Company	
	2011	2010	2011	2010
5. Interest income	P'000	P'000	P'000	P'000
Loans and advances to customers	532 864	501 252	532 864	501 252
Investment securities	289 504	286 869	289 504	286 869
Balances with banks and investments	23 545	23 492	23 545	23 492
	845 913	811 613	845 913	811 613
6. Interest expense				
Amounts due to banks	59 641	70 589	59 641	70 589
Subordinated loan capital	23 258	19 922	23 258	19 922
Amounts due to customers	251 657	237 267	251 657	237 267
	334 556	327 778	334 556	327 778
7. Net trading income				
Foreign currency	142 109	87 632	142 109	87 632
Trading securities	12 206	2 619	12 206	2 619
	154 315	90 251	154 315	90 251

Notes to the financial statements continued

	Group		Company	
	2011	2010	2011	2010
8. Loan loss impairment	P'000	P'000	P'000	P'000
Specific	76 331	64 890	76 331	64 890
Non specific	11 208	(4 147)	11 208	(4 147)
Recoveries / write-offs	(31 068)	(35 520)	(31 068)	(35 520)
Charge per income statement	56 471	25 223	56 471	25 223
Movement in specific impairments				
Balance at beginning of the year	9 158	50 879	9 158	50 879
Charge for the year	76 331	64 890	76 331	64 890
	85 489	115 769	85 489	115 769
Write-offs during the year	(31 434)	(59 046)	(31 434)	(59 046)
Provisions no longer required	(25 172)	(47 565)	(25 172)	(47 565)
Balance at end of the year	28 883	9 158	28 883	9 158
Movement in non-specific impairments				
Balance at beginning of the year	45 613	49 753	45 613	49 753
Charge for the year	11 208	(4 147)	11 208	(4 147)
Write - offs during the year	–	7	–	7
Balance at end of the year	56 821	45 613	56 821	45 613
Total specific and non-specific Impairment at end of year	85 704	54 771	85 704	54 771
9. Personnel expenses				
Directors' remuneration – management services	1 093	3 050	1 093	3 050
Salaries and wages	128 700	119 044	127 488	118 895
Pension fund costs	9 569	7 717	9 569	7 717
Other	25 122	21 811	25 122	21 811
	164 484	151 622	163 272	151 473
10. Other administration and general expenses				
Professional fees – audit	1 897	1 379	1 897	1 379
– consultancy	10 619	6 223	10 619	6 223
Directors' fees	210	200	210	200
Repairs and maintenance	13 789	18 763	13 789	18 763
Communication costs	22 954	19 973	22 954	19 973
Group recharges	148 349	125 250	148 349	125 250
Advertising & sponsorship	1 959	4 716	1 959	4 716
Other expenses	52 130	55 404	52 106	72 050
	251 907	231 908	251 883	231 209
11. Income tax expense				
Taxation charge for the year:				
Current taxation at 22% (15% 2010)	77 320	43 165	70 688	4 970
Additional company tax at 0% (2010 10%)	–	28 777	–	27 314
Less: Withholding tax utilised during the year	(7 285)	(12 562)	(7 285)	(12 562)
Deferred tax	–	(885)	–	(885)
	70 035	58 495	63 403	54 837
Taxation reconciliation:				
Taxation at statutory rate: 22% (25% 2010)	77 309	70 680	75 514	69 081
Disallowed items	11	377	11	2 821
ACT utilised on dividends	–	–	(4 837)	(4 503)
ACT utilised on dividends	(7 285)	(12 562)	(7 285)	(12 562)
Current taxation per income statement	70 035	58 495	63 403	54 837

12. Dividends	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Interim dividend paid	140 000	60 000	140 000	60 000
3rd interim dividend proposed/declared	20 000	20 705	20 000	20 705
	160 000	80 705	160 000	80 705

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 2011 was based on the profit attributable to ordinary shareholders of P 281 372 thousand (2010: P224 223 thousand), and the number of ordinary shares outstanding of 298 350 611 (2010: 288 919 907), calculated as follows:

Weighted average number of ordinary shares

In thousands of shares	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Issued ordinary shares at 1 January	298 351	288 063	298 351	288 063
Effect of the new issues during the year	–	1 714	–	1 714
Weighted average number of ordinary shares at 31 December	298 351	288 777	298 351	288 777

14. Cash and cash equivalents

Notes and coins	203 599	155 978	203 599	155 978
Balances with the central bank	702 018	417 468	702 018	417 468
	905 617	573 446	905 617	573 446

Included in bank balances is an amount of P648 584 thousand (2010: P426 871 thousand) which is a restricted minimum statutory reserve balance not available for the Group's daily operations.

15. Loans and advances to banks	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Bank balances	12 161	61 182	12 161	61 182
Placements and other investments	1 354 259	816 907	1 354 259	816 907
	1 366 420	878 089	1 366 420	878 089
Maturity profile				
On demand to one month	1 366 420	878 089	1 366 420	878 089

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. Investment securities	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Bank of Botswana Certificates	2 518 935	5 180 347	2 518 935	5 180 347
Government bonds: quoted	446 042	249 078	446 042	249 078
	2 964 977	5 429 425	2 964 977	5 429 425
Maturity profile:				
0-3 months	2 518 935	5 180 347	2 518 935	5 180 347
Over 1 year	446 042	249 078	446 042	249 078
	2 964 977	5 429 425	2 964 977	5 429 425

At 31 December 2011 Bank of Botswana Certificates amounting to P770 000 thousand (2010: P455 000 000) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility.

Notes to the financial statements continued

17. Loans and advances to customers	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Loans and advances – originated	4 182 395	3 546 765	4 182 395	3 546 765
Less: provision for impairment	(85 704)	(54 771)	(85 704)	(54 771)
	4 096 691	3 491 994	4 096 691	3 491 994
Impaired loans net of provisions				
Loans neither past due nor impaired	3 752 868	3 242 082	3 752 868	3 242 082
Less: portfolio impairment provisions	(56 821)	(45 613)	(56 821)	(45 613)
	3 696 047	3 196 479	3 696 047	3 196 479
Gross impaired loans	61 167	53 099	61 167	53 099
Less: individual specific provisions	(28 883)	(9 158)	(28 883)	(9 158)
Impaired loans net of specific provisions	32 284	43 941	32 284	43 941
Loans past due but not impaired	368 360	253 006	368 360	253 006
Net loans	4 096 691	3 491 994	4 096 691	3 491 994

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.

18. Property and equipment – Group and company

2010	Premises P'000	Equipment P'000	Total P'000
Cost or valuation			
At 01 January 2010	9 909	105 851	115 760
Transfers	357	(357)	–
Additions	1 719	876	2 595
Disposals	(165)	(38 293)	(38 293)
Adjustment	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
Disposals	(97)	(38 268)	(38 365)
Adjustment	(118)	1 716	1 598
At 31 December 2010	2 437	55 370	57 807
Net book value at 31 December 2010	**9 682**	**14 632**	**24 314**
2011			
Cost or valuation			
At 01 January 2011	12 119	70 002	82 121
Additions	4 060	5 498	9 558
At 31 December 2011	16 179	75 500	91 679
Accumulated depreciation			
At 1 January 2011	2 437	55 370	57 807
Charge for the year	510	5 208	5 718
At 31 December 2011	2 947	60 578	63 525
Net book value at 31 December 2011	**13 232**	**14 922**	**28 154**

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.

19. Intangible assets and goodwill

	Customer relationship P'000	Goodwill P'000	Total P'000
2010			
Cost at 01 January 2010	103 752	–	103 752
Amortisation			
Amortisation for the period	1 081		1 081
Net book value – 2010	**102 671**	**–**	**102 671**
2011			
Cost			
As at 01 January 2011	103 752	–	103 752
Reclassification	(9 068)	9 068	–
Deferred tax	–	20 831	20 831
As at 31 December 2011	**94 684**	**29 899**	**124 583**
Accumulated amortisation			
As at 01 January 2011	1 081	–	1 081
Amortisation for the period	16 338	–	16 338
As at 31 December 2011	**17 419**	**–**	**17 419**
Net book value – 2011	**77 265**	**29 899**	**107 164**

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

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

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

	Group		Company	
20. Other assets	**2011 P'000**	**2010 P'000**	**2011 P'000**	**2010 P'000**
Prepayments and accrued income	149 764	105 311	149 764	105 311
Remittances and in transit items	72 141	921	72 141	921
	221 905	106 232	221 905	106 232

	Group		Company	
21. Deposits from other banks	**2011 P'000**	**2010 P'000**	**2011 P'000**	**2010 P'000**
Bank balances	207 845	79 402	207 845	79 402
Placements	29 501	39 509	29 501	39 509
	237 346	118 911	237 346	118 911
Maturity profile				
On demand to one month	237 346	118 911	237 346	118 911

Notes to the financial statements continued

22. Deposit due to non-bank customers	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Demand deposits	6 408 765	6 842 405	6 440 125	6 868 275
Time deposits	1 665 371	2 369 047	1 665 371	2 369 047
	8 074 1 36	9 211 452	8 105 496	9 237 322
Maturity profile				
On demand to one month	6 278 765	7 523 403	6 310 125	7 549 273
One month to six months	1 604 436	1 421 067	1 604 436	1 421 067
Six months to one year	60 935	86 982	60 935	86 982
Greater than one year	130 000	180 000	130 000	180 000
	8 074 136	9 211 452	8 105 496	9 237 322

23. Senior and subordinated debt

USD Loan	–	16 129	–	16 129
Local note issue (1)	–	50 000	–	50 000
Local note issue (2)	75 000	75 000	75 000	75 000
Local note issue (3)	70 000	–	70 000	–
Senior debt	100 000	100 000	100 000	100 000
	245 000	241 129	245 000	241 129

The USD loan amount to USD2.5 million raised in 2002 was redeemed during the year ended 31 December 2011.

The local note issue (1) includes a subordinated debt of BWP 50 million and was redeemed during the year ended 31 December 2011.

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

Local note issue (3) comprise of BWP 70 million raised through a new debt issued 12 May 2011 as part of the P500 Million Debt Issuance Programme and to be repaid no later than the tenth anniversary which is 12th May 2021 and no earlier than five years before that date. The interest rate is a floating interest rate payable quarterly at the 91 day BOBC plus a margin of 130 basis points per annum for first 5 years and the same reference rate plus a stepped up margin of 180 basis points per annum.

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.

24. Current taxation	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Opening balance	33 568	38 587	33 568	40 786
Charge for the year	70 035	58 495	63 403	54 837
Income tax paid	(83 175)	(63 514)	(83 175)	(62 055)
Closing balance	20 428	33 568	13 796	33 568

25. Deferred taxation

Balance at the beginning of the year	1 232	2 117	1 232	2 117
Current year movement	–	(885)	–	(885)
Deferred taxation on business combination	20 830	–	20 830	–
Balance at the end of the year	22 062	1 232	22 062	1 232
The deferred tax balance comprises of:				
Deferred tax on plant and equipment	1 232	1232	1 232	1232
Deferred tax on intangible assets	20 830	–	20 830	–
	22 062	1 232	22 062	1232

26. Other liabilities	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Deferred income and accruals	205 994	232 916	205 994	221 899
Accounts payable	112 274	125 920	109 825	131 813
	318 268	358 836	315 819	353 712

27. Cash and cash equivalents

Cash and bank balances with Central Bank	905 617	573 446	905 617	573 446
Financial investments	2 518 935	5 180 347	2 518 935	5 180 347
Balances due from other banks	1 366 420	878 089	1 366 420	878 089
	4 790 972	6 631 882	4 790 972	6 631 882

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:

	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Balances due from:				
Standard Chartered Bank PLC London	347 059	538 733	347 059	538 733
Standard Chartered Bank New York	435 791	117 218	435 791	117 218
Standard Chartered Bank Johannesburg	431 743	–	431 743	–
Other group companies	8 265	5 713	8 265	5 713
	1 222 858	661 664	1 222 858	661 664
Balances due to :				
Standard Chartered Bank PLC London	622	116 782	622	116 782
Standard Chartered Bank New York	19 478	–	19 478	–
Other group companies	33 600	116 655	33 600	116 655
	53 700	127	53 700	127

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.

	Group 2011 P'000	Group 2010 P'000	Company 2011 P'000	Company 2010 P'000
Directors' Fees	210	200	210	200
Executive Directors' Remuneration	1 093	3 050	1 093	3 050
Interest Income	9 729	4 862	9 729	4 862
Interest Expense	4 700	6 191	4 700	6 191
Group recharges	148 349	125 250	148 349	125 250
Group share scheme expense	2 191	2 212	2 191	2 212
Directors' holding in company shares	24 500	4 500	24 500	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.

Notes to the financial statements continued

29. Operating leases

	2010	2011	2012	2013	2014	2015
Long –term accrual	652 143	873 212	669 265	397 576	132 202	–
Short – term accrual	–	38 202	203 946	272 689	264 374	132 202
Total accrual	652 143	911 414	873 211	670 265	396 576	132 202
Minimum lease payments						
Cash flow within 1 year	5 052 311	6 490 871	4 643 952	2 972 189	2 185 146	951 380
Cash flow between 2-5 years						
Future cash flows	9 648 916	10 700 573	6 108 715	3 140 806	951 380	–
Total future cash flows	**14 701 227**	**17 191 444**	**10 752 667**	**6 112 995**	**3 136 526**	**951 380**
Already accrued	(652 143)	(911 413)	(873 212)	(669 265)	(396 576)	(132 202)
Future expenses	14 049 084	16 280 030	9 879 455	5 443 730	2 739 950	819 178

30. Contingent liabilities and commitments

	Group		Company	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
Undrawn commitments	548 946	494 432	548 946	494 432
Acceptances and letters of credit	280 009	722 675	280 009	722 675
Guarantees and standby letters of credit	1 231 674	2 214 275	1 231 674	2 214 275
	2 060 629	3 431 382	2 060 629	3 431 382

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

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

31. Fiduciary activities

	Group		Company	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
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.	17 032	11 260	17 032	11 260

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 2011 and 2010:

	2011 P'000	2010 P'000
Total Assets	10 045 946	8 431 587
Total Liabilities	9 372 175	9 614 828
Shareholders' Equity	673 771	500 179
Contingent liabilities and un-drawn commitments	548 946	494 432

33. Investment in wholly-owned subsidiary companies

	2011 P000s	2010 P000s
Standard Chartered Bank Insurance Agency (Pty) Ltd	100	100
Standard Chartered Investments (Pty) Ltd	100	100
Standard Chartered Nominees (Pty) Ltd	100	100

34. Segmental reporting

	Consumer Banking P000s	Wholesale Banking P000s	Total P000s
2011			
Statement of comprehensive income			
Net interest income	386 071	125 286	511 357
Non funded income	176 767	178 378	355 145
Net income before impairment	**562 838**	**303 664**	**866 502**
Impairment charge	(43 963)	(12 508)	(56 471)
Net interest income after impairment	**518 875**	**291 156**	**810 031**
Operating Expenses	(267 133)	(191 491)	(458 624)
Profit before taxation	**251 742**	**99 665**	**351 407**
Taxation	–	–	(70 035)
Profit after taxation	**251 742**	**99 665**	**281 372**
Statement of financial position			
Performing advances and financial investments	2 931 870	4 068 631	7 000 501
Non performing advances	33 206	27 961	61 167
Other assets for reportable segments	63 971	1 867 789	1 891 760
Total assets for reportable segments	**3 029 047**	**5 924 381**	**8 953 428**
Deposits from non bank customers	3 106 622	4 967 514	8 074 136
Other liabilities for reportable segments	687 602	707 193	1 454 705
Total liabilities for reportable segments	**3 794 224**	**5 734 617**	**9 528 841**
2010			
Statement of comprehensive income			
Net interest income	363 813	120 022	483 835
Net funded income	156 549	78 088	234 637
Net interest 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**	**693 251**
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	2 624 913	6 243 407	8 868 320
Non performing advances	21 842	31 257	53 099
Other assets for reportable segments	55 013	1 274 652	1 329 665
Total assets for reportable segments	**2 701 768**	**7 549 316**	**10 251 084**
Deposits from non bank customers	2 805 466	6 405 986	9 211 456
Other liabilities for reportable segments	237 038	574 492	847 530
Total liabilities for reportable segments	**3 078 504**	**6 980 478**	**10 058 982**

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

Revenues		
Total revenue for reportable segments	866 502	718 472
Profit or loss before taxation		
Total profit or loss for reportable segments	351 407	282 718
Assets		
Total assets for reportable segments	8 953 428	10 130 894
Other unallocated amounts	737 500	475 277
Consolidated assets	9 690 928	10 606 171
Liabilities		
Total liabilities for reportable segments	9 528 841	10 058 982
Other unallocated amounts	162 087	547 189
Consolidated total liabilities	9 690 928	10 606 171

Supplementary Information

Notice to members

Notice is hereby given that the 37th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Friday, 22 June 2012 at 1430 hours at Gaborone Sun, Gaborone 2, 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 31 December 2011, together with the Auditor's reports therein.
- To approve the appointment of Mr Moatlhodi Kefentse Lekaukau as Managing Director and Mr Ish Handa as a Board Member.
- To note the resignations of Mr Washington Matsaira and Mrs Serty Leburu in accordance with Article 89 (e) of the Articles of Association.
- To approve the payment of dividends for the year ended 31 December 2011.
- To approve the remuneration of the auditors for the year ended 31 December 2011.
- To confirm the appointment of the auditors for the year 2012.
- 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, PO Box 496, Gaborone, not less than 48 hours before the meeting.

By order of the Board

Thato Mmile

Secretary

Supplementary Information

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

.....

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 Friday 22 June 2012.

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

Signature ..... Date 2012

Notes .....

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1. Any alteration of this form must be initialled 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, PO Box 496, Gaborone, no later than Wednesday 20 June 2012.

Standard Chartered

Notes