Standard Chartered

Standard Chartered Bank Botswana

Annual Report 2015

sc.com | Here for good

About us

Standard Chartered Bank Botswana first opened for business in 1897 in Francistown, making it the country's oldest bank. In 1956, we were given full branch status and this was followed by the opening of the first branch in Lobatse. The Bank was locally incorporated in 1975 with a full board and is listed on the Botswana Stock Exchange.

Today, with over 800 employees, we operate a network of 19 branches, agencies and a Priority Banking centre supported by a Loan Centre and Customer Call Centre. With a wide branch network and large force of sales agents, the Bank is able to provide excellent service to retail, corporate and commercial clients across the country.

The bank is in a unique position, able to leverage its deep-rooted local knowledge, its international network and expertise for the benefit of Botswana corporates, individual depositors and multi-nationals.

Standard Chartered is highly respected in Botswana for its adherence to corporate governance, enthusiasm for great service and dedication to talent development, as well as for diversity and inclusion. We have a highly active community programme and are committed towards building a sustainable business in Botswana in support of the country's economic growth.

For further information please visit: sc.com/bw

Explore our insights and comment on our blog at **sc.com/beyondborders**

Follow Standard Chartered at:

www.facebook.com/StandardCharteredBW

Twitter: @stanChart

Contents

Performance highlights

The group's performance in 2015 was impacted by the challenging trading environment, characterised by subdued macro-economic conditions, low interest rates and a significant decline in market liquidity.

Balance Sheet increased by 3% to

P13,130 million

from P12,800 million in 2014

Operating Expenses increased by 6% to

P706.0 million

from P665.5 million in 2014

Revenue down by 18% to

P880.0 million

from P1,073.4 million in 2014

Capital Adequacy Ratio up to

19.8%

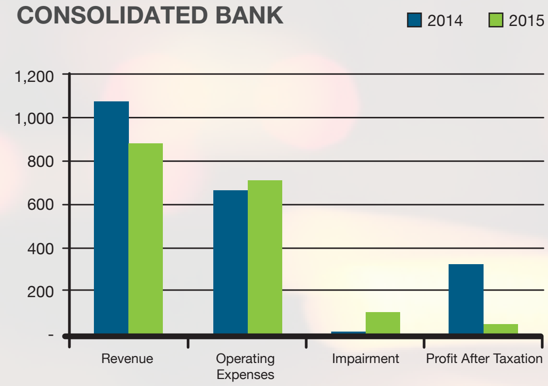
in 2015 from 16.1% in 2014

Dividend per Share down by 21% to

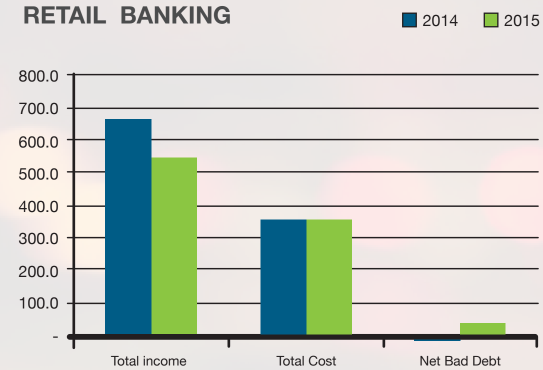
P56.69 thebe

from 71.42 thebe

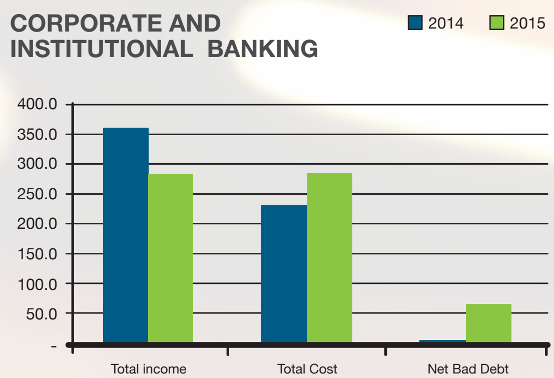
CONSOLIDATED BANK



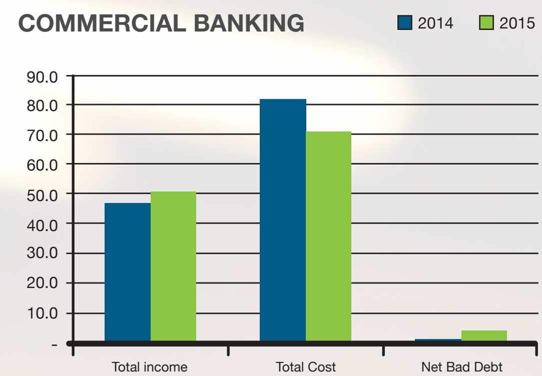
RETAIL BANKING



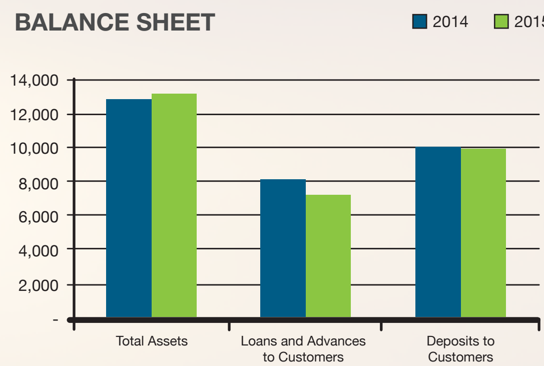
CORPORATE AND INSTITUTIONAL BANKING



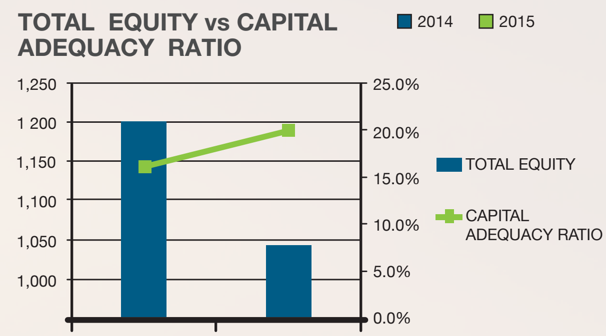
COMMERCIAL BANKING



BALANCE SHEET



TOTAL EQUITY vs CAPITAL ADEQUACY RATIO



Our strategy

Our strategy and business model

How we create value

Through our business model, we aim to create long term value for a broad range of stakeholders.

We have a sustainable approach to our business, which is reflected in our brand promise, Here for good.

- **Focusing on clients**
  Developing long-term relationships with clients
- **Contributing to sustainable economic growth**
  Ensuring that our core business of banking supports sustainable growth and job creation
- **Being a responsible company**
  Managing our operations to deliver long-term value for our stakeholders

We add value for our clients by using our distinctive strengths

- **Strong brand**
  A leading international bank with a 119 -year history in Botswana, clear strategic objectives and a strong focus on client satisfaction
- **International network**
  A proven track record in providing banking services across Asia, Africa and the Middle East
- **Local Connectivity**
  Supporting clients by drawing on deep local knowledge and collaborating across our global network
- **Investment approach**
  Investing in our business and its systems to improve our services and drive long-term value for our clients
- **Our People**
  A diverse and inclusive workforce that is highly skilled and committed to the highest standards of conduct and integrity

Our business is structured to allow us to serve our clients better

- **Corporate and Institutional Banking**
  Allowing companies and financial institutions to operate and trade globally by serving them across multiple markets
- **Commercial Banking**
  Providing mid-sized companies with financial solutions and services that help them achieve their ambitions of international expansion and growth
- **Retail Banking**
  Offering small businesses and affluent and emerging affluent individuals a full spectrum of banking support

Our business activity is founded on a robust Risk Management Framework

- We manage our risks to build a sustainable franchise, in the interests of all our stakeholders
- We only take risk within our tolerances and risk appetite, and where consistent with our approved strategy
- We manage our risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors
- We seek to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks

We provide solutions that meet our clients' evolving needs

- **Retail Products**
  Deposits, savings, mortgages, credit cards and personal loans and other retail banking products
- **Wealth Management**
  Investments, portfolio management, insurance and advice & planning services
- **Transaction banking**
  Cash Management, payments and transactions, securities holdings and trade finance products
- **Corporate Finance**
  Financing, strategic advice, mergers & acquisitions and equity & principal financing
- **Financial Markets**
  Investment, risk management and debt capital markets

Through our activities we aim to generate income, profits and return on equity

- **Income**
  Net interest income, fee income and trading income
- **Profits**
  Income gained from providing our products and services minus expenses, impairment and taxes
- **Return on equity**
  Profit generated relative to the equity invested

We create long-term value for a broad range of stakeholders

- **Shareholders**
  Aiming to deliver robust returns and long term sustainable value for shareholders
- **Clients**
  Enabling individuals to grow and protect their wealth and helping businesses to invest, trade, transact and expand
- **Regulators, governments and industry bodies**
  Supporting governing bodies in their drive for monetary and fiscal improvement
- **Communities**
  Supporting growth and job creation, delivering financial innovation and having a low environmental impact
- **Employees**
  Providing learning and development opportunities and forming a collegial values - driven team

We execute our business to the highest standard of conduct

- We uphold the Group's brand promise, Here for Good, and our Code of Conduct, through the way we conduct our business
- Good conduct is the creation and execution of an appropriate business strategy aligned to our stated risk tolerances
- We are guided by both the letter and the spirit of laws and regulations
- Our success in living up to the highest standards of conduct is measured by our ability to achieve fair outcomes for clients, investors, our reputation and the markets in which we operate.

Chairman's statement

> We remain focused on supporting our clients and customers by combining global expertise and local knowledge with robust management of risk. Our fundamentals continue to be strong and we are well positioned for further growth

Professor Bojosi Otlhogile
Chairman of the Board

Key Financial highlights

Normalised Earnings per Share	Declared Dividend
P15.88 thebe	**P169** million
2014: P106.98 thebe	2014: P213million

Botswana's Economic Environment

2015 was a year marked by the challenges of an increasingly complex and unpredictable global marketplace. The persistent slowdown of growth in the global economy, predominantly in the major markets for our diamonds, has had profound impact on the domestic economy. Our domestic economy decreased by 1.9% in the last quarter of 2015 compared to an increase of 3.9% recorded in the same quarter of 2014. The decline was mainly attributed to real Mining value added which decreased by 30.5% in the fourth quarter of 2015 compared to a decline of 0.2% registered in the same quarter of 2014. However, a modest recovery in the local economy is expected in 2016 and 2017, with the growth rate projected to be 4.2% and 4.3%, respectively, underpinned by recovery in both the mining and non-mining sectors.

The inflation rate rose to 3% in February 2016 compared to the 2.8% recorded in February 2015. The acceleration of the annual inflation rate between February 2015 and February 2016 was mainly due to the increase in prices of commodities in the housing, water, electricity, gas and other fuels index group. On account of projected low inflation in the medium term and accommodative monetary policy stance, the bank rate reduced from 6.5 % in January 2015 to 6% percent in August 2015 and has remained unchanged.

Our local economic growth is still in trend with the SADC region growth forecast and above that of the world.

Business and Financial Position Review

2015 was a tough year for the bank and our 2015 full year results reflect the challenging operating environment we faced. Our financial performance was severely impacted. Sharp decline in market liquidity, persistent low interest rates, and a depressed macro-economic environment have impacted income that is down 18% from full year 2014. We have seen a material increase in loan impairments primarily on the back of some exposures in Corporate and Institutional Banking. However, the resilience of the balance sheet continues to be demonstrated through a growth of 3% during the year under review. The deliberate actions we took in order to strengthen the balance sheet throughout last year have positioned the bank strongly for the current macro environment.

Key Financial Highlights

- Operating income is down 18% on 2014 reflecting challenging market conditions and strategic management decisions to strengthen the balance sheet at the expense of short term performance.
- Operating expenses were contained to an increase of 6% to P706.0m, reflective of cost efficiencies delivered in 2015.
- The Balance sheet remained resilient with 3% growth.
- The Bank is strongly capitalised with capital adequacy ratio at 19.8% from 16.1% in the previous year.
- A highly liquid balance sheet with advances to deposits ratio of 73% (2014 : 81%).
- The quality of the loan portfolio remained strong despite the significant specific impairment of a single client on the corporate side, without which the ratio of impaired loans to total gross loans would have been 1.02%.

In 2015, the bank undertook a restructuring exercise to enhance the operating model and enable more effective execution of the strategy. The repositioning places us in a better position to respond to the changing environment and the evolving needs of our customers.

In line with our Here for good brand promise, we are committed to continually providing groundbreaking and tailored banking solutions for our customers. Therefore during the year under review, value was added to our clients by launching a number of exciting new products to continuously deliver superior value, which will put us on course to become the leading bank in Botswana. We now have new objectives and have redesigned our strategic intent to capture the real fundamental nature of what we stand for, what our strategy focuses on and what we aspire to accomplish.

On behalf of the Board, I thank our clients and stakeholders for their continued support and loyalty to Standard Chartered Bank.

Professor Bojosi Otlhogile
Chairman of the Board

Chief Executive Officer's review

Strong focus on building balance sheet strength and internal capacity has prepared the bank to navigate the challenging external environment and position the business for growth in 2016.

Moatlhodi K. Lekaukau
Chief Executive Officer

Key Financial highlights

Total Balance Sheet strengthened by **3%**

from P12 800m to P13 130m

The challenging trading environment characterised by a sharp decline in market liquidity, persistent low interest rates, and a depressed macro-economic environment, resulted in a substantial increase in our cost of funding, which impacted margins significantly, and led to high impairment provisions, ultimately, reducing income and profit. In addressing these challenges, management deliberately focused on implementing sustainable solutions to the problem at the expense of short term performance. In particular, the bank strengthened its balance sheet. While the actions impacted performance in 2015 they were necessary to secure the foundations and position the bank for sustainable growth into the future.

Business Performance

Total Income for the year is 18% lower than 2014; however, Total Assets have grown by 3%, as the business endeavoured to strengthen the balance sheet in a difficult operating environment.

Despite the challenges, the bank continued to focus on its objectives of building a strong and sustainable business, and by the end of 2015, we had completed the restructuring of the organisation, which aligned the structure better with our clients' needs and the opportunities in the market. Retail Banking business now has a stronger proposition for SME's, Priority and Personal Clients, with a structure well suited to support the delivery of innovative solutions and personalised service to customers. In addition, we have bolstered our Commercial Banking business to better support our large to medium local corporate clients, combining the strength of our long standing client relationships and understanding of the local environment with our global network and capabilities. The Corporate Business too has been re-organised, and now supports 3 core client segments, being Financial Institutions, International Corporates and Global Subsidiaries. This new structure enables clients to be served across the value chain and in the process, support the growth of the economy.

During the year under review, we continued to add value to our clients by launching a number of exciting new products in the area of Wealth Management. Our clients can now enjoy the benefits of General Insurance and Life Insurance offering, which augmented our proposition for both the Retail and Business segments. In addition, we launched investment services solutions to the market, offering clients a range of investment products to suit their personal financial objectives, thereby delivering alternative methods of protecting and growing our clients' wealth.

A key part of the strategy is to enhance service by bringing greater banking convenience to clients. In 2015 we further improved our digital offering enabling clients to complete even more transactions using our online and mobile platforms. Furthermore, we commenced the refurbishment of some of our servers and invested in systems and bandwidth upgrade to improve efficiencies and service delivery and support greater system stability.

Performance in 2015 was driven by focused and deliberate efforts to strengthen the business overall by bolstering the balance sheet to make it more robust, streamlining the structure to make it more efficient and refining our strategy to enable us to capture market opportunities more effectively. We ended the year with a well capitalised and highly liquid business as a result, with a Capital Adequacy Ratio of 19.8% against a regulatory requirement of 15%, and a Liquid Asset Ratio of 17.6% against a regulatory requirement of 10%.

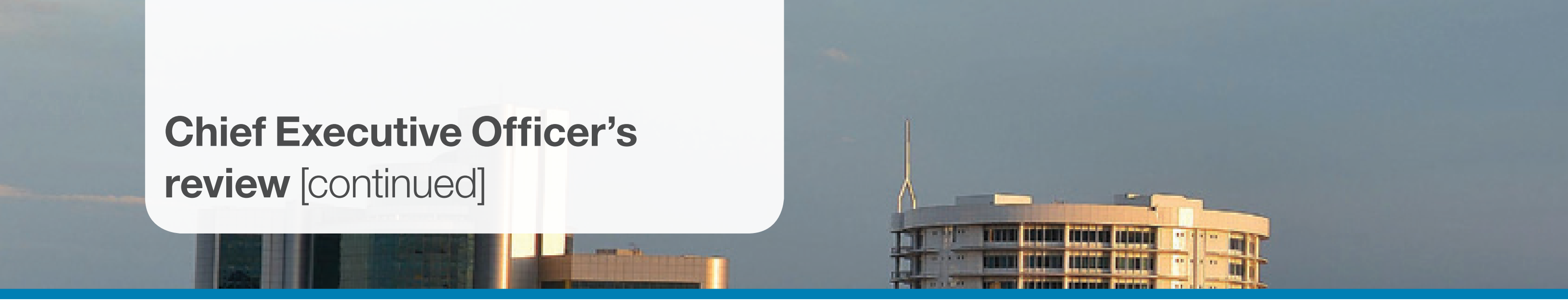
Our People

We continued to make good progress in strengthening the Executive Management team in 2015, with the localisation of a key position, Head of Financial Markets, and the appointment of a Head of HR and Head of Internal Audit. In addition, we provided training to staff through both our local Learning Academy and through other programs run in various locations across the Group, covering both leadership and technical competencies, to ensure that staff are well equipped to continuously serve clients better. 100 staff completed the Certificate of Proficiency in Long and Short term insurance and quite a number of staff members completed short term assignments in the Group's subsidiaries in Singapore, Hong Kong and Kenya.

Risk and Compliance

During the year under review we enhanced our Risk Management Framework to ensure that we sustain a sound control environment. We launched the revised Operational Risk Framework to ensure that we are effective and anticipatory in management of operational risk and we undertook continuous monitoring to enhance compliance and promote corrective action where needed.

We worked closely with Regulators to ensure that we are prepared for and remain compliant with ongoing changes in the regulatory environment. By the end of the year we were ready for implementation of Basel II.



Chief Executive Officer's review [continued]

Sustainability

The highlight of our sustainability initiatives in 2015 was the announcement of the Standard Chartered Bank Education Trust, which supports educational activities. The Trust has acquired a 0.84% shareholding in Standard Chartered Bank Botswana from Standard Chartered (Africa) Holdings B.V. making it one of the largest local shareholders in the Bank.

The Trust is managed by an independent board of trustees and its primary objectives are to undertake a variety of charitable benefit activities within the Republic of Botswana for the benefit of Batswana.

In its inaugural year of operation the trust received dividends of over one million Pula and during 2016 it will focus on identifying qualifying initiatives to support.

A key part of our sustainability agenda is financial literacy. During the year, the bank undertook a number of activities to promote financial literacy. One of the initiatives, driven through our partnership with Thusang Basadi, was a business forum for clients of Thusang Basadi, with the Honourable Minister of Health as the guest speaker. Staff conducted workshops on business and financial management for the women entrepreneurs, imparting much needed knowledge and skills.

Outlook

The industry challenges that commenced in 2014 persisted into 2015, making it difficult to meet our performance targets. We expect 2016 to be a better year albeit still subdued. GDP forecasts indicate improvement over 2015, although continued slow growth of the global economy, which directly impacts our mining industry, could affect the domestic outlook. There are a number of government projects underway to promote economic growth and it is anticipated that these will help boost economic activity and result in improvement in 2016. The bank is positioned to play a key role in the recovery of the economy, by supporting our clients and participating in strategic projects that promote GDP growth.

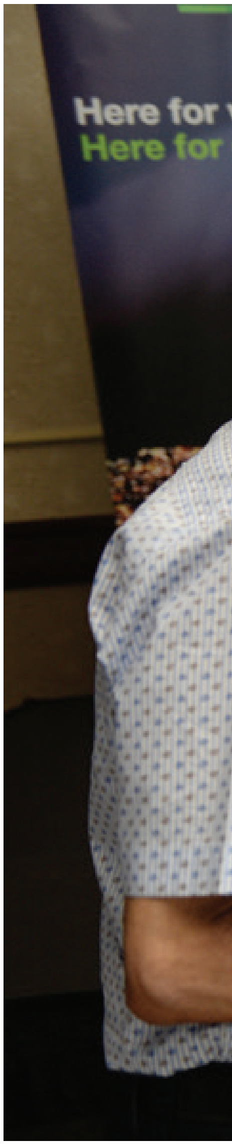
In 2016, we will continue investing in our digital capabilities to bring greater convenience to our customers, as we look to celebrate 120 years of operating in Botswana in 2017.

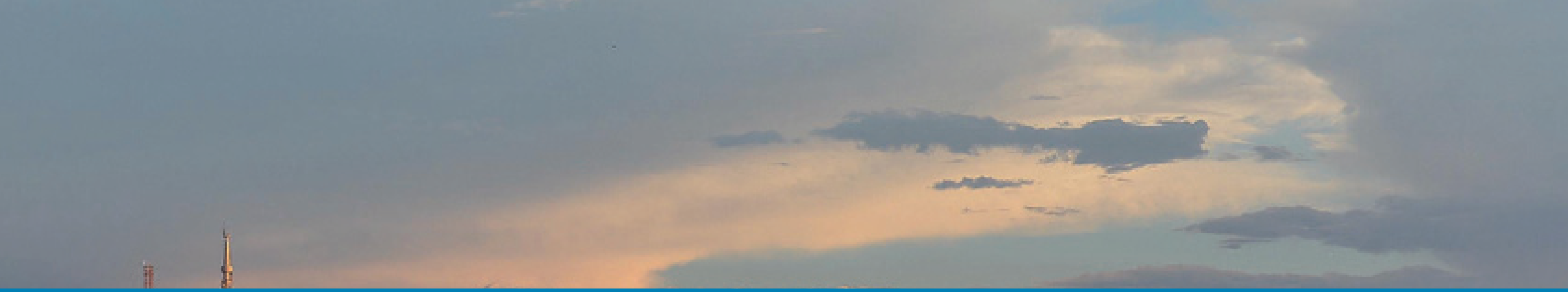
Conclusion

It is in challenging times such as these that, through generations, the Bank has differentiated itself by managing for the long term and not being unduly distracted by short-term cycles. We have maintained a strong balance sheet that protects the bank from the occasional market shocks and positions it for sustainable growth.

As we gear towards celebrating 120 years in Botswana, I would like to thank our loyal clients for choosing to bank with us. Our success is dependent on your support and I look forward to continuing to work with you over the coming years. I would also like to thank our Regulators and investors for their support over the past year. In addition, I thank our Board of Directors, Management, and Staff for their hard work and dedication during a very difficult year.

Moathodi K. Lekaukau
Chief Executive Officer





As part of our thought leadership initiatives we supported the inaugural Fresh Thinking Series. ***From Left to right:*** *Robbie Brozin - Founder/Owner of Nando's brand (in pink shirt) elaborating a point. Looking on, is Themba Baloyi Executive Founder of Discovery Insurance*

Retail Banking 2015 Review

> As part of the digital by design agenda, we intend to further invest and innovate in technology to deliver 'best in class' digital offerings.

Pedzani Tafa
Retail Banking

Key Financial highlights

Loans and Advances to customers up by **3%**

from P5 112.6m to P5 260.2m

2015 was the first year of our refreshed strategy which set out to expand and deepen relationships with our customers across all segments throughout our footprint. In execution of this strategy, we strengthened the acquisition and relationship teams and established an operating rhythm that leverages on retail analytics to drive superior client interaction and experience.

Innovation to meet client's needs

In 2015, we differentiated our service and banking solutions to meet the evolving needs of our clients. We launched first to market 100% Mortgage financing at a time when banks were tightening their credit criteria due to liquidity crisis.

We also provided safer, secure and convenient transactional capabilities to clients by migrating all clients from the magnetic strip cards to chip. The use of the new chip & pin cards will reduce the incidence of card fraud. In addition, we also launched Investment Services, which provides our clients with wealth creation options.

Digital by design

We have a clear digitisation agenda and we continue to enhance our client experience through our digital offering. We introduced pre paid electricity purchase & real time DSTV payments on our mobile banking platform. All these translate into added flexibility and convenience for our clients. In 2016, we intend to further invest and innovate in technology to deliver 'best in class' digital offerings.

Rewards and Recognition

We have a strong brand and franchise and we continue to win external recognition for our products and services. Visa Inc. held an award ceremony to recognise the markets that performed the best in 5 areas of the card business across nine African markets and UAE. Standard Chartered Bank Botswana scooped two of these awards. These were in recognition of having the highest percentage of Cards in Force (CIF) and having the highest Domestic Purchase Value (DPV). This was a demonstration of the convenience of our cards in supporting how our clients make payments.

Outlook

2016 will be an exciting year, as the outlook seems more positive than 2015. We remain committed to providing our customers with a differentiated experience across all touch points. There will be product and segments enhancements, which are geared to improving banking convenience and service delivery.


Express Banking
Internet Banking
Phone Banking

Commercial Banking 2015 Review

> In spite of being in its infancy, the Commercial Banking division recorded an impressive 9% revenue growth in the face of challenging economic conditions
>
> **Kesego Mokgetse**
> Commercial Banking

Key Financial highlights

Asset/Deposit Ratio

25 %

2014:16%

Since its establishment in Q3 2014, Commercial Banking has evolved and now includes Local Corporates over and above the Commercial Clients (Middle Markets, Medium enterprises & High value Small businesses). Following this re-alignment and the lessons learnt during the year of transition, we continue to improve our policies and procedures to ensure that the segment is well positioned to offer the best service to our clients.

Despite the head winds faced by Commercial Banking during the year 2015, both from external and internal factors, the business income grew by about 9%. Some of the challenges we faced include diminishing margins resulting from the cumulative 1.5 percentage points bank rate cut by the Monetary Policy Committee. Margins were also largely squeezed by the fall in liquidity within the banking industry prompting deposits to be more expensive to attract and retain. During the latter part of the year the business environment experienced some slow down which is also highlighted by macroeconomic commentators, expecting a GDP decline for quarter 4.

Our competitive strength lies in the wide network in key markets which our clients operate in; Asia, Africa and the Middle East. We have managed to leverage on this strength and drive home our strategy to focus on short term and trade financing. We are fully aligned to the import corridor of our clients and are able to align our services to their business requirements. With our strong network, superior product offering and well trained staff in trade finance solutions we believe we have a competitive edge in this area.

In the past year trade financing has been a key revenue driver and is expected to continue being the lead revenue growth area.

Our segmentation and continued refinement of the strategy will assist us to improve service delivery to our clients and improve the value we add to their businesses. Our value proposition is more focused and allows us to;

- Better identify the client's needs at an early stage and move with speed to address the needs
- Leveraging our Global network in order to give our clients access to markets in Africa, Asia and the Middle East
- Drive the digital agenda to address fraud, costs and possible errors that result from manual transactions.

Our brand promise as a bank is to be Here for good in the markets that we operate in, and our community engagement agenda continues to be a focus area. As Commercial Banking unit we have made donations to one of the orphanage homes in Mogoditshane, Kamogelo Day Care Centre, and also spent time with the children at the home. This was a continuation of the donations we have made before to a similar care centre for the blind in Mochudi.

Corporate and Institutional Banking

Our Straight2Bank platform continues to be a key source of competitive advantage through the facilitation of efficient and cost - effective processing of electronic payments, trade and foreign exchange transactions to our clients.

Benson Madisa
Corporate & Institutional Banking

Key Financial highlights

Corporate and Institutional Banking Deposit Base	P5.3 bn
2014: P4.8 bn	

Corporate & Institutional Banking continues to add value to corporate clients through our deep and intrinsic knowledge of clients' needs and the local market in which we operate. This has been achieved through tailor made solutions to our clients on the back of deepened client relations, world class systems, and leveraging on our local and international expertise in fostering and maintaining long term relationships with our clients.

BUSINESS UPDATE

The year 2015 presented a very challenging operating environment for the banking industry. It was a year marked by liquidity problems which resulted in a decline in overall profitability for the industry. Our revenue came down year on year to BWP 282m. Transaction Banking, Financial Markets and Lending were the most affected due to subdued economic growth.

Notwithstanding, the business was able to attain significant growth in core deposits to support balance sheet through cash mandates and liability drive. Our electronic platform Straight2Bank continues to be a key source of competitive advantage through the facilitation of efficient and cost-effective processing of electronic payments, trade and foreign exchange transactions to our clients. During the year we were able to migrate majority of our corporate clients onto the platform.

As per the strategy, the bank was also able to provide funding support to key sectors of the economy and grow our non funded income opportunities.

Outlook

Our Strategy going into 2016 will be to continue leveraging our international network, making banking easier and more efficient for our clients. Our clients will benefit from our globally acquired expertise and our knowledge of the market, as we provide them with timely solutions. We will continue to focus on:

- Increased efficiency of our world class systems to our clients
- Maintenance of our sound and liquid balance sheet to support existing and prospective clients.
- Building and deepening key client relationships by increasing cross sell opportunities for Financial Markets and Transaction Banking products.
- Growing our client base by leveraging our network and increasing non funded income
- Support Government initiatives in infrastructural development and economic diversification.
- Strong investment and support for our talent to build the next generation of leaders
- Most importantly, we continue to abide by our values and code of ethics to ensure that we remain Here for Good.

People

As at 31 December 2015, the bank had a total of 815 staff members of whom 654 are permanent and pensionable and 161 fixed term contract.

Highlights for 2015

- One hundred (100) employees completed the Certificate of Proficiency qualification
- Six (6) Batswana on the Africa Emerging Leaders Programme graduated in June 2015.
- Thirteen (13) employees on LTAs and five (5) on STAs
- Deepened the focus on employee conduct and risk & control processes
- Strengthened the senior leadership team
- Embarked on a proactive approach by Talent Acquisition to avoid reactive hiring was - Market Mapping for specialised roles within Transactional Banking, Financial Markets, Retail Banking and Corporate Institutional Clients.

Botswana's First Graduates of the Emerging Leadership Programme (ELP) 2013 intake

The graduation for the Africa Emerging Leadership Programme (ELP) was held in Johannesburg on June 1st-3rd, 2015. The graduation ceremony was hosted by the Regional Chief Executive Officer, Africa. Fifty six (56) employees, including six (6) Batswana graduated during this time. The ELP program is a home grown development programme that aims to provide talented individuals across Africa with the skills, experience and exposure required to develop into successful leaders. ELP candidates are taken through a leadership and personal development journey and receive coaching and exposure to senior leadership in the Bank.

Taking the Emerging Leadership programme to the community

The graduates of the ELP partnered with Naledi Senior Secondary School with the objective being;

- for the participants to give back by mentoring students identified by the school
- hosting of Financial Education workshops/ financial literacy
- interest them to major in degrees that could prepare them towards a career in banking among other things.

Through the ELP programme the Bank was invited to participate in the prize giving event held on the 25th September 2015 under the theme "Youth Engagement and Mentorship". The objective of the ceremony was to help the school promote and attain both curricula and co curricular excellence by recognising best performing learners and instilling self motivation in learners through awarding prizes to deserving students. The bank made a donation towards the occasion.

Learning:

One hundred staff members went through certification on long term and short term insurance. The Certificate of Proficiency Certification was conducted by the Botswana Accountancy College (BAC) and the Insurance Institute of Botswana (IIB).

Short Term Assignments (STAs)

In 2015 five (5) Batswana went on STA's in Kenya, Hong Kong and Singapore. STAs are typically between 3-12 months and are mainly for projects, due diligence exercises, training and career development.

Long Term Assignments

Long Term Assignments are normally used for meeting business needs, skills shortage or for the development of Employees. We currently have thirteen (13) Batswana on long term assignments. The long term assignees are spread out across all continents in countries such as the United Kingdom, the United States of America, Zambia, Kenya, China and Bahrain.

Talent Management for Information Technology and Operations (ITO)

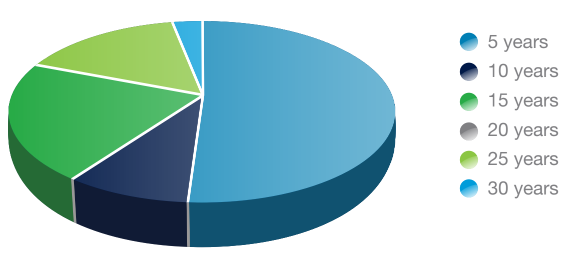
The ITO Management Team identified thirty one (31) employees to form the ITO talent pool with the objective to build an ecosystem of skills for leadership and management roles to align with the Group strategy. The teams were divided into five (5) groups and assigned projects to work on. The projects were chosen from areas where the business is currently experiencing challenges and were also aimed at helping staff develop business acumen, leadership, collaborative skills and strategic thinking. The results were presented to the management committee for deliberation.

Employee Service Awards 2015

Since the bank's services are enhanced by the productivity, dedication, and professionalism, of its employees, we believe in recognising commitment and dedication to the organisation through the Service Award Programme. Employees receive a monetary gift and a certificate, for their corresponding years of service to Standard Chartered Bank.

On an annual basis, the Chief Executive Officer confers awards to staff members who have served the bank for five, ten, fifteen, twenty five, thirty and thirty five years for their loyalty and dedicated years of service.

Employee Service Award Recognition



One hundred and twenty two (122) employees received recognition in 2015.

People [continued]

We particularly recognise staff members who have served the bank loyally for twenty five (25) and thirty (30) years. They are:

25 year service milestone

	Name	Position
1.	Mazhani, Thomson Tozer	Senior Relationship Manager, Priority Clients
2.	Mogae, Goememang	Branch Sales & Service Officer
3.	Motsamai, Chenesani	Branch Operations & Service Manager
4.	Barungwi, Christinah	Head, Process & Governance
5.	Osenotse, Tshidisego	Bulk Cash and Blank Forms Support
6.	Neo Mutami	Archives Support Officer
7.	Kwape, Keneilwe	Client Service Manager
8.	Sesa, Kayo	Driver
9.	Rammokolodi, Gaebonwe Fox	Technical Verification Officer
10.	Tshukudu, Violet Mmatele	Branch Operations & Service Manager
11.	Mmusi, Sipho	Branch Operations & Service Manager
12.	Hetanang, Michael	Technical Support Analyst
13.	Seisa, Senewamang Tiny	Personal Assistant
14.	Motlhanka, Ipuseng John	Branch Manager
15.	Segokgo, Gorileng Phana	Account Monitoring and Validation Manager
16.	Letsholathebe, Monicah	Branch Operations & Service Manager
17.	Mphithang, Patricia Unangoni	CB Operations Risk Manager
18.	Taolo, Melemo Mpelegang	Branch Operations & Service Manager
19.	Tlhotlhologolo, Julia	Head, Client Relationships
20.	Oahile, Rosinah	Bulk and blank Form support

30 year service milestone

	Name	Position
1.	Marata, Simon	Branch Operations & Service Manager
2.	Shathani Chibaya	Branch Manager
3.	Mookodi,Goitsemang Alaska	Senior Branch Manager
4.	Florence Thipe	Signature verification officer

Our priorities in 2016

Our priorities are in line with, and in support of, both Global Human Resources and business priorities as follows:

- Leadership – enabling our Leaders to drive the change.
- Employee Engagement – aligning Hearts and Minds to ensure our people experience satisfaction and pride in the work they do, and demonstrate commitment and advocacy of the bank.
- Conduct and Culture – conduct will continue to be a key driver in ensuring the behaviour changes we require in driving our organisation forward.
- Capability Build – ensuring the business has the best possible employees in functional and front line roles in order to offer world class banking to our clients.
- Change Management – building of change management competencies across the business as a strategic capability that enables flexibility, change ready and responsive to marketplace changes.

Remembering our colleagues who passed on in 2015

- Ms Keafiwa Lebogang: Keafiwa worked in Employee Banking as a Senior Business Development Officer - Mortgage Specialist at the Loan Centre. She passed on the 11th September 2015.
- Mr Bokamoso Sereetsi: Bokamoso was a Relationship Manager for Employee Banking. He passed away on the 25th October 2015.
- Mr Thato Madima: Thato joined the bank on 1st June 2010 as a Teller doing both Pula and Forex telling. He was stationed at Hemamo branch in Gaborone. He passed on the 18th December 2015

May they find eternal rest.

Sustainability

To create long-term value, we seek to address social and economic issues that affect the communities where we work and live. In 2015, we embarked on a number of projects with non-governmental organisations, business partners and our employee volunteers to deliver programmes focused on health and education.

Standard Chartered Bank Education Trust

The highlight of our sustainability initiatives in 2015 was the announcement of the Standard Chartered Bank Education Trust which supports education and learning. Through the Trust, the Bank will sponsor exceptional individuals and projects that have the potential to make a broader contribution to the community. The Trust, which is managed by an independent board of trustees, owns a 0.84% shareholding in Standard Chartered Bank Botswana and has already received a dividend of P1,2 million in its inaugural year.

This citizen empowerment transaction is a milestone development which is broad based in nature as a wide range of Batswana will benefit from the dividends and value appreciation of the bank. Education is one of the key focus areas of our community investment agenda and the establishment of The Standard Chartered Education Trust further confirms our commitment to ensuring that every Motswana is given the opportunity to enhance their skills through quality education.

Financial Education

One of the banks' community programmes is financial education. In 2015, we undertook a number of activities to promote financial literacy. The month of May was declared Financial Education Month, during which education workshops were conducted using the Financial Education for Youth (FE4Y) toolkit. This concept was developed to encourage staff to undertake skills based volunteerism as part of the Employee Volunteering programme. A total of 514 students were reached through this campaign.

Busines forum for over 120 Thusang Basadi clients as part of financial education

Thusang Basadi

The partnership with Thusang Basadi, which was established in 2014, continues to support both our sustainability and financial inclusion agenda. It is also aligned to the new 17 Sustainable Development goals, specifically reduction of poverty, supporting women and giving quality education. This initiative has also given our staff the opportunity to impart and share expertise in contributing to social and economic development. Staff have participated in skills based employee volunteering by offering support to the establishment through revising their credit, HR, legal and finance policies.

Since the start of the partnership, Thusang Basadi has been able to extend its services to more women with an additional branch opened in 2015. This has increased the number of centres across Botswana servicing over 10 000 women.

As part of the agreement, a business forum was held for over 100 Thusang Basadi clients who were trained using the robust Financial Education for Entrepreneurs Toolkit which provides essential knowledge on how to effectively manage your business and grow it to the next level.

Positive Living

Our Positive Living programme promotes awareness and understanding of HIV and AIDS. We have prioritised HIV and AIDS awareness education since 1999, aiming to reduce the spread of new infections by giving people the facts to make safer lifestyle choices. As part of our commitment to eradicate the stigma around HIV and AIDS, we have joined forces with the MTV Staying Alive Foundation (MTV SAF). MTV SAF has already awarded 488 grants across 66 countries. Standard Chartered has committed to fund eight projects in six countries including Botswana's youth led NGO, Young 1ove. Young 1ove aims to bridge the gap between millions of youth seeking real answers to tough problems, especially life-saving information about sex.

Young 1ove's project aim at the start of the year was to reach out to 1500 students in 3 regions in Botswana. The three regions were Selibe Phikwe, Francistown and Chobe - amongst the highest with regards to HIV prevalence. During the implementation of the project, this figure more than doubled to a reach of over 3,900. A total of 20 peer educators were trained with the Young 1ove in a box curriculum, and this included 15 local national service participants.

Thought leadership

One of the key ways in which we promote the strength of our franchise is through sponsorship of thought leadership seminars. During the year under review, the bank was successful in sponsoring the first ever Botswana Annual Job Summit seminar. This was a platform that brought together leaders of industry for in-depth discussion on the very pertinent issue of unemployment and job creation. The seminar spurred dialogue on key drivers and possible solutions.

To further create platforms at which matters of importance to the economy can be debated, we resuscitated the partnership with one of the leading newspapers, Botswana Guardian to host quarterly breakfast seminars. The first seminar was held in June 2015 and similarly t the Job Summit addressed the issue of unemployment while the next one lent itself to another topical item, the Economic Stimulus Programme. The crux of the discussion was to identify the opportunities for the construction industry as well as to determine the readiness of the industry itself to support the Government in this regard.

We were particularly proud of our involvement with an African initiative known as 'The Fresh Thinking Series' whose inaugural staging took place in October. The Fresh Thinking Series is designed as a platform that promotes intellectual capital sharing with the quest to deliver engagement, partnerships and networking opportunities that are meant to catapult Botswana and Africa's development trajectory. The platform pools business leaders, innovators/pioneers to discuss opportunities as well as share views on how Africa should develop.

The first edition of the series brought local and international thought leaders who are proven in terms of success and as a bank we believe that their skills and thoughts needed to be harnessed for the good of society. Some of panellists included Robbie Brozin, Founder/ Owner of Nando's eatery brand which has close to 1500 Stores all over the world, Bibop Gresta of Hyperloop Transportation Technologies which is building an in between of airplane and high speed train, as well as the industrious Dr Tiro Mampane of the Boitekanelo Health Group.

This initiative aligned with our agenda which focuses on three key areas; contributing to sustainable economic growth, being a responsible company and investing in communities. Our view and commitment to Botswana remains a priority and that is why we sought to steer this very first undertaking to home soil.

Panelists at The Fresh Thinking Series

Bibop Gresta - Hyperloop Transportation Technologies

Ludwick Marishane - DryBath ® inventor

Robbie Brozin - Founder/Owner of Nando's brand

Dr Tiro Mampane - Boitekanelo Health Group

Risk management processes and the Risk Management Framework

The Bank adds value to its customers and generates returns for its shareholders by taking and managing risk in line with its strategy. Risk management is a set of end-to-end activities through which the Bank makes risk-taking decisions, controls and optimises its risk-return profile. It is a Bank-wide activity that starts right at the front-line.

The management of risk lies at the heart of the Bank's business. Effective risk management is a central part of the financial and operational management of the Bank and is fundamental to the Bank's ability to generate profits consistently and maximise the interests of its stakeholders.

The foundation of all risk assessment is aligned to the Group's Risk Management Framework ("RMF") and governance structure which has been adopted locally. The RMF establishes common principles and standards for the management and control of all risks, and informs behaviour across the organisation. It provides a shared framework and language to improve awareness of risk management processes across the bank. It also provides clear accountability and responsibility for risk management. The core components of the RMF include risk classifications, risk principles and standards, definitions of roles and responsibilities and governance structures

Risk Management Framework Governance

The Executive Risk Committee (RiskCo), through its authority delegated by the executive Committee (ExCO), is responsible for the management and control of all risks, excepting those for which Asset and Liability Committee (ALCO) have direct responsibility. The RiskCo is also responsible for defining the Bank's overall risk management framework.

The Executive Risk Committee is responsible for overseeing the effective implementation of the Risk Management Framework, including the clear assignment of the roles and responsibilities of Risk Control Owners locally. It is also responsible for ensuring that the risk exposures for all types of risk (other than those covered by ALCO) remain within the overall risk appetite and within any specific constraints advised by Bank risk committees.

The Country Chief Risk Officer is responsible for the ongoing review and maintenance of the framework in response to internal and external developments, and for related change management

Operational Risk

Operational risk is potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks

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

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 framework. CORC is responsible for, promoting and sustaining a high level of operational risk management culture within the bank, reviewing Country Operational Risk Profile and ensuring appropriate ownership, actions and progress for all risks and reviewing overdue items. CORC meets monthly and comprises of Chief Executive Officer (Chairman), Heads of Retail Banking, Corporate & International Banking, Head Commercial Banking, Technology & Operations, Group Internal Audit, Legal and Compliance, Human Resources, Finance, Corporate Affairs and Country Chief Risk Officer.

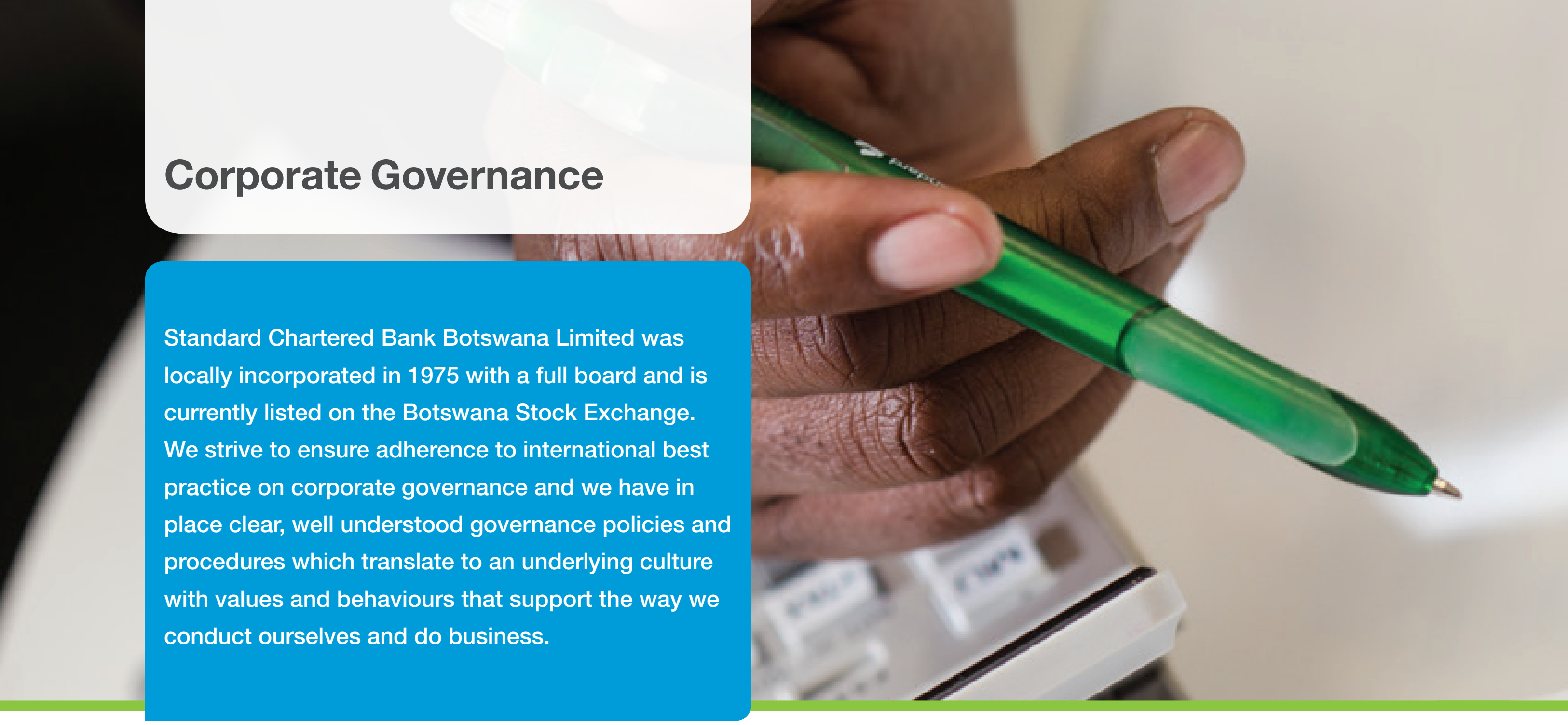
Credit Risk

Credit risk is the risk that a customer is unable to meet their obligations in accordance with agreed terms. Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books. In Retail Banking, Credit risk is managed through a framework of policies and procedures. Credit origination uses standard application forms, which are processed in central units using fairly automated approval processes. The repayment management process is automated to efficiently manage expected loan repayments on due dates. An account is considered to be delinquent when payment is not received 30 days past the due date. Accounts that are overdue on loan payments are closely monitored and subject to a collections process. In Corporate & International Banking, and Commercial Banking segments, Credit risk is also managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. Accounts are placed on Early Alert when they display signs of weakness. Group Special Assets Management is a specialised unit responsible for managing stressed accounts in the bank.

Credit Risk across the bank is managed through independent and segregated functions each responsible for credit origination, credit decision, credit fulfillment and collections & recoveries.

Credit Issues Committee

This committee provides overall direction and management of the credit portfolio and meets on a monthly basis. Membership comprises of Chief Executive Officer (Chairman), Heads of Retail Clients, Corporate & International Banking, Head Commercial Banking, Country Chief Risk Officer and various senior credit staff.



Corporate Governance

Standard Chartered Bank Botswana Limited was locally incorporated in 1975 with a full board and is currently listed on the Botswana Stock Exchange. We strive to ensure adherence to international best practice on corporate governance and we have in place clear, well understood governance policies and procedures which translate to an underlying culture with values and behaviours that support the way we conduct ourselves and do business.

Disclosure

Standard Chartered Bank Botswana has over the years aimed to ensure compliance with disclosure requirements as required by the IFRS and the Botswana Stock Exchange. We had in 2015 complied with all continuing obligations of listed entities as per the Botswana Stock exchange Listings requirements.

Our Board

Our Board currently consists of 6 individuals who have the right balance of skills and expertise, with the roles of Chief Executive Officer and Chairman being held by separate individuals. The Board of Directors is guided by the articles of association, matters reserved for the board and the specific terms of reference to ensure the Bank delivers on its strategy in order to deliver value to Shareholders and other stakeholders.

The Board comprises of Executive and Non-Executive Directors who swap 4 times a year.

Executive Director:
Moatlhodi K. Lekaukau

Non Executive Director
Richard Etemesi

Independent Non-Executive Directors:
Bojosi Otlhogile (Chairman)
Ish Handa
Kate Senye
John Stevens

Board Secretary:
Esther Mokgatlhe

Our Committees

The Board has three sub committees namely Audit, Risk and Credit Approvals.

Board Audit Committee:

The Committee meets at least four (4) times a year and on such other occasions the Committee Chairman deems necessary. The Committee also meet bi annually with the external auditors and at least annually on an individual basis with the Chief Finance Officer, Head of Audit and Head of Compliance without other management being present. The Audit Committee is chaired by an Independent Non-Executive Director.

The role of the Committee is to review, on behalf of the Board, the Bank's internal financial controls to identify, assess, manage and monitor financial risks and to review the Bank's internal control systems on behalf of the Board.

Board Risk Committee

The Board Risk Committee is expected to exercise oversight on behalf of the Board of the key risks faced by the Bank and to make recommendations to the Board on the bank's overall risk appetite. The Board Risk Committee is also expected to among others; consider the bank's appetite for risk, to review the appropriateness and effectiveness of the bank's risk management systems and controls, and to consider the implications of changes proposed to regulations and legislation that are material to the overall bank's risk appetite, risk exposure and management of risk.

The committee meets at least on a quarterly basis and is chaired by an independent Non-Executive Director.

Board Credit Approvals Committee

In line with the local regulatory requirements, Board Credit Approvals Committee exercises oversight over credit applications and approves exposures with a value of 10 percent and above of the Bank's unimpaired capital. The committee also assesses all matters incidental to credit administration and makes recommendations to the Board on the credit risk of the Bank.

Board Effectiveness Review

The Bank has in place a Board effectiveness review policy and reviews are conducted on an annual basis. Action plan to address issues identified is put in place and presented to the Board by the Chairman with the assistance of the Company Secretary.

To enhance Board effectiveness, the following training has been performed during the year:

- Balance Sheet management
- Overview of Basel II
- Anti Money Laundering and Sanctions

Conflicts of interest

The Board has adopted a robust Conflict of Interest Policy. All directors have a duty to avoid conflicts of interest. All potential and actual conflicts of interest should be reported to the Company Secretary together with details of benefits received or likely to be received.

Compliance

Standard Chartered Bank Botswana Limited is a company that strives to lead the way in regulatory compliance and combating financial crime, whilst providing quality service to our clients. In order to achieve this, it is important for the Board, senior management and staff to understand and follow both the spirit and the letter of the law and to be mindful of the reputational risk that may arise as a result of our action and this is achieved through the Compliance function acting as a trusted business advisor to the Bank.

To ensure compliance with set policies, procedures, laws and regulations the bank has in place, a Code of conduct that all staff are expected to adhere and commit to on an annual basis. The Code of conduct is built around four pillars being; creating the right environment; a fair outcome for clients; effective operation of financial markets and prevention of financial crime.

The following are the key pronouncements contained in our code of conduct for staff;

- Do the right thing
- Act responsibly and within authority
- Use good judgment
- Speaking Up
- Comply with laws, regulations and Group standards
- Combat financial crime
- Reject bribery and corruption
- Treat customers and clients fairly
- Manage conflicts of interest
- Do not take part in insider dealing
- Protect confidential information
- Compete fairly in the market place
- Treat colleagues fairly and with respect
- Be open and co-operate with regulators
- Respect our communities and the environment

Despite the current market sentiments we remained focused and Here for Good.

Esther Mokgatlhe

Company Secretary

Board of Directors

Moatlhodi K. Lekaukau

Richard Etemesi

John Stevens

Ish Handa Kumar

Prof. Bojosi Otlhogile

Kate Senye

Esther Mokgatlhe

Prof. Bojosi Otlhogile
Independent Non-Executive Director and Board Chairman

Bojosi Otlhogile was appointed to the board of Standard Chartered Bank Botswana in September 2008. Prof. Otlhogile holds a law degree (LLB) from University of Botswana and an LLM and PHD in Law from the University of Cambridge. He has held various posts including Head of the Law Department (1993-1999), Dean of the Faculty of Social Sciences (1999-2003) and Vice Chancellor (2003-2011). Until recently he was a member of the University of Botswana Council and Senate and was Councillor of the International Africa Institute, UK. He is Chairman of the boards of Southern Africa Media Development Fund (SAMDEF) (1997-2008) and Botswana Housing Corporation (BHC), is a Director of Longman Botswana and also chairs Special Olympics Botswana. He is a Council member of the Universities of Zambia and Swaziland.

Moatlhodi K. Lekaukau
Chief Executive Officer

Moatlhodi Lekaukau assumed the role of Standard Chartered Bank Botswana Chief Executive Officer in February 2012. He holds a B.Comm and PGDip. Acc from the University of Cape Town and is a Chartered Accountant by profession. Prior to joining Standard Chartered Bank, Moatlhodi Lekaukau was a Partner at Deloitte and Touche Corporate Finance in South Africa where he headed up Mergers & Acquisitions for the Southern Africa region.

Richard Etemesi
Non-Executive Director

Richard Etemesi was appointed to the board as a Non-Executive Director in June 2014. He holds a Masters of Science Degree in Corporate Finance from Strathclyde Business School, University of Strathclyde in UK and a Bachelor of Commerce Degree in Accounting from University of Nairobi. Prior to joining Standard Chartered Bank, Richard worked as a Financial Management Consultant with Coopers & Lybrand Associates based in Kenya where he was involved in consultancy assignments. Richard joined the bank where he worked in various roles across the Group including CEO for Standard Chartered Bank Uganda and Kenya respectively. Richard is currently Chief Executive Officer and Area General Manager for Southern Africa, Standard Chartered Bank.

John Stevens
Independent Non-Executive Director

John Stevens was appointed to the board as a Non-Executive Director in August 2013. He served Deloitte & Touche in South Africa and Botswana for over 33 years, 8 of those years as partner in charge of Delotte & Touche Botswana. John retired from Deloitte & Touche in 2007 and took up the challenge of private consultancy.

He holds a B.Comm Degree from Rhodes University and is a fellow member of the Botswana Institute of Chartered Accountants. John is also a member of the Board for Cresta Marakanelo.

Ish Handa Kumar
Independent Non-Executive Director

Ish Kumar Handa was appointed to the board as a Non-Executive Director in November 2011. He holds a Bachelor of Arts Degree from Punjab University, India. He holds a Diploma in Textile Technology from Punjab Institution of Textile Technology and a Diploma in Business Management from International Correspondence School. He has training in textile engineering in Germany. He is the Managing Director of the Handa Group of Companies.

Kate Senye
Independent Non-Executive Director

Kate Senye was appointed to the board as a Non-Executive Director in August 2013. She is currently the Managing Director of Inter File Botswana (Pty) Ltd. Kate holds an MA in Public Policy Majoring in Development Economics, Business and Finance from the University of Wisconsin, Madison, USA and a Bachelor of Social Science Majoring in Economics and Accounting from the University of Botswana. She currently serves on the board of Botho University – Botswana, and is a trustee of Sponsor a Child.

Esther Mokgatlhe
Company Secretary

Esther joined Standard Chartered Bank, Botswana in October 2012 as Head of Regulatory Affairs for Botswana. Prior to joining Standard Chartered, Esther spent 18 years with the Group's primary regulator in Botswana, the Bank of Botswana, where she held a number of roles in Banking Supervision Department. During that time she was attached to KPMG in Advisory Division and also the Central Bank Accounting Department for a period of 6 months and 9 months respectively.

Esther holds a Bachelor of Commerce, majoring in Accounting, A Masters Degree of Business Administration; both from the University of Botswana. She is an Associate member of the Chartered Institute of Management Accountants and also holds an Associate Diploma in Banking from the Botswana Institute of Bankers.

Management Team

Esther K Mokgatlhe
Legal & Compliance, Company Secretary

Ali Zayem
Wealth Management

Pedzani Tafa
Retail Banking

John Kimani
Information Technology & Operations

Moatlhodi K Lekaukau
Chief Executive Officer

Tuduetso Ntwaitsile
Internal Audit

Mpho C Masupe
Finance

Itumeleng Ramsden
Corporate Affairs and Brand & Marketing

Benson Madisa
Corporate and Institutional Banking

Botho F Leburu
Financial Markets

Richard Ochieng
Country Risk

Mmama Mhlanga-Fichani
Human Resources

Kesego Mokgetse
Commercial Banking

Annual group and company financial statements

for the year ended 31 December 2015

Contents	Page

Supplementary information

Directors' report

for the year ended 31 December 2015

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Company for the year ended 31 December 2015.

Activities

The Group continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Group has three subsidiaries, namely an insurance agency company, an investment services company and a custodial services company and has control over an education trust. During the year, the Group set up an education trust to promote educational activities. For the purposes of presenting consolidated financial statements, only the results of the insurance agency subsidiary and education trust have been incorporated in the Group results, as the other two subsidiaries are dormant or immaterial subsidiaries for consolidation purposes.

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 39 and reflect the following:

- Profit before taxation P69 million (a decrease of 83% from 2014)
- Profit for the year P47 million (a decrease of 85% from 2014)

Dividends

During the year, P169m dividends were declared and paid (2014: P213m).

Stated capital

There has been no change to the Bank's stated capital during the year (2014:Nil).

Events after reporting date

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

Holding company

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

Directors

The following were directors of the Bank as at 31 December 2015:

Executive Director:
M K Lekaukau

Company Secretary:
E Mokgatlhe *(Appointed during the year)*

Non Executive Directors:
B Otlhogile *(Chairman)*
I Handa
K Senye
J Stevens
R Etemesi

Auditors

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

By order of the Board

Esther Mokgatlhe
Secretary

Directors' responsibility statements

for the year ended 31 December 2015

The directors are responsible for the preparation and fair presentation of the group and company annual financial statements of Standard Chartered Bank Botswana Limited, comprising the statements of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04). In addition, the directors are responsible for preparing the directors' report.

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 for maintaining adequate accounting records and an effective system of risk management.

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

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

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

Approval of the group and company annual financial statements:

The Group and company annual financial statements of Standard Chartered Bank Botswana Limited, were approved by the board of directors on 25 February 2016 and are signed by:

Bojosi Otlhogile
Chairman

Moatlhodi Lekaukau
Managing Director

Financial Statements and Notes

Independent auditor's report

to the Shareholders of Standard Chartered Bank Botswana Limited

We have audited the Group and company financial statements of Standard Chartered Bank Botswana Limited, which comprise the statements of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 43 to 92.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity 's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited as at 31 December 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

KPMG

Certified auditors
Practicing member: A G Devlin [19960060.23]

Gaborone
27 March 2016

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2015

	Note	Group 2015 P'000	Group 2014 P'000	Company 2015 P'000	Company 2014 P'000
Interest income	5	856 883	841 613	856 883	841 613
Interest expense	6	(385 617)	(246 261)	(385 617)	(246 261)
Net interest income		**471 266**	**595 352**	**471 266**	**595 352**
Fee and commission income	7	280 429	297 986	226 137	223 982
Fee and commission expense		(28 196)	(27 089)	(28 196)	(27 089)
Net fee and commission income		**252 233**	**270 897**	**197 941**	**196 893**
Net trading income	8	156 494	207 183	155 089	207 183
Dividend income		-	-	51 864	43 546
Net other income		**156 494**	**207 183**	**206 953**	**250 729**
Revenue		**879 993**	**1 073 432**	**876 160**	**1 042 974**
Operating expenses					
Net impairment loss on financial assets	9	(105 348)	(1 443)	(105 348)	(1 443)
Employee benefits	10	(219 955)	(249 100)	(219 955)	(249 100)
Operating lease expenses		(37 193)	(22 011)	(37 192)	(22 011)
Depreciation and amortisation		(23 130)	(24 277)	(23 130)	(24 277)
Administration expenses	11	(425 716)	(370 110)	(416 389)	(362 597)
Total expenses		**(811 342)**	**(666 941)**	**(802 014)**	**(659 428)**
Profit before taxation		**68 651**	**406 491**	**74 146**	**383 546**
Income taxation	12	(21 260)	(87 307)	(11 063)	(72 679)
Profit for the year		**47 391**	**319 184**	**63 083**	**310 867**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Change in fair value of available for sale investments, net of tax		(5 006)	(7 501)	(5 006)	(7 501)
Total comprehensive income for the year		**42 385**	**311 683**	**58 077**	**303 366**
Basic and diluted earnings per share (Thebe)	14	15.88	106.98		

The notes on pages 43 to 92 are an integral part of these financial statements

Statements of financial position

for the year ended 31 December 2015

	Note	Group		Company	
		2015 P'000	2014 P'000	2015 P'000	2014 P'000
Assets					
Cash and balances with central bank	15	1 139 254	1 005 148	1 138 000	1 005 148
Loans and advances to banks	16	2 226 840	2 526 133	2 175 521	2 526 133
Investment securities	17	2 308 814	884 624	2 308 814	884 624
Loans and advances to customers	18	7 188 009	8 128 305	7 188 009	8 128 305
Other assets	21	166 942	145 622	166 942	145 622
Taxation refundable	25	20 247	8 333	18 314	6 356
Property and equipment	19	33 684	39 918	33 684	39 918
Intangible asset and goodwill	20	46 213	62 186	46 213	62 186
Total assets		**13 130 003**	**12 800 269**	**13 075 497**	**12 798 292**
Liabilities					
Deposits from other banks	22	1 284 538	991 441	1 251 738	991 441
Deposits from customers	23	9 865 985	10 041 700	9 865 985	10 182 099
Other liabilities	27	238 174	258 331	221 073	167 818
Deferred taxation	26	13 765	11 941	13 765	11 941
Senior and subordinated debt	24	686 260	297 260	686 260	297 260
Total liabilities		**12 088 722**	**11 600 673**	**12 038 821**	**11 650 559**
Equity					
Stated capital		179 273	179 273	179 273	179 273
Reserves		862 008	1 020 323	857 403	968 460
Total equity		**1 041 281**	**1 199 596**	**1 036 676**	**1 147 733**
Total liabilities and equity		**13 130 003**	**12 800 269**	**13 075 497**	**12 798 292**

Statements of changes in equity

for the year ended 31 December 2015

Group	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Proposed dividends P'000	Capital contribution P'000	Treasury share reserve P'000	Available for sale reserve P'000	Total P'000
Balance at 01 January 2014	**179 273**	**6 327**	**8 223**	**828 696**	**20 000**	**28 213**	**-**	**30 267**	**1 100 999**
Total comprehensive income									
Profit for the year	-	-	-	319 184	-	-	-	-	319 184
Other comprehensive income									
Fair value adjustment:									
Available for sale securities	-	-	-	-	-	-	-	(7 501)	(7 501)
Transactions with owners of the bank									
Dividends to equity holders – proposed	-	-	-	(60 000)	60 000	-	-	-	-
Dividends to equity holders – paid	-	-	-	(133 086)	(80 000)	-	-	-	(213 086)
Total distributions to owners	**-**	**-**	**-**	**(193 086)**	**(20 000)**	**-**	**-**	**-**	**(213 086)**
Balance at 31 December 2014	**179 273**	**6 327**	**8 223**	**954 794**	**-**	**28 213**	**-**	**22 766**	**1 199 596**
Total comprehensive income									
Profit for the year	-	-	-	47 391	-	-	-	-	47 391
Other comprehensive income									
Fair value adjustment:									
Available for sale securities	-	-	-	-	-	-	-	(5 006)	(5 006)
Transactions with owners of the bank									
Dividends to equity holders – paid	-	-	-	(169 134)	-	-	-	-	(169 134)
Purchase of treasury shares	-	-	-	-	-	-	(31 566)	-	(31 566)
Balance at 31 December 2015	**179 273**	**6 327**	**8 223**	**833 051**	**-**	**28 213**	**(31 566)**	**17 760**	**1 041 281**

The notes on pages 43 to 92 are an integral part of these financial statements

Statements of changes in equity [continued]

for the year ended 31 December 2015

Company	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Proposed dividends P'000	Capital contribution P'000	Available for sale reserve P'000	Total P'000
Balance 01 January 2014	179 273	6 327	8 223	785 150	20 000	28 213	30 267	1 057 453
Total comprehensive income								
Profit for the year	-	-	-	310 867	-	-	-	310 867
Other comprehensive income								
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(7 501)	(7 501)
Transactions with owners of the bank								
Dividends to equity holders – paid	-	-	-	(133 086)	(80 000)	-	-	(213 086)
Dividends to equity holders – proposed	-	-	-	(60 000)	60 000	-	-	-
Total distributions to owners	-	-	-	(193 086)	(20 000)	-	-	(213 086)
Balance at 31 December 2014	179 273	6 327	8 223	902 931	-	28 213	22 766	1 147 733
Total comprehensive income								
Profit for the year	-	-	-	63 083	-	-	-	63 083
Other comprehensive income								
Fair value adjustment:								
Available for sale securities	-	-	-	-	-	-	(5 006)	(5 006)
Transactions with owners of the bank								
Dividends to equity holders – paid	-	-	-	(169 134)	-	-	-	(169 134)
Balance at 31 December 2015	179 273	6 327	8 223	796 880	-	28 213	17 760	1 036 676

The notes on pages 43 to 92 are an integral part of these financial statements

Stated capital

Issued ordinary shares
298 350 611 ordinary shares of no par value (2014: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares
As at 31 December 2015, un-issued shares totalled 101 649 389 (2013: 101 649 389).

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

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

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

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

Statutory credit risk reserve
This reserve represents the excess of the 1.25% general provision against risk weighted assets as required by the Bank of Botswana in addition to the impairment provision required by International Financial Reporting Standards (IFRS). The Bank of Botswana requires the Group to reserve an excess of 1.25% general provision against risk weighted assets. This is in addition to the impairment provision as required by International Financial Reporting Standards (IFRS). (Refer to note 9).

Proposed dividends
Proposed dividends are disclosed as a separate component of equity. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

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 cumulative movement in fair value of available for sale securities.

Retained earnings
Retained earnings record the cumulative net profit or loss made by the Group after deducting dividends to shareholders and other utilisation of the reserve.

Treasury share reserve
The reserve for the company's treasury shares comprises the cost of the company's shares held by the Group. As at 31 December, the Group held 0.84% of the company's shares (2014: nil).

Statements of cash flows

for the year ended 31 December 2015

		Group		Company	
	Note	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Cash flows from operating activities					
Profit for the year		47 391	319 184	63 083	310 867
Adjustments for:					
- Taxation		21 260	87 307	11 063	72 679
- Depreciation	19	7 134	8 613	7 134	8 613
- Amortisation	20	15 996	15 664	15 996	15 664
- Impairment charge on loans and advances	9	105 348	1 443	105 348	1 443
- Movement in operating lease accrual	31	(2 124)	1 331	(2 124)	1 331
- Dividend income		-	-	(51 864)	(43 546)
- Loss on disposal of property		-	36	-	36
		195 005	**433 578**	**148 636**	**367 087**
Change in investment securities		(1 429 196)	476 240	(1 429 196)	476 240
Change in loans and advances to customers		834 948	(1 841 464)	834 948	(1 841 464)
Change in other assets		(21 320)	5 159	(21 320)	5 159
Change in deposits from other banks		293 097	498 926	260 297	498 926
Change in deposits from customers		(175 715)	2 149 481	(316 114)	2 224 241
Change in other liabilities		(18 033)	29 265	55 379	(39 250)
Cash utilised/(generated) by operations		**(321 214)**	**1 751 185**	**(467 370)**	**1 690 939**
Taxation refunded	25	6 363	-	6 363	-
Taxation paid	25	(37 713)	(103 554)	(27 560)	(86 854)
Net cash used in operating activities		**(352 564)**	**1 647 631**	**(488 567)**	**1 604 085**
Cash flows from investing activities					
Acquisition of property and equipment		(900)	(598)	(900)	(598)
Acquisition of intangibles		(23)	(8 609)	(23)	(8 609)
Purchase of treasury shares		(31 566)	-	-	-
Dividends received		-	-	51 864	43 546
Net cash (generated)/used in from investing activities		**(32 489)**	**(9 207)**	**50 941**	**34 339**
Cash flows from financing activities					
Proceeds from subordinated debt		389 000	-	389 000	-
Dividends paid		(169 134)	(213 086)	(169 134)	(213 086)
Net cash generated used in/(from) financing activities		**219 866**	**(213 086)**	**219 866**	**(213 086)**
(Increase)/decrease in cash and cash equivalents		(165 187)	1 425 338	(217 760)	1 425 338
Cash and cash equivalents at 1 January		3 531 281	2 105 943	3 531 281	2 105 943
Cash and cash equivalents at 31 December	28	**3 366 094**	**3 531 281**	**3 313 521**	**3 531 281**

The notes on pages 43 to 92 are an integral part of these consolidated financial statements

1. Reporting entity

Standard Chartered Bank Botswana Limited was incorporated in Botswana as a bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company's registered address is Standard Chartered Bank Botswana Limited, P. O. Box 496 Gaborone, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The consolidated financial statements for the year ended 31 December 2015 comprise the company and its subsidiaries (together referred to as the "Group"). The Company has three subsidiaries, namely an insurance agency company, an investment services company and a custodial services company and has control over an education trust. During the year the Group obtained control over an education trust. For the purposes of presenting consolidated financial statement, only the results of the insurance agency subsidiary and education trust have been incorporated in the Group results, as the other two subsidiaries are dormant or immaterial subsidiaries for consolidation purposes. The Group is a subsidiary of Standard Chartered Bank PLC, London, and its ultimate holding company. These financial statements represent the Group's and Bank's statutory financial statements.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

(b) Functional and presentation currency

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

(c) Basis of consolidation

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are presently exercisable are taken into account. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

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. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over net fair value of identifiable assets acquired is recorded as goodwill (refer note 3(l)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions eliminated on consolidation

Inter-group balances and transactions, and any unrealised income and expenses arising from inter-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.

Change in the group's interest in a subsidiary

Change in the Group's interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions.

Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and the related NCI and other components of equity. Any resulting gain/loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Segmental reporting

A 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. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office assets and expenses, and taxation.

(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 the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Credit Risk Function.

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

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

Determining fair values

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

Financial instruments classification

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

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all material respects to all periods presented in these financial statements, and have been applied consistently by Group entities (unless otherwise specified in the note below on changes in accounting policies. The accounting policies disclosed for the consolidated financial statements apply equally to the company's separate financial statements unless otherwise specified.

(a) Changes in accounting policies

The group has adopted the following relevant new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

(a) Amendments to IAS 19 Retirement Benefit Plans: Employee Contributions
(b) IFRIC 21 Levies

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss.

3. Significant accounting policies

(c) Interest

Interest income and expense are recognised in profit or loss using the effective interest 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 profit or loss and other comprehensive income include:

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

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

(d) 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.

(e) 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 and foreign exchange differences.

(f) Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for quoted equity securities.

(g) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Loans and advances

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

(i) Financial instruments

The Group classifies its financial assets into the following measurement categories: a) loans and receivables and b) available-for-sale financial assets. Financial liabilities are classified 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) 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. Included in loans and receivables are loans and advances to other banks and loans and advances to customers and cash and balances with other banks.

(ii) Available-for-sale financial assets

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. Investment securities are classified as available - for - sale assets.

3. Significant accounting policies [continued]

(i) Financial instruments [continued]

Initial recognition

Purchases and sales of available-for-sale financial instruments 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 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 profit or loss. The difference is amortised to profit or loss until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the available for sale reserve in equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.
Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in profit or loss over the period of borrowings using effective interest method. Financial liabilities include deposits from other banks, deposits for customers, senior and subordinated debt and other liabilities.

Renegotiated loans

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

Derecognition

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

Impairment of financial assets

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

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

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

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.

3. Significant accounting policies [continued]

(i) Financial instruments [continued]

Impairment of financial assets [continued]
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 profit or loss. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

To the extent a loan is irrecoverable, it is written off against the related allowance 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 provided for decrease the amount of the allowance for loan impairment in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (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 profit or loss.

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 profit or loss) is removed from equity and recognised in profit or loss. 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 profit or loss. Impairment losses recognised in equity are not reversed through profit or loss.

Fair value measurement
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument, where available. If there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

3. Significant accounting policies [continued]

(i) Financial instruments [continued

Fair value measurement [continued]
Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(j) 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.

(k) Property and equipment

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

Land and buildings are shown at valuation less related accumulated depreciation and impairment losses. Revaluations are carried out periodically by the directors using independent valuers on the open market basis. The directors consider the fair value of land and buildings annually. Surpluses and deficits arising on the revaluation of land and buildings are transferred to or from the revaluation reserve through other comprehensive income and accumulated in equity. The reserve is utilised on the sale of the asset.

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

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

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 it 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 profit or loss as incurred.

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. The estimated useful lives for the current and comparative periods are as follows:

Freehold property	Nil
Leasehold property	Shorter of useful life/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.

3. Significant accounting policies [continued]

(l) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill included in the intangible assets is assessed at each reporting date for impairment and carried at cost less any accumulated impairment losses. Gains and losses at disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Acquired intangibles

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

Amortisation

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

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

(m) Impairment of non financial assets

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

The 'recoverable amount' of an asset or cash generating unit is assessed as the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one cash generating unit. Corporate assets are allocated to cash generating units on a reasonable and consistent basis and tested for impairment as part of the testing.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating units on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Investment securities

Investment securities are initially measured at fair value. 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.

3. Significant accounting policies [continued]

(o) Financial guarantees

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Liabilities arising from financial guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

(p) Restructuring provision

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. It is not expected that restructuring will cause any future losses.

(q) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in 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 tax. Deferred tax is not recognised for the following temporary differences: the initial consideration of goodwill, the initial consideration of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits or losses and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred 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 at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxation 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 of 5% and 7.5% is payable on the gross value of the dividends.

(r) Employee benefits

Retirement benefits

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

Short term employee benefits

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

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

(s) 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.

3. Significant accounting policies [continued]

(t) New standards and interpretations not yet effective

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

IFRS 14 Regulatory Deferral Accounts:

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The standard is not expected to have significant impact on the Group's financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. These amendments are not expected to have a significant impact on the Group financial statements.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to the order of notes, other comprehensive income (OCI) of equity accounted investees and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. These amendments are not expected to have a significant impact on the Group's financial statements

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. These amendments are not expected to have a significant impact on the Group's financial statements

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS *10 Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS *12 Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS *28 Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

3. Significant accounting policies [continued]

(t) New standards and interpretations not yet effective [continued]

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28 [continued]

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments are not expected to have a significant impact on the Group's financial statements

IFRS 15 Revenue from Contracts with customers:
This standard replaces IAS 11 *Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Impact on the Group may include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9 Financial instruments:
On 24 July 2014, the IASB issued the final IFRS *9 Financial Instruments Standard,* which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an"incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, Early adoption is permitted. The Group is setting up a project to prepare for adoption.

IFRS 16 Leases
IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lesees and lessors. The standard may result in current operating leases disclosed in the statement of financial position with associated depreciation and amortisation charges recognised in profit or loss.

4. Financial risk management

4.1 Introduction and overview

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

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

4. Financial risk management [continued]

4.1 Introduction and overview [continued]

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

The Group Audit and Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by management as well as the Compliance and Internal Audit department. They 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. It arises principally from the Group's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

(a) Management of credit risk

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

Each business unit is required to implement credit policies and procedures, according to credit approval authorities delegated. Each business unit has a Head of Credit Risk who reports on all credit related matters to local management and the Group Credit Committees. 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.

Business units and credit functions carry out regular assurance checks and control self testing with independent oversight from Country Operational Risk unit. Group Internal Audit does carry out periodic independent audit of the business units and credit processes.

4. Financial risk management [continued]

4.2 Credit risk [continued]

b) Problem credit management and provisioning

(i) Corporate & Institutional Banking and Commercial Banking segments

In Corporate & Institutional Banking and Commercial Banking segments, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. Such accounts and portfolios are subject to a dedicated process with oversight involving the Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit. Loans are considered impaired and non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue.

Impaired accounts are managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the recognition of an impairment provision, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Corporate & Institutional Banking and Commercial Banking segments, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

(ii) Retail Banking Segment

In the Retail Banking segment, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. Within the Retail Banking segments, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

The impairment assessment within the Retail Banking segment reflects the fact that the product portfolios (excluding Business Banking segment) consist of a large number of comparatively small exposures. As a result, much of the impairment assessment is initially done at an account level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to Expected Loss of a product. The Expected Loss is derived from internally calculated Probability of Default (PD) and a proxy Loss Given Default (LGD) data from Internal Ratings Based ("IRB") portfolios. The Bank exercises judgmental overlays and business cycle adjustments based on the macro-environment, portfolio loss severity, collections and recovery performance trends.

The process used for recognising the impairment provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount of the loan and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are recognised for the entire outstanding amount at 150 days past due. For all products, there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

The procedures for managing problem credits for the Business Banking sub segment of Retail Banking segment are similar to those adopted for Corporate & Institutional Banking and Commercial Banking segments described above.

4. Financial risk management [continued]

4.2 Credit risk [continued]

Exposure to credit risk – Group and Company

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Assets at amortised cost						
Individually impaired:						
Grade 12 and 13: Substandard	48 751	28 267	-	-	-	-
Grade 14: Loss	99 008	31 788	-	-	-	-
Carrying amount	147 759	60 055	-	-	-	-
Allowance for impairment	(99 227)	(24 936)	-	-	-	-
	48 532	**35 119**	**-**	**-**	**-**	**-**
Past due but not impaired comprises:						
01 – 30 days	148 992	161 505	-	-	-	-
31 – 60 days	37 398	33 180	-	-	-	-
61 – 90 days	21 760	20 200	-	-	-	-
Carrying amount	**208 150**	**214 885**	**-**	**-**	**-**	**-**
Neither past due nor impaired:						
Grade 1-11 -Low- fair risk	6 978 363	7 919 535	-	-	-	-
Carrying amount	6 978 363	7 919 535	-	-	-	-
Portfolio impairment provision	(47 036)	(41 234)	-	-	-	-
	6 931 327	**7 878 301**	**-**	**-**	**-**	-
Net loans and advances	**7 188 009**	**8 128 305**				
Available-for-sale assets						
Low to fair risk	-	-	2 226 840	2 526 133	2 308 814	884 624
Carrying amount – fair value	7 188 009	8 128 305	2 226 840	2 526 133	2 308 814	884 624
Total carrying amount	**7 188 009**	**8 128 305**	**2 226 840**	**2 526 133**	**2 308 814**	**884 624**

In addition to the above, the Group had entered into lending commitments of P 692 446 thousand (2014: P 796 932 thousand) with counterparties graded 1 to 9. Refer to note 32 for financial guarantee contracts in respect of debtors graded 1 to 9.

4. Financial risk management [continued]

4.2 Credit risk [continued]

Exposure to credit risk [continued]

Impaired loans
Individually impaired loans are loans and advances (other than those carried at fair value through profit or loss) for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. These loans are graded 13 and 14 in the Group's internal credit risk grading system.

Past due but not impaired loans
Past due but not impaired loans, 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.

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

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated annually for commercial properties and every three years for residential properties during the life of the loan until the 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 2015 or 2014.

4. Financial risk management [continued]

4.2 Credit risk

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	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Collateral at Fair value				
Against individually impaired:				
Property	16 989	40 098	16 989	40 098
Cash	753	2 073	753	2 073
Others	62 509	14 973	62 509	14 973
Total	**80 251**	**57 144**	**80 251**	**57 144**
Against past due but not impaired:				
Property	145 601	87 228	145 601	87 228
Cash	59 281	76 489	59 281	76 489
Other	146 094	151 375	146 094	151 375
Total	**350 976**	**315 092**	**350 976**	**315 092**
Against neither past due nor impaired:				
Property	1 436 469	2 424 477	1 436 469	2 424 477
Cash	47 787	84 361	47 787	84 361
Others	493 160	422 540	493 160	422 540
Total	**1 977 416**	**2 931 378**	**1 977 416**	**2 931 378**
Collateral not at fair value				
Breakdown of guarantees				
Government guarantees	300 000	1 295 920	300 000	1 295 920
Non Government guarantees	1 507 371	4 042 173	1 507 371	4 042 173
Total	**1 807 371**	**5 338 093**	**1 807 371**	**5 338 093**
Total collateral held	**4 216 014**	**8 641 707**	**4 216 014**	**8 641 707**

4. Financial risk management [continued]

4.2 Credit risk [continued]

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

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Segmental analysis by industry				
Finance and insurance	244 781	265 962	244 781	265 962
Construction	69 694	75 353	69 694	75 353
Manufacturing	606 393	1 177 120	606 393	1 177 120
Trade, Restaurant & Bars	626 338	1 348 813	626 338	1 348 813
Community, social and personal services	175 548	279 686	175 548	279 686
Transport	10 055	15 186	10 055	15 186
Households	5 601 463	5 032 355	5 601 463	5 032 355
	7 334 272	8 194 475	7 334 272	8 194 475

Credit concentration risk in Corporate & Institutional Banking segment and Commercial Banking segment is managed through the use of various concentration dimensions that include industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Retail Banking segment is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

4. Financial risk management [continued]

4.3 Liquidity risk [continued]

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 the Assets and Liabilities Committee (ALCO), which has been mandated by the Board of Directors. Daily reports cover the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

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

Liquidity ratio has been assessed as noted below:

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Total liquid assets	1 945 291	1 390 995	1 945 291	1 390 995
Total customer deposits	11 150 523	11 033 141	11 117 723	11 173 540
Ratio	**17%**	**13%**	**17%**	**12%**

4. Financial risk management [continued]

4.3 Liquidity risk [continued]

Maturity analysis

Group and Company - 31 December 2015	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Cash and balances with the Central Bank	1 139 254	1 139 254	1 139 254	-	-	-	-
Loans and advances to banks	2 226 840	2 226 840	2 226 840	-	-	-	-
Investment securities	2 308 814	2 308 814	1 579 611	-	-	566 757	162 446
Loans and advances to customers	7 188 009	7 188 009	883 692	200 231	407 392	3 411 440	2 285 254
Total assets due from customers and banks	**12 862 917**	**12 862 917**	**5 829 397**	**200 231**	**407 392**	**3 978 197**	**2 447 700**
Other assets	267 086	267 086	267 086	-	-	-	-
Total assets	**13 130 003**	**13 130 003**	**6 096 483**	**200 231**	**407 392**	**3 978 197**	**2 447 700**

4. Financial risk management [continued]

4.3 Liquidity risk [continued]

Maturity analysis [continued]

Group - 31 December 2015	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposit	6 646 460	(6 646 460)	(6 646 460)	-	-	-	-
Term deposits accounts	3 219 525	(3 219 525)	(1 316 228)	(701 185)	(919 951)	(282 161)	-
Deposits to banks	1 284 538	(1 284 538)	(1 284 538)	-	-	-	-
Total liabilities to customers and banks	**11 150 523**	**(11 150 523)**	**(9 247 226)**	**(701 185)**	**(919 951)**	**(282 161)**	
Other liabilities	251 939	(251 939)	(251 939)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(50 000)	(636 260)
Total liabilities	**12 088 722**	**(12 088 722)**	**(9 499 165)**	**(701 185)**	**(919 951)**	**(332 161)**	**(636 260)**

Financial Statements and Notes

4. Financial risk management [continued]

4.3 Liquidity risk [continued]

Maturity analysis [continued]

Company - 31 December 2015	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposit	6 646 460	(6 646 460)	(6 646 460)	-	-	-	-
Term deposits accounts	3 219 525	(3 219 525)	(1 316 228)	(701 185)	(919 951)	(282 161)	-
Deposits from banks	1 251 738	(1 251 738)	(1 251 738)	-	-	-	-
Total liabilities to customers and banks	**11 117 723**	**(11 117 723)**	**(9 214 426)**	**(701 185)**	**(919 951)**	**(282 161)**	**-**
Other liabilities	234 838	(234 838)	(234 838)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(50 000)	(636 260)
Total liabilities	**12 038 821**	**(12 038 821)**	**(9 449 264)**	**(701 185)**	**(919 951)**	**(332 161)**	**(636 260)**

4. **Financial risk management** [continued]

4.3 **Liquidity risk** [continued]

Maturity analysis

Group and Company - 31 December 2014	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Cash and balances with the Central Bank	1 005 148	1 005 148	1 005 148	-	-	-	-
Loans and advances to banks	2 526 133	2 526 133	2 526 133	-	-	-	-
Government bonds	884 624	884 624	-	-	143 716	579 415	161 493
Loans and advances to customers	8 128 305	8 128 305	1 399 382	675 188	547 770	3 142 437	2 363 528
Total assets due from customers and banks	**12 544 210**	**12 544 210**	**4 930 663**	**675 188**	**691 486**	**3 721 852**	**2 525 021**
Other assets	121 724	121 724	121 724	-	-	-	-
Total assets	**12 665 934**	**12 665 934**	**5 052 387**	**675 188**	**691 486**	**3 721 852**	**2 525 021**

4. Financial risk management [continued]

4.3 Liquidity risk [continued]

Maturity analysis [continued]

Group - 31 December 2014	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposit	6 634 280	(6 634 280)	(6 634 280)	-	-	-	-
Term deposits accounts	3 407 420	(3 407 420)	(1 873 511)	(1 305 600)	(224 486)	(2 823)	(1 000)
Deposits to banks	991 441	(991 441)	(991 441)	-	-	-	-
	11 033 141	**(11 033 141)**	**(9 499 232)**	**(1 305 600)**	**(224 486)**	**(2 823)**	**(1 000)**
Other liabilities	36 717	(36 717)	(36 717)	-	-	-	-
Senior and Subordinated debt	297 260	(297 260)	-	-	-	-	(297 260)
Total liabilities	**11 367 118**	**(11 367 118)**	**(9 535 949)**	**(1 305 600)**	**(224 486)**	**(2 823)**	**(298 260)**

4. **Financial risk management** [continued]

4.3 **Liquidity risk** [continued]

Maturity analysis [continued]

Company - 31 December 2014	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposit	6 774 679	(6 774 679)	(6 774 679)	-	-	-	-
Term deposits accounts	3 407 420	(3 407 420)	(1 873 511)	(1 305 600)	(224 486)	(2 823)	(1 000)
Deposits from banks	991 441	(991 441)	(991 441)	-	-	-	-
	11 173 540	**(11 173 540)**	**(9 639 631)**	**(1 305 600)**	**(224 486)**	**(2 823)**	**(1 000)**
Other liabilities	36 717	(36 717)	(36 717)	-	-	-	-
Senior and subordinated debt	297 260	(297 260)	-	-	-	-	(297 260)
Total liabilities and shareholders' funds	**11 507 517**	**(11 507 517)**	**(9 676 348)**	**(1 305 600)**	**(224 486)**	**(2 823)**	**(298 260)**

4. Financial risk management [continued]

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 Group's operations.

The objective of the Group is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

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

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

Compliance with operational risk policies and procedures is the responsibility of all managers. Country Operational Risk Committee (CORC) has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

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

4.5 Capital management

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

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

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

4. Financial risk management [continued]

4.5 Capital management [continued]

Company	2015 P'000	2014 P'000
Capital adequacy		
Core capital		
Stated capital	179 273	179 273
Other revenue reserves	796 880	902 931
Capital contribution	28 213	28 213
Less goodwill and intangible assets	(46 213)	(62 186)
	958 153	1 048 231
Supplementary capital		
Revaluation reserve	3 164	3 163
Available-for-sale reserve	8 880	11 383
Credit risk reserve	8 223	8 223
Non-specific impairment	47 036	41 234
Subordinated debt	447 535	247 260
	1 472 991	1 359 494
Risk weighted assets		
Balance sheet items	7 419 185	8 455 531
Off-balance sheet items	15 826	12 607
	7 435 011	8 468 138
Capital adequacy ratio	19.8%	16.1%

During the year, P169m dividends were declared and paid (2014: P213m).

4.6 Market risk

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/issuer's credit standing) will affect the Group's income or the value of its holding of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Exposure to market risks

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

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:

4. Financial risk management [continued]

4.6 Market risk [continued]

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

The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vise versa.

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

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

	At 31 December P'000	Average P'000	Maximum P'000	Minimum P'000
2015				
Foreign currency risk	47	86	899	35
Interest rate risk	604	642	1 324	118
Overall	**651**	**728**	**2 223**	**153**
2014				
Foreign currency risk	84	431	2,083	30
Interest rate risk	253	423	989	136
Overall	**337**	**854**	**3 072**	**166**

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 as 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 Treasury department in its day-to-day monitoring activities.

4. Financial risk management [continued]

4.6 Market risk [continued]

Exposure to interest rate risk

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

			Fixed rate instruments					
Group and Company - 31 December 2015	**Zero rate P'000**	**Floating rate P'000**	*0 - 1 month* **P'000**	*1-6 months* **P'000**	*6-12 months* **P'000**	*1 to 5 years* **P'000**	*Over 5 years* **P'000**	*Total* **P'000**
Total assets	1 404 401	10 996 399	-	-	-	566 757	162 446	13 130 003
Total liabilities and shareholders' funds	(1 368 407)	(11 584 036)	-	-	-	(50 000)	(127 560)	(13 130 003)
Net mismatch	**35 994**	**(587 637)**	**-**	**-**	**-**	**516 757**	**34 886**	**-**
Interest sensitivity gap								
Impact of increase in interest rates								
50 basis points	2 938							
+1%	5 876							

			Fixed rate instruments					
Group and Company - 31 December 2014	**Zero rate P'000**	**Floating rate P'000**	*0 - 1 month* **P'000**	*1-6 months* **P'000**	*6-12 months* **P'000**	*1 to 5 years* **P'000**	*Over 5 years* **P'000**	*Total* **P'000**
Total assets	1 544 521	10 369 147	-	-	143 716	579 415	161 493	12 798 292
Total liabilities and equity	(1 807 720)	(10 813 312)	-	-	-	-	(177 260)	(12 798 292)
Net mismatch	**(263 199)**	**(444 165)**	**-**	**-**	**143 716**	**579 415**	**(15 767)**	**-**
Interest Sensitivity Gap								
Impact of increase in interest rates								
50 basis points								2 221
+1%								4 442

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

Notes to the financial statements [continued]

for the year ended 31 December 2015

4. Financial risk management [continued]

4.6 Market risks [continued]

Effective interest rates of financial assets and liabilities

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

4.7 Foreign exchange rate risk management

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

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

The Group's Financial Markets division 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 the Group Financial Markets division, 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 only major currencies at 31 December 2015 and 2014.

Group and Company

	2015		2014	
	Assets / (liabilities)	Sensitivity*	Assets /(liabilities)	Sensitivity*
American Dollar	131	(1)	211	(2)
British Pound	(13)	-	153	(2)
Euro	69	(1)	429	(4)
South African Rand	29	(0)	(264)	-

* A 1% weakening of the Pula against the above currencies will decrease profit or loss by the amounts shown above.
The analysis assumes that all other variables in particular interest rates, remain constant.

The strengthening of the Pula against the above currencies will have an opposite and equal effect on profit or loss and equity

4. Financial risk management [continued]

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 2015	Note	Available for sale	Loans and receivables	Amortised cost	Total carrying amount	Fair value
Cash and balances with central bank	15	-	1 139 254	-	1 139 254	1 139 254
Loans and advances to other banks	16	-	2 226 840	-	2 226 840	2 226 840
Investment securities	17	2 308 814	-	-	2 308 814	2 308 814
Loans and advances to customers	18	-	7 188 009	-	7 188 009	7 188 009
		2 308 814	**10 554 103**	**-**	**12 862 917**	**12 862 917**
Deposits from other banks	22	-	-	1 284 538	1 284 538	1 284 538
Deposits from customers	23	-	-	9 865 985	9 865 985	9 865 985
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
		-	**-**	**11 836 783**	**11 836 783**	**11 836 783**
Company – 31 December 2015						
Cash and balances with central bank	15	-	1 138 000	-	1 138 000	1 138 000
Loans and advances to other banks	16	-	2 175 521	-	2 175 521	2 175 521
Investment securities	17	2 308 814	-	-	2 308 814	2 308 814
Loans and Advances to customers	18	-	7 188 009	-	7 188 009	7 188 009
		2 308 814	**10 501 530**	**-**	**12 810 344**	**12 810 344**
Deposits from other banks	22	-	-	1 251 738	1 251 738	1 251 738
Deposits from customers	23	-	-	9 865 985	9 865 985	9 865 985
Senior and Subordinated liabilities	24	-	-	686 260	686 260	686 260
		-	**-**	**11 803 983**	**11 803 983**	**11 803 983**

4. Financial risk management [continued]

4.8 Financial assets and liabilities [continued]

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

Group - 31 December 2014	Note	Available for sale	Loans and receivables	Amortised cost	Total carrying amount	Fair value
Cash and balances with central bank	15	-	1 005 148	-	1 005 148	1 005 148
Loans and advances to banks	16	-	2 526 133	-	2 526 133	2 526 133
Investment securities	17	884 624	-	-	884 624	884 624
Loans and advances to customers	18	-	8 128 305	-	8 128 305	8 128 305
		884 624	**11 659 586**	**-**	**12 544 210**	**12 544 210**
Deposits from banks	22	-	-	991 441	991 441	991 441
Deposits from customers	23	-	-	10 041 700	10 041 700	10 041 700
Senior and subordinated debt	24	-	-	297 260	297 260	297 260
		-	**-**	**11 330 401**	**11 330 401**	**11 330 401**
Company – 31 December 2014						
Cash and balances with central bank	15	-	1 005 148	-	1 005 148	1 005 148
Loans and advances to banks	16	-	2 526 133	-	2 526 133	2 526 133
Investment securities	17	884 624	-	-	884 624	884 624
Loans and advances to customers	18	-	8 128 305	-	8 128 305	8 128 305
		884 624	**11 659 586**	**-**	**12 544 210**	**12 544 210**
Deposits from banks	22	-	-	991 441	991 441	991 441
Deposits from customers	23	-	-	10 182 099	10 182 099	10 182 099
Senior and subordinated debt	24	-	-	297 260	297 260	297 260
		-	**-**	**11 470 800**	**11 470 800**	**11 470 800**

The carrying amounts of financial assets and liabilities are representative of the Company's position at 31 December 2015 and are in the opinion of the directors not significantly different from their respective fair values due to generally short periods to maturity dates and market related interest rates. Fair values are generally determined using valuation techniques or, where available, published price quotations from an active market.

4. Financial risk management [continued]

4.8 Financial assets and liabilities [continued]

Fair value measurement

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable 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 in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models for investment securities classified as level 2 (see below table), comparison with similar instruments for which market observable prices exist. 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 rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as 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 determining 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.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management's 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.

4. Financial risk management [continued]

4.8 Financial assets and liabilities [continued]

Fair value measurement [continued]

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 Department, 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 and non-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 P'000	Level 2 P'000	Level 3 P'000	Total P'000
31 December 2015					
Land and buildings		-	-	26 998	26 998
Investment securities	17	-	729 203	-	729 203
31 December 2014					
Land and buildings		-	-	28 894	28 894
Investment securities	17	-	884 624	-	884 624

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
5. Interest income				
Amortised cost:				
Loans and advances to customers	747 703	736 500	747 703	736 500
Balances with banks	40 527	44 697	40 527	44 697
Available for sale:				
Investment securities	68 653	60 416	68 653	60 416
	856 883	**841 613**	**856 883**	**841 613**
6. Interest expense				
Amortised cost:				
Amounts due to banks	29 493	31 004	29 493	31 004
Senior and subordinated debt	30 790	21 271	30 790	21 271
Amounts due to customers	325 334	193 986	325 334	193 986
	385 617	**246 261**	**385 617**	**246 261**
7. Fee and commission income				
Fiduciary activities	17 208	14 797	17 208	14 797
Financial assets and liabilities at amortised cost	208 792	209 185	208 929	209 185
Insurance brokerage	54 429	74 004	-	-
	280 429	**297 986**	**226 137**	**223 982**
8. Net trading income				
Foreign currency	156 257	206 685	154 852	206 685
Trading securities	237	498	237	498
	156 494	**207 183**	**155 089**	**207 183**

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
9. Net impairment loss on loans and advances				
Specific impairment	135 242	28 157	135 242	28 157
Portfolio impairment	5 802	1 199	5 802	1 199
Recoveries	(35 696)	(27 913)	(35 696)	(27 913)
Charge per profit or loss	**105 348**	**1 443**	**105 348**	**1 443**
Movement in specific impairments				
Balance at beginning of the year	24 936	13 977	24 936	13 977
Charge for the year to profit or loss	135 242	28 157	135 242	28 157
	160 178	**42 134**	**160 178**	**42 134**
Write-offs during the year	(55 064)	(7 588)	(55 064)	(7 588)
Allowance no longer required	(5 887)	(9 610)	(5 887)	(9 610)
Balance at end of the year	**99 227**	**24 936**	**99 227**	**24 936**
Movement in non-specific impairments				
Balance at beginning of the year	41 234	67 948	41 234	67 948
(Release)/charge for the year to profit or loss	5 802	(26 714)	5 802	(26 714)
Balance at end of the year	**47 036**	**41 234**	**47 036**	**41 234**
Total specific and non-specific impairment at end of year	**146 263**	**66 170**	**146 263**	**66 170**

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
10. Employee benefits				
Salaries and wages	194 476	212 497	194 476	212 497
Pension fund costs	12 810	15 301	12 810	15 301
Restructuring	12 669	20 052	12 669	20 052
Other allowances	-	1 250	-	1 250
	219 955	**249 100**	**219 955**	**249 100**
11. Administration expenses				
Audit fees	2 077	1 952	2 077	1 952
Consultancy costs	5 953	5 324	5 953	5 324
Directors' fees	517	513	517	513
Repairs and maintenance	16 391	13 128	16 391	13 128
Communication costs	20 496	23 809	20 496	23 809
Group recharges	248 645	194 824	248 645	194 824
Advertising and sponsorship	8 881	10 577	8 881	10 557
Technical support	6 732	4 852	6 732	4 852
Printing and Stationery	8 689	8 819	8 689	8 819
Security	17 575	18 094	17 575	18 094
VAT and WHT	53 194	56 803	53 194	56 803
Other expenses	36 566	31 415	27 239	23 922
	425 716	**370 110**	**416 389**	**362 597**
12. Income taxation				
Taxation charge for the year:				
Current taxation at (2014 22%)	19 436	89 883	9 239	75 255
Prior year over provision of current tax	-	(1000)	-	(1000)
Deferred tax charge	(4 066)	(1 576)	(4 066)	(1 576)
Deferred tax charge - prior year under	5 890	-	5 890	-
	21 260	**87 307**	**11 063**	**72 679**

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
12. Income taxation [continued]				
Profit before tax	68 651	406 491	74 146	383 546
Taxation reconciliation:				
Taxation at statutory rate: 22%	15 103	89 428	16 312	84 380
Non-deductible expenses	267	455	271	455
Dividend income	-	-	(11 410)	(9 580)
Prior year deferred tax under/(over) provision	5 890	(1 576)	5 890	(1 576)
Current taxation per profit or loss	21 260	87 307	11 063	72 679
13. Dividends				
Dividend declared and paid	169 134	213 086	169 134	213 086
Calculated dividend per share (Thebe)	56. 69	71.42		

Dividends per share is based upon the dividends declared and paid in the year on the 298 350 611 issued ordinary shares.

14. Earnings per share

The calculation of basic earnings per share at 31 December 2015 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares issued. There are no dilutive potential ordinary shares held at year end (2014: Nil).

	Group	
	2015 P'000	2014 P'000
Profit attributable to ordinary shareholders	47 391 000	319 184 000
Weighted average number of ordinary shares	298 350 611	298 350 611
Calculated earnings per share (Thebe)	15.88	106.98
15. Cash and balances with central bank		
Cash and balances with central bank	1 139 254	1 005 148

Included in balances with the central bank is an amount of P 458 939 000 (2014: P 669 390 000) which is a restricted minimum statutory reserve balance not available for the Group's daily operations.

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
16. Loans and advances to banks				
Bank balances	11 166	8 832	11 166	8 832
Placements and other investments	2 215 674	2 517 301	2 164 355	2 517 301
	2 226 840	**2 526 133**	**2 175 521**	**2 526 133**
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.				
17. Investment securities				
Bank of Botswana Certificates	1 579 611	-	1 579 611	-
Government bonds	729 203	884 624	729 203	884 624
	2 308 814	**884 624**	**2 308 814**	**884 624**
At 31 December 2015 government bonds amounting to P305 000 000 (2014: P305 000 000 (Bank of Botswana Certificates)) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility. Government bonds are quoted on the Botswana Stock Exchange.				
18. Loans and advances to customers				
Loans and advances – originated	7 334 272	8 194 475	7 334 272	8 194 475
Less: allowance for impairment (note 9)	(146 263)	(66 170)	(146 263)	(66 170)
	7 188 009	**8 128 305**	**7 188 009**	**8 128 305**

19. Property and equipment – Group and Company

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2015						
Cost or valuation						
At 01 January 2015	35 982	71 570	595	10 710	376	119 233
Additions	-	843	-	-	57	900
At 31 December 2015	**35 982**	**72 413**	**595**	**10 710**	**433**	**120 133**
Accumulated depreciation						
At 1 January 2015	(7 088)	(64 426)	(595)	(7 206)	-	(79 315)
Charge for the year – profit or loss	(1 896)	(4 036)	-	(1 202)	-	(7 134)
At 31 December 2015	**(8 984)**	**(68 462)**	**(595)**	**(8 408)**	**-**	**(86 449)**
Net book value	**26 998**	**3 951**	**-**	**2 302**	**433**	**33 684**

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2014						
Cost or valuation						
At 01 January 2014	36 029	69 909	595	10 710	1 439	118 682
Transfers		1 063			(1 063)	-
Additions	-	598	-	-	-	598
Disposals	(47)	-	-	-	-	(47)
At 31 December 2014	**35 982**	**71 570**	**595**	**10 710**	**376**	**119 233**
Accumulated depreciation						
At 1 January 2014	(4 924)	(59 201)	(595)	(5 993)	-	(70 713)
Charge for the year – profit or loss	(2 175)	(5 225)	-	(1 213)	-	(8 613)
Disposals	11	-	-	-	-	11
At 31 December 2014	**(7 088)**	**(64 426)**	**(595)**	**(7 206)**	**-**	**(79 315)**
Net book value	**28 894**	**7 144**	**-**	**3 504**	**376**	**39 918**

Land and buildings comprises of commercial and residential properties. Land and buildings is disclosed at valuation less accumulated depreciation and impairment.

19. Property and equipment [continued] Group and Company

Measurement of fair values

Fair value hierarchy
The fair value of the land and buildings was determined by an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was performed on 6 May 2014. The valuer provides the fair value of the Group's land and buildings at least every three years; however the directors consider the fair value of land and buildings at each reporting date. No valuation increment was recorded in the current year as the fair value, as determined by the external valuer, was not materially different from the carrying amount recorded above.

The fair value measurement of land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair value of the land and buildings, as well as other unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
▪ Comparable Method and Investment Method	▪ Market yield of between 10 - 13%	The estimated fair value would increase/(decrease) if:
▪ Comparable Method and Investment Method	▪ Prime rentals of office space averages P115/sqm	▪ Higher/lower market yields
		▪ Increase/decrease in rental per sq.m

20. Intangible assets and goodwill - Group and Company

	Customer relationships P'000	Capitalised software P'000	Goodwill P'000	Capital work in progress P'000	Total P'000
2015					
Cost					
At beginning of year	94 684	21 233	29 880	812	146 609
Transfers	-	-	-	(812)	(812)
Additions	-	835	-	-	835
Total at the end of the year	**94 684**	**22 068**	**29 880**	**-**	**146 632**
Amortisation and impairment losses					
At beginning of year	(53 078)	(12 724)	(18 621)	-	(84 423)
Amortisation for the year	(11 938)	(4 058)	-	-	(15 996)
At 31 December 2015	**(65 016)**	**(16 782)**	**(18 621)**	**-**	**(100 419)**
Net book value	**29 668**	**5 286**	**11 259**	**-**	**46 213**

20. Intangible assets and goodwill [continued] Group and Company

	Customer relationships P'000	Capitalised software P'000	Goodwill P'000	Capital work in progress P'000	Total P'000
2014					
Cost					
At beginning of year	94 684	11 997	29 880	1 439	138 000
Transfers	-	1 439	-	(1 439)	-
Additions	-	7 797	-	812	8 609
Total at the end of the year	**94 684**	**21 233**	**29 880**	**812**	**146 609**
Amortisation and impairment losses					
At beginning of year	(41 140)	(8 998)	(18 621)	-	(68 759)
Amortisation for the year	(11 938)	(3 726)	-	-	(15 664)
At 31 December 2014	**(53 078)**	**(12 724)**	**(18 621)**	**-**	**(84 423)**
Net book value	**41 606**	**8 509**	**11 259**	**812**	**62 186**

No impairment losses on goodwill was recognised during 2015 (2014: Nil) because the recoverable amounts of the Cash Generating Unit (CGUs) was determined to be higher than their carrying amount. The key assumptions used in calculation of value in use were as follows:

	2015 P'000	2014 P'000
Discount rate	7.5%	15%
Average growth rate in net cash flows	(5%)	5%
Inflation rate	3%	5%

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 valuation of goodwill at year end was determined by comparing the carrying value of the assets concerned and their recoverable amount, which was calculated using the value in use basis. This is determined by discounting the future cash flows expected to be generated from the continuing use of the Cash Generating Unit (CGU). Management forecasts projected revenue growth rates in line with past performance as adjusted to reflect the current economic climate.

Cash flow projections are extrapolated forward for periods of up to five years using steady long term forecast GDP growth rates and a terminal value determined based on long term earnings 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.

For the purpose of impairment testing, goodwill is allocated to the Group's Cash Generating Unit as follows:

	2015 P'000
Custody Business (current Net book value)	17 984

The Custody Business forms part of the Corporate and Institutional segment.

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
21. Other assets				
Prepayments	3 274	3 161	3 274	3 161
Accrued income	116 667	121 724	116 667	121 724
Items in transit	-	17 703	-	17 703
Other receivables	47 001	3 034	47 001	3 034
	166 942	**145 622**	**166 942**	**145 622**
22. Deposits from other banks				
Bank balances	1 208 805	962 492	1 176 005	962 492
Placements	75 733	28 949	75 733	28 949
	1 284 538	**991 441**	**1 251 738**	**991 441**
23. Deposits from customers				
Demand deposits	6 646 460	6 800 892	6 646 460	6 941 291
Time deposits	3 219 525	3 240 808	3 219 525	3 240 808
	9 865 985	**10 041 700**	**9 865 985**	**10 182 099**
24. Senior and subordinated debt				
Local note issue (1)	70 000	70 000	70 000	70 000
Local note issue (2)	177 260	177 260	177 260	177 260
Senior debt	50 000	50 000	50 000	50 000
Subordinated debt	389 000	-	389 000	-
	686 260	**297 260**	**686 260**	**297 260**

24. Senior and subordinated debt [continued]

The terms and conditions of the subordinated notes and the Senior debt for both Group and Company are as follows:

Note information	Interest rate details	Year of maturity	2015 P'000	2014 P'000
Loan note issue (1) - This was raised through a new debt issued on 12 May 2011 as part of the P500 million Debt Issuance Programme and to be repaid no later than the tenth anniversary and no earlier than 5 years before that date.	Floating rate at the 91 day BOBC plus a margin of 130 basis point per annum thereafter.	12 May 2021	70 000	70 000
Loan note issue (2)- The notes were issued in two Tranches, Tranche (I) and Tranche (II) through a new debt issued on 27 June 2012 as part of the P500 million debt Issuance Programme.	Tranche (I) - Floating rate at the 91 day BOBC plus a margin of 150 basis points per annum.	27 June 2022	50 000	50 000
	Tranche (II) – Fixed interest rate of 8.20%	27 June 2022	127 260	127 260
Senior debt was issued on 20 December 2005. 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.	Fixed interest rate of 10.50% per annum	20 Dec 2020	50 000	50 000
Subordinated debt issued for capital injection	4% above the 91 day BOBC rate	29 July 2025	389 000	-

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
25. Current taxation payable /refundable				
Opening balance (refundable)/payable	(8 333)	6 338	(6 356)	6 243
Charge for the year	19 436	89 883	9 239	75 255
Prior year over provision of current tax	-	(1000)	-	(1000)
Income tax refunded	6 363	-	6 363	-
Income tax paid	(37 713)	(103 554)	(27 560)	(86 854)
Closing balance refundable	(20 247)	(8 333)	(18 314)	(6 356)

26. Deferred taxation

Group and company 31 December 2015	Net balance as at 01 Jan 2015 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2015 P'000
Property and equipment	1 956	(889)	-	1 067
Available for sale securities	5 009	-	-	5 009
Intangible assets	4 976	2 713	-	7 689
	11 941	**1 824**	**-**	**13 765**

Group and company 31 December 2014	Net balance as at 01 Jan 2014 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2014 P'000
Property and equipment	86	1 870	-	1 956
Available for sale securities	6 661	-	(1 652)	5 009
Intangible assets	8 422	(3 446)	-	4 976
	15 169	**(1 576)**	**(1 652)**	**11 941**

	Group		Company	
	2015	2014	2015	2014
	P'000	P'000	P'000	P'000
27. Other liabilities				
Accruals	26 009	22 500	26 009	22 500
Restructuring provision*	12 669	20 052	12 669	20 052
Accounts payable	199 496	215 779	182 395	125 266
	238 174	**258 331**	**221 073**	**167 818**

Restructuring provision*

The provision was taken in line with Group Retail Transformation Strategy announced in November 2014. The key focus was to re-orientate the distribution channel, to significantly increase focus on client segments. The strategy will enable the Group to expand and deepen relationships in/with affluent segments in the fast-growing cities across their footprint and strengthen the Personal Banking space.

	Group		Company	
	2015	2014	2015	2014
Restructuring provision	P'000	P'000	P'000	P'000
Balance at the beginning of year	20 052	-	20 052	-
Provision made during the year	12 669	20 052	12 669	20 052
Provision used during the year	(20 052)	-	(20 052)	-
	12 669	**20 052**	**12 669**	**20 052**
28. Cash and cash equivalents				
Cash and bank balances with Central bank (note 15)	1 139 254	1 005 148	1 138 000	1 005 148
Balances due from other banks (note 16)	2 226 840	2 526 133	2 175 521	2 526 133
	3 366 094	**3 531 281**	**3 313 521**	**3 531 281**

Cash and cash equivalents include cash on hand, balances with central bank and placements with other banks with a maturity of less than 3 months and readily convertible into cash at no charge.

The Group held cash and cash equivalents of P 1 139 million at 31 December 2015 (2014: P 1 005 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and other financial institution counterparties.

29. Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out under normal commercial terms and conditions at market rates. These include loans, deposits and foreign currency transactions.

(a) Balances and transactions with directors and key management personnel

The aggregate value of transactions, compensation and outstanding balances related to key management personnel for both Group and Company were as follows:

(i) Directors and key personnel compensation:

	2015 P'000	2014 P'000
Directors' fees-short term employee benefits	517	513
Executive directors' and executive personnel compensation-short term employee benefits	16 686	21 617

Compensation of the Group's key management personnel and Executive director includes, short term employee benefits and non-cash benefits as noted below (note 29 (b))

(ii) Executive, key personnel and Non Executive directors balances:

	Assets		Liabilities	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Loans				
Auto, mortgages and personal	9 005	12 533	-	-
Other loans	3 458	3 625	-	-
Deposits	-	-	19 654	176 693
Guarantees and letters of credit	-	-	6 613	6 900

No impairment losses have been recorded against related party receivables.

29. Related parties [continued]

(b) Balances and transactions with the holding company and with entities within Standard Chartered Group

Nature of related-party relationships

Standard Chartered Bank PLC is the holding company and the other companies transacted with are fellow subsidiaries.

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Details of related party at year end are as follows:				
Balances due from:				
Standard Chartered Bank PLC	2 165 843	1 035 901	2 165 843	1 035 901
Standard Chartered Bank New York	-	215 975	-	215 975
Standard Chartered Bank Johannesburg	-	353 502	-	353 502
Other group companies	2 610	81 908	2 610	81 908
	2 168 453	**1 687 286**	**2 168 453**	**1 687 286**
Balances due to:				
Standard Chartered Bank PLC	688 566	458 697	655 766	458 697
Standard Chartered Bank New York	21 608	2 872	21 608	2 872
Standard Chartered Bank Johannesburg	2 089	14 026	2 089	14 026
Other group companies	281	42 124	281	42 124
	712 544	**517 719**	**679 744**	**517 719**

Balances due to related companies are unsecured, carry variable interest rates and are short term in nature.

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Details of related party transactions during the year are as follows:				
Interest income	30 659	35 631	30 659	35 631
Interest expense	7 773	2 297	7 773	2 297
Group recharges	248 645	194 874	248 645	194 874
Group share scheme expense	1 767	2 442	1 767	2 442
Directors' holding in company shares	560	560	560	560

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

30. Subsidiaries and other structured entities

The list below provides details of the subsidiaries of the Group

	Ownership interest	
	2015	2014
Standard Chartered Bank Insurance Agency (Pty) Ltd	100%	100%
Standard Chartered Investment Services (Pty) Ltd	100%	100%
Standard Chartered Nominees (Pty) Ltd	100%	100%

The Group has not provided any financial support or issued guarantees in favour of the subsidiaries. Standard Chartered Investment Services (Pty) Ltd and Standard Chartered Nominees (Pty) Ltd are dormant companies. Standard Chartered Insurance Agency (Pty) Ltd operates as an insurance agency for the Group and is managed from the Group's head office.
During the year, the Group acquired control over stanchart education trust. The trust is set up to promote educational activities

31. Operating leases – Group and Company

	2015 P'000	2014 P'000
Long –term accrual	(322)	1 415
Short – term accrual	2 191	2 578
Total accrual	**1 869**	**3 993**
Minimum lease payments		
Cash flow within 1 year	16 767	19 062
Cash flow between 2 - 5 years	4 733	25 642
	21 500	**44 704**
Lease accrual	(1 869)	(3 993)
Future expenses	**19 631**	**40 711**

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

32. Contingent liabilities and commitments

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Un-drawn commitments	692 446	796 932	692 446	796 932
Acceptances and letters of credit	3 865	9 891	3 865	9 891
Guarantees and standby letters of credit	1 275 437	1 337 878	1 275 437	1 337 878
	1 971 748	**2 144 701**	**1 971 748**	**2 144 701**

In the normal course of business, the Group 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 Group'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 Group.

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 Group has determined that the fair value of contingent liabilities and un-drawn loan commitments is not material.

33. Fiduciary activities

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

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

	Group		Company	
	2015 P'000	2014 P'000	2015 P'000	2014 P'000
Assets held in custody	17 983 877	11 422 952	17 983 877	11 422 952

34. Subsequent events

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

35. Segmental reporting

The Group has the following three strategic divisions, which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure

- Corporate and Institutional Banking provides lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory services to its customers. The segment focuses on deepening relationships with clients and providing them with solutions.
- Commercial Banking is a newly formed segment which the Bank intends on growing specifically in Middle Market clients and Medium Enterprises & High Value Small Business clients.
- Retail Banking provides a broad range of products and services to meet the borrowing, wealth management and transactions needs of individuals and small sized enterprises (SEs). While we maintain our strong hold on the Personal segment, more focus will be given to high net worth individuals and SEs paying particular attention to product innovation to attract and retain customers.

The Group's executive committee reviews the internal management reports at least monthly. Information related to each reportable segment is set out below. Segment profit before taxation as included in internal management reports reviewed by the Group's management committee is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments to other entities that operate within the same industries.

	Retail Banking P'000	Corporate and Institutional Banking P'000	Commercial Banking P'000	Total P'000
2015				
Profit or loss				
Net interest income	309 112	141 355	20 799	471 266
Non interest income	237 671	140 869	30 187	408 727
Revenue – external sources	**546 783**	**282 224**	**50 986**	**879 993**
Impairment movement	(39 972)	(61 866)	(3 510)	(105 348)
Net interest income after impairment	**506 811**	**220 358**	**47 476**	**774 645**
Operating expenses	(352 939)	(282 026)	(71 029)	(705 994)
Profit (loss) before taxation	**153 872**	**(61 668)**	**(23 553)**	**68 651**
Statement of financial position				
Investment securities	-	2 308 814	-	2 308 814
Loans and advances to customers	5 260 200	1 618 057	309 752	7 188 009
Other assets for reportable segments	17 327	3 611 658	4 195	3 633 180
Total assets for reportable segments	**5 277 527**	**7 538 529**	**313 947**	**13 130 003**
Deposits from non bank customers	3 270 161	5 333 895	1 261 929	9 865 985
Other liabilities for reportable segments	14 719	2 198 181	9 837	2 222 737
Total liabilities for reportable segments	**3 284 880**	**7 532 076**	**1 271 766**	**12 088 722**

35. Segmental reporting [continued]

	Retail Banking	Corporate and Institutional Banking	Commercial Banking	Total
2014				
Profit or loss				
Net interest income	422 090	162 781	10 481	595 352
Non interest income	244 647	197 204	36 229	478 080
Revenue – external sources	**666 737**	**359 985**	**46 710**	**1 073 432**
Impairment movement	3 276	(3 514)	(1 205)	(1 443)
Net interest income after impairment	**670 013**	**356 471**	**45 505**	**1 071 989**
Operating expenses	(353 107)	(230 178)	(82 213)	(665 498)
Profit (loss) before taxation	**316 906**	**126 293**	**(36 708)**	**406 491**
Statement of financial position				
Investment securities	-	884 624	-	884 624
Loans and advances to customers	5 112 643	2 663 221	352 441	8 128 305
Other assets for reportable segments	29 903	3 752 113	5 324	3 787 340
Total assets for reportable segments	**5 142 546**	**7 299 958**	**357 765**	**12 800 269**
Deposits from non bank customers	3 060 094	4 809 269	2 172 337	10 041 700
Other liabilities for reportable segments	21 604	1 456 546	80 823	1 558 973
Total liabilities for reportable segments	**3 081 698**	**6 265 815**	**2 253 160**	**11 600 673**

Notice to members

for the year ended 31 December 2015

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given of the 41st Annual General Meeting of Shareholders of the Company to be held at the President Hotel, Main Mall, Gaborone, Botswana on Tuesday 21st June 2016 at 1530 hours for the following business:

Agenda

To read the notice convening the meeting.

Ordinary Business

1. To consider and adopt and sign minutes of the meeting held on the 30th June 2015
2. To receive, consider and adopt the Chairperson's report
3. To receive, consider and adopt the Chief Executive Officer's Report
4. To receive, consider and adopt the Annual Financial Statements for the year ended 31st December 2015, together with the Auditor's report therein
5. To approve the 2016 directors remuneration
6. To ratify the payment of final dividends for the year ended 31st December 2014, paid during the reporting year
7. To confirm the appointment of Nathan Kgabi who joins as an Independent Non-Executive Director
8. To approve the remuneration of the auditors for the year ended 31st December 2015
9. To confirm the appointment of KPMG as auditors for the year 2016
10. To receive and consider questions and comments from shareholders

A shareholder entitled to attend and vote may appoint a proxy to attend and vote for him/her on his/her behalf, and such proxy need not also be a shareholder of the Company. The instrument appointing such a proxy must be deposited with the Company Secretary at the registered office of the Company, 5th Floor Standard House, Queens Road, Main Mall, not less than 24 hours before the meeting.

By Order of the Board

Esther Mokgatlhe
Secretary

Proxy Form

The Annual Meeting of members to be held at 1530 hours on Tuesday 21st June 2016 at the President Hotel, Main Mall, Gaborone, Botswana

I / We...of..

holding [ ] shares in the Company, a member / members of the above named Company do hereby appoint:

.... of ....

or failing that person the Chairman of the meeting as my/our proxy to vote for me / us on my / our behalf at the Annual General Meeting of the Company to be held at 1530 hours on Tuesday 21st June 2016.

	Number of Shares:		
	For	**Against**	**Abstain**
1. To consider, adopt and sign minutes of the meeting held on the 30th of June 2015			
2. To receive and adopt the Chairman's report.			
3. To receive, consider and adopt the Chief Executive Officer's report.			
4. To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2015, together with the Auditor's report therein.			
5. To approve the 2016 remuneration for directors.			
6. To ratify the payment of final dividends for the year ended 31st December 2014, paid during the reporting year			
7. To approve the appointment of Mr Nathan Kgabi as an independent non-executive director for Standard Chartered Bank Botswana Limited.			
8. To approve the remuneration of the Auditors for the year ended 31st December 2015.			
9. To confirm appointment of KPMG as auditors for the year 2016.			
10. To receive and consider questions and comments from the shareholders.			

A member entitled to attend and vote may appoint a proxy to attend and vote for him / her on his / her, behalf and such proxy need not also be a shareholder of the Company. The instrument appointing such a proxy must be deposited with the Company Secretary at registered office of the Company, 5th Floor Standard House, Queens Road, Main Mall Gaborone not less than 24 hours before meeting, i.e. before 1530hours on Monday 20 June 2016.

By order of the Board

Standard Chartered