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:

Facebook: www.facebook.com/StandardCharteredBW
Twitter: @stanChart
Annual group and company financial statements
for the year ended 31 December 2015

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Supplementary information

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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 Othlogile
Chairman of the Board

Key Financial highlights

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. 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 Institutional Banking. However, the resilience of the balance sheet countries to be demonstrated through a growth of 3% during the year under review. The deliberate actions we took on in order to strengthen the balance sheet throughout last year have positioned the bank strongly for the current macro environment.

Chairman’s statement

P15.88 thebe
2014: P106.98 thebe

P169 million
2014: P213 million

Normalised Earnings per Share
Declared Dividend

Normalised Earnings per Share
Declared Dividend

P15.88 thebe
2014: P106.98 thebe

P169 million
2014: P213 million

Normalised Earnings per Share
Declared Dividend
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 Othologile
Chairman of the Board

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**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.
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.

Moathodi K. Lekaukau
Chief Executive Officer

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 and Liabilities have grown by 3% while liabilities reduced by 2%, 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 SMEs, 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 for 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.
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 Dorcas Makgatho 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 great 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.

Moatlhodi K. Lekaukau
Chief Executive Officer
As part of our thought leadership initiatives we supported the inaugural Fresh Thinking series.
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
Non Executive Directors:
- B Otthogile (Chairman)
- I Handa
- K Senye
- J Stevens
- R Etemesi

Company Secretary: E Mokgatlhe (Appointed during the year)

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 Othoogile                               Moatlhodi Lekaukau
Chairman                   Managing Director
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

<table>
<thead>
<tr>
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<td>P’000</td>
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<td>856 883</td>
<td>841 613</td>
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<td>(385 617)</td>
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<td>Net interest income</td>
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<td>471 266</td>
<td>595 352</td>
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<td>280 429</td>
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<td>Net other income</td>
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<td>Operating expenses</td>
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<td>Net impairment loss on financial assets</td>
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<td>(105 348)</td>
<td>(1 443)</td>
<td>(105 348)</td>
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<td>Employee benefits</td>
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<td>(219 955)</td>
<td>(249 100)</td>
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<td>Operating lease expenses</td>
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<td>(37 193)</td>
<td>(22 011)</td>
<td>(37 192)</td>
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<td>Depreciation and amortisation</td>
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<td>(23 130)</td>
<td>(24 277)</td>
<td>(23 130)</td>
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<td>(425 716)</td>
<td>(370 110)</td>
<td>(416 389)</td>
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<td>(811 342)</td>
<td>(666 941)</td>
<td>(802 014)</td>
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<td>(87 307)</td>
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<td>Profit for the year</td>
<td></td>
<td>47 391</td>
<td>319 184</td>
<td>63 083</td>
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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

<p>| | |</p>
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<thead>
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<tr>
<td>(5 006)</td>
<td>(7 501)</td>
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<tr>
<td>(5 006)</td>
<td>(7 501)</td>
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<td>Total comprehensive income for the year</td>
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Basic and diluted earnings per share (Thebe)

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<tbody>
<tr>
<td>15.88</td>
<td>106.98</td>
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*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

<table>
<thead>
<tr>
<th>Note</th>
<th>Assets</th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
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<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
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<td>Cash and balances with central bank</td>
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<td>1 005 148</td>
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<td>15</td>
<td>Loans and advances to banks</td>
<td>2 226 840</td>
<td>2 526 133</td>
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<td>16</td>
<td>Investment securities</td>
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<td>854 624</td>
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<tr>
<td>17</td>
<td>Loans and advances to customers</td>
<td>7 188 009</td>
<td>8 128 305</td>
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<td>18</td>
<td>Other assets</td>
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<td>21</td>
<td>Taxation refundable</td>
<td>20 247</td>
<td>8 333</td>
<td>18 314</td>
<td>6 356</td>
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<td>25</td>
<td>Property and equipment</td>
<td>33 684</td>
<td>39 918</td>
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<td>39 918</td>
</tr>
<tr>
<td>19</td>
<td>Intangible asset and goodwill</td>
<td>46 213</td>
<td>62 186</td>
<td>46 213</td>
<td>62 186</td>
</tr>
<tr>
<td>20</td>
<td>Total assets</td>
<td>13 130 003</td>
<td>12 800 269</td>
<td>13 075 497</td>
<td>12 798 292</td>
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<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2015</th>
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<tbody>
<tr>
<td>Deposits from other banks</td>
<td>1 284 538</td>
<td>991 441</td>
<td>1 251 738</td>
<td>991 441</td>
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<td>Deposits from customers</td>
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<td>10 041 700</td>
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<td>10 182 099</td>
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<td>Other liabilities</td>
<td>238 174</td>
<td>258 331</td>
<td>221 073</td>
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<td>Senior and subordinated debt</td>
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<td>686 260</td>
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<td>Total liabilities</td>
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<td>11 600 673</td>
<td>12 038 821</td>
<td>11 650 559</td>
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<table>
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<th>2015</th>
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</thead>
<tbody>
<tr>
<td>Stated capital</td>
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<td>179 273</td>
<td>179 273</td>
<td>179 273</td>
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<tr>
<td>Reserves</td>
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<td>1 020 323</td>
<td>857 403</td>
<td>968 460</td>
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<tr>
<td>Total equity</td>
<td>1 041 281</td>
<td>1 199 596</td>
<td>1 036 676</td>
<td>1 147 733</td>
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<tr>
<td>Total liabilities and equity</td>
<td>13 130 003</td>
<td>12 800 269</td>
<td>13 075 497</td>
<td>12 798 292</td>
</tr>
</tbody>
</table>
## Statements of changes in equity

for the year ended 31 December 2015

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

The notes on pages 43 to 92 are an integral part of these financial statements.
## Statements of changes in equity

for the year ended 31 December 2015

<table>
<thead>
<tr>
<th>Company</th>
<th>Stated capital P'000</th>
<th>Revaluation reserve P'000</th>
<th>Statutory credit risk reserve P'000</th>
<th>Retained earnings P'000</th>
<th>Proposed dividends P'000</th>
<th>Capital contribution P'000</th>
<th>Available for sale reserve P'000</th>
<th>Total P'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 01 January 2014</td>
<td>179 273</td>
<td>6 327</td>
<td>8 223</td>
<td>785 150</td>
<td>20 000</td>
<td>28 213</td>
<td>30 267</td>
<td>1 057 453</td>
</tr>
</tbody>
</table>

**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)

<table>
<thead>
<tr>
<th>Company</th>
<th>Stated capital P'000</th>
<th>Revaluation reserve P'000</th>
<th>Statutory credit risk reserve P'000</th>
<th>Retained earnings P'000</th>
<th>Proposed dividends P'000</th>
<th>Capital contribution P'000</th>
<th>Available for sale reserve P'000</th>
<th>Total P'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 2014</td>
<td>179 273</td>
<td>6 327</td>
<td>8 223</td>
<td>902 931</td>
<td>-</td>
<td>28 213</td>
<td>22 766</td>
<td>1 147 733</td>
</tr>
</tbody>
</table>

**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)

<table>
<thead>
<tr>
<th>Company</th>
<th>Stated capital P'000</th>
<th>Revaluation reserve P'000</th>
<th>Statutory credit risk reserve P'000</th>
<th>Retained earnings P'000</th>
<th>Proposed dividends P'000</th>
<th>Capital contribution P'000</th>
<th>Available for sale reserve P'000</th>
<th>Total P'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 2015</td>
<td>179 273</td>
<td>6 327</td>
<td>8 223</td>
<td>796 880</td>
<td>-</td>
<td>28 213</td>
<td>17 760</td>
<td>1 036 676</td>
</tr>
</tbody>
</table>

*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

Stated capital

Issued ordinary shares

Unissued ordinary shares

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

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
</tr>
</tbody>
</table>

Cash flows from operating activities

Profit for the year
Adjustments for:
- Taxation
  - 19 21 260 87 307 11 063 72 679
- Depreciation
  - 20 15 996 15 664 15 996 15 664
- Amortisation
  - 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
  - - - -
- Loss on disposal of property
  - - - -
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
232 457 498 926 260 297 498 926
Change in deposits from customers
(175 715) 2 149 481 (316 114) 2 224 241
Change in other liabilities
(18 033) 3 159 (18 033) 3 159
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
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.
Notes to the financial statements
for the year ended 31 December 2015

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...

(i) Financial instruments...

Impairment of financial assets...

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freehold property</td>
<td>Nil</td>
</tr>
<tr>
<td>Leasehold property</td>
<td>Shorter of useful life/unexpired period of lease</td>
</tr>
<tr>
<td>Buildings</td>
<td>50 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>3 - 5 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>3 years</td>
</tr>
<tr>
<td>Furniture, fixtures and fittings</td>
<td>7 - 10 years</td>
</tr>
</tbody>
</table>

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 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’s 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]...

(f) 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 lessees 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

4.1 Introduction and overview

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

<table>
<thead>
<tr>
<th>Loans and advances to customers</th>
<th>Loans and advances to banks</th>
<th>Investment securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
</tr>
</tbody>
</table>

**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) | - | - | - | - |

| 2015 | 35 119 | 48 532 |

**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

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:

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

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

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:

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td>Total liquid assets</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>Total customer deposits</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>Ratio</td>
<td>17%</td>
<td>13%</td>
</tr>
</tbody>
</table>
## Notes to the financial statements [continued]...

for the year ended 31 December 2015

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

#### 4.3 Liquidity risk [continued]...

**Maturity analysis**

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

4.3 Liquidity risk [continued]...

Maturity analysis [continued]...

<table>
<thead>
<tr>
<th>Group - 31 December 2015</th>
<th>Carrying amount P'000</th>
<th>Gross nominal (outflow) P'000</th>
<th>Less than 1 month P'000</th>
<th>1-3 months P'000</th>
<th>3-12 months P'000</th>
<th>1-5 years P'000</th>
<th>More than 5 years P'000</th>
</tr>
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<tbody>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand deposit</td>
<td>6 646 460</td>
<td>(6 646 460)</td>
<td>(6 646 460)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Term deposits accounts</td>
<td>3 219 525</td>
<td>(3 219 525)</td>
<td>(1 316 228)</td>
<td>(701 185)</td>
<td>(919 951)</td>
<td>(282 161)</td>
<td>-</td>
</tr>
<tr>
<td>Deposits to banks</td>
<td>1 284 538</td>
<td>(1 284 538)</td>
<td>(1 284 538)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities to customers and banks</td>
<td>11 150 523</td>
<td>(11 150 523)</td>
<td>(9 247 226)</td>
<td>(701 185)</td>
<td>(919 951)</td>
<td>(282 161)</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>251 939</td>
<td>(251 939)</td>
<td>(251 939)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Senior and subordinated debt</td>
<td>686 260</td>
<td>(686 260)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50 000)</td>
<td>(636 260)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>12 088 722</td>
<td>(12 088 722)</td>
<td>(9 499 185)</td>
<td>(701 185)</td>
<td>(919 951)</td>
<td>(332 161)</td>
<td>(636 260)</td>
</tr>
</tbody>
</table>
Notes to the financial statements [continued]...

for the year ended 31 December 2015

4. Financial risk management [continued]...

4.3 Liquidity risk [continued]...

Maturity analysis [continued]...

<table>
<thead>
<tr>
<th>Company - 31 December 2015</th>
<th>Carrying amount P’000</th>
<th>Gross nominal (outflow) P’000</th>
<th>Less than 1 month P’000</th>
<th>1-3 months P’000</th>
<th>3-12 months P’000</th>
<th>1-5 years P’000</th>
<th>More than 5 years P’000</th>
</tr>
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<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand deposit</td>
<td>6 646 460</td>
<td>(6 646 460)</td>
<td>(6 646 460)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Term deposits accounts</td>
<td>3 219 525</td>
<td>(3 219 525)</td>
<td>(1 316 228)</td>
<td>(701 185)</td>
<td>(919 951)</td>
<td>(282 161)</td>
<td>-</td>
</tr>
<tr>
<td>Deposits from banks</td>
<td>1 251 738</td>
<td>(1 251 738)</td>
<td>(1 251 738)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities to customers and banks</td>
<td>11 117 723 (11 117 723)</td>
<td>(9 214 426) (9 214 426)</td>
<td>(701 185) (701 185)</td>
<td>(919 951) (919 951)</td>
<td>(282 161) (282 161)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>234 838</td>
<td>(234 838)</td>
<td>(234 838)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Senior and subordinated debt</td>
<td>686 260</td>
<td>(686 260)</td>
<td>(686 260)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50 000) (636 260)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>12 038 821</td>
<td>(12 038 821)</td>
<td>(9 449 264)</td>
<td>(701 185)</td>
<td>(919 951)</td>
<td>(332 161)</td>
<td>(636 260)</td>
</tr>
</tbody>
</table>
4. **Financial risk management** [continued]...

4.3 **Liquidity risk** [continued]...

**Maturity analysis**

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

4.3 **Liquidity risk** [continued]...

   **Maturity analysis** [continued]...

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


### 4. Financial risk management

#### 4.3 Liquidity risk

**Maturity analysis**

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

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

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

The VaR measure is dependent upon the Group’s position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice 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:

<table>
<thead>
<tr>
<th>At 31 December</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency risk</td>
<td>47</td>
<td>86</td>
<td>899</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>604</td>
<td>642</td>
<td>1 324</td>
</tr>
<tr>
<td>Overall</td>
<td>651</td>
<td>728</td>
<td>2 223</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency risk</td>
<td>84</td>
<td>431</td>
<td>2 083</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>253</td>
<td>423</td>
<td>989</td>
</tr>
<tr>
<td>Overall</td>
<td>337</td>
<td>854</td>
<td>3 072</td>
</tr>
</tbody>
</table>

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.
### 4.6 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:

<table>
<thead>
<tr>
<th>Group and Company</th>
<th>Zero rate</th>
<th>Floating rate</th>
<th>0 - 1 month</th>
<th>1-6 months</th>
<th>6-12 months</th>
<th>1 to 5 years</th>
<th>Over 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>Total assets</td>
<td>1 404 401</td>
<td>10 996 399</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>566 757</td>
<td>162 446</td>
<td>13 130 003</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ funds</td>
<td>(1 368 407)</td>
<td>(11 584 036)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(50 000)</td>
<td>(127 560)</td>
<td>(13 130 003)</td>
</tr>
<tr>
<td>Net mismatch</td>
<td>35 994</td>
<td>(587 637)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>516 757</td>
<td>34 886</td>
<td>-</td>
</tr>
</tbody>
</table>

**Interest sensitivity gap**

Impact of increase in interest rates
- 50 basis points: 2 938
- +1%: 5 876

<table>
<thead>
<tr>
<th>Group and Company</th>
<th>Zero rate</th>
<th>Floating rate</th>
<th>0 - 1 month</th>
<th>1-6 months</th>
<th>6-12 months</th>
<th>1 to 5 years</th>
<th>Over 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>Total assets</td>
<td>1 544 521</td>
<td>10 369 147</td>
<td>-</td>
<td>-</td>
<td>143 716</td>
<td>579 415</td>
<td>161 493</td>
<td>12 798 292</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>(1 807 720)</td>
<td>(10 813 312)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(177 260)</td>
<td>(12 798 292)</td>
</tr>
<tr>
<td>Net mismatch</td>
<td>(263 199)</td>
<td>(444 165)</td>
<td>-</td>
<td>-</td>
<td>143 716</td>
<td>579 415</td>
<td>(15 767)</td>
<td>-</td>
</tr>
</tbody>
</table>

A decrease in interest rates is seen to have an equal and opposite effect on profits and equity as noted above. Fixed and zero rate instruments are by their very nature not affected by a change in interest rates.
4. 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.

<table>
<thead>
<tr>
<th>Group and Company</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Dollar</td>
<td>131</td>
<td>211</td>
</tr>
<tr>
<td>British Pound</td>
<td>(13)</td>
<td>153</td>
</tr>
<tr>
<td>Euro</td>
<td>69</td>
<td>429</td>
</tr>
<tr>
<td>South African Rand</td>
<td>29</td>
<td>(264)</td>
</tr>
</tbody>
</table>

* 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):

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

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

| 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  |
| **Total**                               |      | **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    |
| **Total**                               |      | **-**              | **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:

<table>
<thead>
<tr>
<th>Note</th>
<th>Level 1 P’000</th>
<th>Level 2 P’000</th>
<th>Level 3 P’000</th>
<th>Total P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2015</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Land and buildings</td>
<td>-</td>
<td>-</td>
<td>26 998</td>
<td>26 998</td>
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<tr>
<td>Investment securities</td>
<td>17</td>
<td>-</td>
<td>729 203</td>
<td>-</td>
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<tr>
<td>31 December 2014</td>
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<td></td>
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<tr>
<td>Land and buildings</td>
<td>-</td>
<td>-</td>
<td>28 894</td>
<td>28 894</td>
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<td>Investment securities</td>
<td>17</td>
<td>-</td>
<td>884 624</td>
<td>-</td>
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</table>
Notes to the financial statements [continued]...
for the year ended 31 December 2015

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
</tr>
<tr>
<td>5. Interest income</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Amortised cost:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>747 703</td>
<td>736 500</td>
<td>747 703</td>
<td>736 500</td>
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<tr>
<td>Balances with banks</td>
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<td>44 697</td>
<td>40 527</td>
<td>44 697</td>
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<tr>
<td>Available for sale:</td>
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<td>Investment securities</td>
<td>68 653</td>
<td>60 416</td>
<td>68 653</td>
<td>60 416</td>
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<td></td>
<td>856 883</td>
<td>841 613</td>
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<td>6. Interest expense</td>
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</tr>
<tr>
<td>Amortised cost:</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
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<td>31 004</td>
<td>29 493</td>
<td>31 004</td>
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<tr>
<td>Senior and subordinated debt</td>
<td>30 790</td>
<td>21 271</td>
<td>30 790</td>
<td>21 271</td>
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<tr>
<td>Amounts due to customers</td>
<td>325 334</td>
<td>193 986</td>
<td>325 334</td>
<td>193 986</td>
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<tr>
<td></td>
<td>385 617</td>
<td>246 261</td>
<td>385 617</td>
<td>246 261</td>
</tr>
<tr>
<td>7. Fee and commission income</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Fiduciary activities</td>
<td>17 208</td>
<td>14 797</td>
<td>17 208</td>
<td>14 797</td>
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<tr>
<td>Financial assets and liabilities at amortised cost</td>
<td>208 792</td>
<td>209 185</td>
<td>208 929</td>
<td>209 185</td>
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<td>Insurance brokerage</td>
<td>64 429</td>
<td>74 004</td>
<td>-</td>
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<td></td>
<td>280 429</td>
<td>297 986</td>
<td>226 137</td>
<td>223 982</td>
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<td>8. Net trading income</td>
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<td>Foreign currency</td>
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<td>Trading securities</td>
<td>237</td>
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<td></td>
<td>156 494</td>
<td>207 183</td>
<td>155 089</td>
<td>207 183</td>
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### 9. Net impairment loss on loans and advances

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<tbody>
<tr>
<td></td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
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<td>Specific impairment</td>
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<td>135 242</td>
<td>28 157</td>
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<tr>
<td>Portfolio impairment</td>
<td>5 802</td>
<td>1 199</td>
<td>5 802</td>
<td>1 199</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recoveries</td>
<td>(35 696)</td>
<td>(27 913)</td>
<td>(35 696)</td>
<td>(27 913)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Charge per profit or loss</strong></td>
<td><strong>105 348</strong></td>
<td><strong>1 443</strong></td>
<td><strong>105 348</strong></td>
<td><strong>1 443</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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
- **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
### 10. Employee benefits

<table>
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<tr>
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<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
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<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
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<tr>
<td>Salaries and wages</td>
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<td>212 497</td>
<td>194 476</td>
<td>212 497</td>
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<tr>
<td>Pension fund costs</td>
<td>12 810</td>
<td>15 301</td>
<td>12 810</td>
<td>15 301</td>
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<tr>
<td>Restructuring</td>
<td>12 669</td>
<td>20 052</td>
<td>12 669</td>
<td>20 052</td>
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<tr>
<td>Other allowances</td>
<td>- 1 250</td>
<td>- 1 250</td>
<td>- 1 250</td>
<td>- 1 250</td>
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<tr>
<td><strong>Total</strong></td>
<td>219 955</td>
<td>249 100</td>
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### 11. Administration expenses

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<tr>
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<td>P'000</td>
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<tr>
<td>Audit fees</td>
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<td>1 952</td>
<td>2 077</td>
<td>1 952</td>
</tr>
<tr>
<td>Consultancy costs</td>
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<td>5 324</td>
<td>5 953</td>
<td>5 324</td>
</tr>
<tr>
<td>Directors’ fees</td>
<td>517</td>
<td>513</td>
<td>517</td>
<td>513</td>
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<tr>
<td>Repairs and maintenance</td>
<td>16 391</td>
<td>13 128</td>
<td>16 391</td>
<td>13 128</td>
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<tr>
<td>Communication costs</td>
<td>20 496</td>
<td>23 809</td>
<td>20 496</td>
<td>23 809</td>
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<td>Group recharges</td>
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<td>194 824</td>
<td>248 645</td>
<td>194 824</td>
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<td>Advertising and sponsorship</td>
<td>8 881</td>
<td>10 577</td>
<td>8 881</td>
<td>10 577</td>
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<td>Technical support</td>
<td>6 732</td>
<td>4 852</td>
<td>6 732</td>
<td>4 852</td>
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<tr>
<td>Printing and Stationery</td>
<td>8 689</td>
<td>8 819</td>
<td>8 689</td>
<td>8 819</td>
</tr>
<tr>
<td>Security</td>
<td>17 575</td>
<td>18 094</td>
<td>17 575</td>
<td>18 094</td>
</tr>
<tr>
<td>VAT and WHT</td>
<td>53 194</td>
<td>56 803</td>
<td>53 194</td>
<td>56 803</td>
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<tr>
<td>Other expenses</td>
<td>36 566</td>
<td>31 415</td>
<td>27 239</td>
<td>23 922</td>
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<tr>
<td><strong>Total</strong></td>
<td>425 716</td>
<td>370 110</td>
<td>416 389</td>
<td>362 597</td>
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### 12. Income taxation

**Taxation charge for the year:**

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<th>2014</th>
<th>2015</th>
<th>2014</th>
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<tbody>
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<td></td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
<td>P'000</td>
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<tr>
<td>Current taxation at (2014 22%)</td>
<td>19 436</td>
<td>89 883</td>
<td>9 239</td>
<td>75 255</td>
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<tr>
<td>Prior year over provision of current tax</td>
<td>- (1000)</td>
<td>- (1000)</td>
<td>- (1000)</td>
<td>- (1000)</td>
</tr>
<tr>
<td>Deferred tax charge</td>
<td>(4 066)</td>
<td>(1 576)</td>
<td>(4 066)</td>
<td>(1 576)</td>
</tr>
<tr>
<td>Deferred tax charge - prior year under</td>
<td>5 890</td>
<td>-</td>
<td>5 890</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21 260</td>
<td>87 307</td>
<td>11 063</td>
<td>72 679</td>
</tr>
</tbody>
</table>
## Notes to the financial statements [continued]...

for the year ended 31 December 2015

<table>
<thead>
<tr>
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<th></th>
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<tbody>
<tr>
<td></td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
<td>P’000</td>
</tr>
<tr>
<td>12. Income taxation</td>
<td></td>
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</tr>
<tr>
<td>Profit before tax</td>
<td>68 651 406</td>
<td>74 146 383</td>
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<td>Taxation reconciliation:</td>
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<tr>
<td>Taxation at statutory rate: 22%</td>
<td>15 103</td>
<td>16 312</td>
<td>89 428</td>
<td>84 380</td>
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<tr>
<td>Non-deductible expenses</td>
<td>267</td>
<td>271</td>
<td>455</td>
<td>455</td>
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<tr>
<td>Dividend income</td>
<td></td>
<td></td>
<td>(11 410)</td>
<td>(9 580)</td>
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<tr>
<td>Prior year deferred tax under/(over) provision</td>
<td>5 890</td>
<td>5 890</td>
<td>(1 576)</td>
<td>(1 576)</td>
</tr>
<tr>
<td>Current taxation per profit or loss</td>
<td>21 260</td>
<td>11 063</td>
<td>87 307</td>
<td>72 679</td>
</tr>
<tr>
<td>13. Dividends</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dividend declared and paid</td>
<td>169 134</td>
<td>169 134</td>
<td>213 086</td>
<td>213 086</td>
</tr>
<tr>
<td>Calculated dividend per share (Thebe)</td>
<td>56.69</td>
<td>71.42</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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).

<table>
<thead>
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<th>Group 2015</th>
<th>Group 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P’000</td>
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<tr>
<td>Profit attributable to ordinary shareholders</td>
<td>47 391 000</td>
<td>319 184 000</td>
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<tr>
<td>Weighted average number of ordinary shares</td>
<td>298 350 611</td>
<td>298 350 611</td>
</tr>
<tr>
<td>Calculated earnings per share (Thebe)</td>
<td>15.88</td>
<td>106.98</td>
</tr>
</tbody>
</table>

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.
### 16. Loans and advances to banks

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Bank balances</td>
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<td>8 832 P’000</td>
<td>11 166 P’000</td>
<td>8 832 P’000</td>
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<tr>
<td>Placements and other investments</td>
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<td>2 517 301 P’000</td>
<td>2 164 355 P’000</td>
<td>2 517 301 P’000</td>
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<td></td>
<td>2 226 840 P’000</td>
<td>2 526 133 P’000</td>
<td>2 175 521 P’000</td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Botswana Certificates</td>
<td>1 579 611</td>
<td>-</td>
<td>1 579 611</td>
<td>-</td>
</tr>
<tr>
<td>Government bonds</td>
<td>729 203</td>
<td>884 624</td>
<td>729 203</td>
<td>884 624</td>
</tr>
<tr>
<td></td>
<td>2 308 814</td>
<td>884 624</td>
<td>2 308 814</td>
<td>884 624</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and advances – originated</td>
<td>7 334 272</td>
<td>8 194 475</td>
<td>7 334 272</td>
<td>8 194 475</td>
</tr>
<tr>
<td>Less: allowance for impairment (note 9)</td>
<td>(146 263)</td>
<td>(66 170)</td>
<td>(146 263)</td>
<td>(66 170)</td>
</tr>
<tr>
<td></td>
<td>7 188 009</td>
<td>8 128 305</td>
<td>7 188 009</td>
<td>8 128 305</td>
</tr>
</tbody>
</table>
19. Property and equipment – Group and Company

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

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

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:

<table>
<thead>
<tr>
<th>Valuation technique</th>
<th>Significant unobservable inputs</th>
<th>Inter-relationship between key unobservable inputs and fair value measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The estimated fair value would increase/(decrease) if:</td>
</tr>
<tr>
<td>comparable method</td>
<td>market yield of between 10 - 13%</td>
<td>Higher/lower market yields</td>
</tr>
<tr>
<td>Investment method</td>
<td>prime rentals of office space averages P115/sqm</td>
<td>Increase/decrease in rental per sq.m</td>
</tr>
</tbody>
</table>

20. Intangible assets and goodwill - Group and Company

<table>
<thead>
<tr>
<th></th>
<th>Customer relationships P’000</th>
<th>Capitalised software P’000</th>
<th>Goodwill P’000</th>
<th>Capital work in progress P’000</th>
<th>Total P’000</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>94 684</td>
<td>21 233</td>
<td>29 880</td>
<td>812</td>
<td>146 609</td>
</tr>
<tr>
<td>Transfers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(812)</td>
<td>(812)</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>835</td>
<td>-</td>
<td>-</td>
<td>835</td>
</tr>
<tr>
<td>Total at the end of the year</td>
<td>94 684</td>
<td>22 068</td>
<td>29 880</td>
<td>-</td>
<td>146 632</td>
</tr>
<tr>
<td>Amortisation and impairment losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(53 078)</td>
<td>(12 724)</td>
<td>(18 621)</td>
<td>-</td>
<td>(84 423)</td>
</tr>
<tr>
<td>Amortisation for the year</td>
<td>(11 938)</td>
<td>(4 058)</td>
<td>-</td>
<td>-</td>
<td>(15 996)</td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>(65 016)</td>
<td>(16 782)</td>
<td>(18 621)</td>
<td>-</td>
<td>(100 419)</td>
</tr>
<tr>
<td>Net book value</td>
<td>29 668</td>
<td>5 286</td>
<td>11 259</td>
<td>-</td>
<td>46 213</td>
</tr>
</tbody>
</table>
Notes to the financial statements [continued]...

for the year ended 31 December 2015

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

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

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:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount rate</strong></td>
<td>7.5%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Average growth rate in net cash flows</strong></td>
<td>(5%)</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Inflation rate</strong></td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>2015 P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custody Business (current Net book value)</td>
<td>17 984</td>
</tr>
</tbody>
</table>

The Custody Business forms part of the Corporate and Institutional segment.
## Notes to the financial statements [continued]...

for the year ended 31 December 2015

<table>
<thead>
<tr>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td>P’000</td>
</tr>
</tbody>
</table>

### 21. Other assets

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments</td>
<td>3 274</td>
<td>3 161</td>
<td>3 274</td>
<td>3 161</td>
</tr>
<tr>
<td>Accrued income</td>
<td>116 667</td>
<td>121 724</td>
<td>116 667</td>
<td>121 724</td>
</tr>
<tr>
<td>Items in transit</td>
<td>-</td>
<td>17 703</td>
<td>-</td>
<td>17 703</td>
</tr>
<tr>
<td>Other receivables</td>
<td>47 001</td>
<td>3 034</td>
<td>47 001</td>
<td>3 034</td>
</tr>
<tr>
<td></td>
<td>166 942</td>
<td>145 622</td>
<td>166 942</td>
<td>145 622</td>
</tr>
</tbody>
</table>

### 22. Deposits from other banks

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balances</td>
<td>1 208 805</td>
<td>962 492</td>
<td>1 176 005</td>
<td>962 492</td>
</tr>
<tr>
<td>Placements</td>
<td>75 733</td>
<td>28 949</td>
<td>75 733</td>
<td>28 949</td>
</tr>
<tr>
<td></td>
<td>1 284 538</td>
<td>991 441</td>
<td>1 251 738</td>
<td>991 441</td>
</tr>
</tbody>
</table>

### 23. Deposits from customers

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>6 646 460</td>
<td>6 800 892</td>
<td>6 646 460</td>
<td>6 941 291</td>
</tr>
<tr>
<td>Time deposits</td>
<td>3 219 525</td>
<td>3 240 808</td>
<td>3 219 525</td>
<td>3 240 808</td>
</tr>
<tr>
<td></td>
<td>9 865 985</td>
<td>10 041 700</td>
<td>9 865 985</td>
<td>10 182 099</td>
</tr>
</tbody>
</table>

### 24. Senior and subordinated debt

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local note issue (1)</td>
<td>70 000</td>
<td>70 000</td>
<td>70 000</td>
<td>70 000</td>
</tr>
<tr>
<td>Local note issue (2)</td>
<td>177 260</td>
<td>177 260</td>
<td>177 260</td>
<td>177 260</td>
</tr>
<tr>
<td>Senior debt</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
<td>50 000</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>389 000</td>
<td>-</td>
<td>389 000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>686 260</td>
<td>297 260</td>
<td>686 260</td>
<td>297 260</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>Note information</th>
<th>Interest rate details</th>
<th>Year of maturity</th>
<th>2015 P'000</th>
<th>2014 P'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>Floating rate at the 91 day BOBC plus a margin of 130 basis point per annum thereafter.</td>
<td>12 May 2021</td>
<td>70 000</td>
<td>70 000</td>
</tr>
</tbody>
</table>
| 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.**  
**Tranche (II) – Fixed interest rate of 8.20%** | 27 June 2022 | 50 000 | 50 000 |
| 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 | - |
### 25. Current taxation payable /refundable

<table>
<thead>
<tr>
<th></th>
<th>Group 2015 P’000</th>
<th>Company 2015 P’000</th>
<th>Group 2014 P’000</th>
<th>Company 2014 P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance (refundable)/payable</td>
<td>(8 333)</td>
<td>6 338</td>
<td>(6 356)</td>
<td>6 243</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>19 436</td>
<td>89 883</td>
<td>9 239</td>
<td>75 255</td>
</tr>
<tr>
<td>Prior year over provision of current tax</td>
<td>-</td>
<td>(1000)</td>
<td>-</td>
<td>(1000)</td>
</tr>
<tr>
<td>Income tax refunded</td>
<td>6 363</td>
<td>-</td>
<td>6 363</td>
<td>-</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(37 713)</td>
<td>(103 554)</td>
<td>(27 560)</td>
<td>(86 854)</td>
</tr>
<tr>
<td>Closing balance refundable</td>
<td>(20 247)</td>
<td>(3 333)</td>
<td>(18 314)</td>
<td>(6 356)</td>
</tr>
</tbody>
</table>

### 26. Deferred taxation

<table>
<thead>
<tr>
<th></th>
<th>Net balance as at 01 Jan 2015 P’000</th>
<th>Recognised in profit or loss P’000</th>
<th>Recognised in equity P’000</th>
<th>Closing balance as at 31 Dec 2015 P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group and company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td>1 956</td>
<td>(889)</td>
<td>-</td>
<td>1 067</td>
</tr>
<tr>
<td>Available for sale securities</td>
<td>5 009</td>
<td>-</td>
<td>-</td>
<td>5 009</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>4 976</td>
<td>2 713</td>
<td>-</td>
<td>7 689</td>
</tr>
<tr>
<td></td>
<td><strong>11 941</strong></td>
<td><strong>1 824</strong></td>
<td>-</td>
<td><strong>13 765</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Net balance as at 01 Jan 2014 P’000</th>
<th>Recognised in profit or loss P’000</th>
<th>Recognised in equity P’000</th>
<th>Closing balance as at 31 Dec 2014 P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group and company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 December 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td>86</td>
<td>1 870</td>
<td>-</td>
<td>1 956</td>
</tr>
<tr>
<td>Available for sale securities</td>
<td>6 661</td>
<td>-</td>
<td>(1 652)</td>
<td>5 009</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>8 422</td>
<td>(3 446)</td>
<td>-</td>
<td>4 976</td>
</tr>
<tr>
<td></td>
<td><strong>15 169</strong></td>
<td><strong>(1 576)</strong></td>
<td><strong>(1 652)</strong></td>
<td><strong>11 941</strong></td>
</tr>
</tbody>
</table>
27. Other liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals</td>
<td>26 009</td>
<td>22 500</td>
<td>26 009</td>
<td>22 500</td>
</tr>
<tr>
<td>Restructuring provision*</td>
<td>12 669</td>
<td>20 052</td>
<td>12 669</td>
<td>20 052</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>199 496</td>
<td>215 779</td>
<td>182 395</td>
<td>125 266</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>238 174</strong></td>
<td><strong>258 331</strong></td>
<td><strong>221 073</strong></td>
<td><strong>167 818</strong></td>
</tr>
</tbody>
</table>

**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.

28. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of year</td>
<td>20 052</td>
<td>-</td>
<td>20 052</td>
<td>-</td>
</tr>
<tr>
<td>Provision made during the year</td>
<td>12 669</td>
<td>20 052</td>
<td>12 669</td>
<td>20 052</td>
</tr>
<tr>
<td>Provision used during the year</td>
<td>(20 052)</td>
<td>-</td>
<td>(20 052)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12 669</strong></td>
<td><strong>20 052</strong></td>
<td><strong>12 669</strong></td>
<td><strong>20 052</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ fees-short term employee benefits</td>
<td>517</td>
<td>513</td>
</tr>
<tr>
<td>Executive directors’ and executive personnel compensation-short term employee benefits</td>
<td>16 686</td>
<td>21 617</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015 P’000</td>
<td>2014 P’000</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto, mortgages and personal</td>
<td>9 005</td>
<td>12 533</td>
</tr>
<tr>
<td>Other loans</td>
<td>3 458</td>
<td>3 625</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Guarantees and letters of credit</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Group Company</th>
<th>2015 P’000</th>
<th>2014 P’000</th>
<th>2015 P’000</th>
<th>2014 P’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of related party at year end are as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances due from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Chartered Bank PLC</td>
<td>2 165 843</td>
<td>1 035 901</td>
<td>2 165 843</td>
<td>1 035 901</td>
</tr>
<tr>
<td>Standard Chartered Bank New York</td>
<td>-</td>
<td>215 975</td>
<td>-</td>
<td>215 975</td>
</tr>
<tr>
<td>Standard Chartered Bank Johannesburg</td>
<td>-</td>
<td>353 502</td>
<td>-</td>
<td>353 502</td>
</tr>
<tr>
<td>Other group companies</td>
<td>2 610</td>
<td>81 908</td>
<td>2 610</td>
<td>81 908</td>
</tr>
<tr>
<td></td>
<td>2 168 453</td>
<td>1 687 286</td>
<td>2 168 453</td>
<td>1 687 286</td>
</tr>
</tbody>
</table>

Balances due to:

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

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:

<table>
<thead>
<tr>
<th>Ownership interest</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Chartered Bank Insurance Agency (Pty) Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Standard Chartered Investment Services (Pty) Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Standard Chartered Nominees (Pty) Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Un-drawn commitments</td>
<td>692 446</td>
<td>796 932</td>
<td>692 446</td>
<td>796 932</td>
</tr>
<tr>
<td>Acceptances and letters of credit</td>
<td>3 865</td>
<td>9 891</td>
<td>3 865</td>
<td>9 891</td>
</tr>
<tr>
<td>Guarantees and standby letters of credit</td>
<td>1 275 437</td>
<td>1 337 878</td>
<td>1 275 437</td>
<td>1 337 878</td>
</tr>
<tr>
<td></td>
<td>1 971 748</td>
<td>2 144 701</td>
<td>1 971 748</td>
<td>2 144 701</td>
</tr>
</tbody>
</table>

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.
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.

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

<table>
<thead>
<tr>
<th></th>
<th>Retail Banking</th>
<th>Corporate and Institutional Banking</th>
<th>Commercial Banking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit or loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net interest income</td>
<td>422 090</td>
<td>162 781</td>
<td>10 481</td>
<td>595 352</td>
</tr>
<tr>
<td>Non interest income</td>
<td>244 647</td>
<td>197 204</td>
<td>36 229</td>
<td>478 080</td>
</tr>
<tr>
<td>Revenue – external sources</td>
<td>666 737</td>
<td>359 985</td>
<td>46 710</td>
<td>1 073 432</td>
</tr>
<tr>
<td>Impairment movement</td>
<td>3 276</td>
<td>(3 514)</td>
<td>(1 205)</td>
<td>(1 443)</td>
</tr>
<tr>
<td>Net interest income after impairment</td>
<td>670 013</td>
<td>356 471</td>
<td>45 505</td>
<td>1 071 989</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(353 107)</td>
<td>(230 178)</td>
<td>(82 213)</td>
<td>(665 498)</td>
</tr>
<tr>
<td>Profit (loss) before taxation</td>
<td>316 906</td>
<td>126 293</td>
<td>(36 708)</td>
<td>406 491</td>
</tr>
</tbody>
</table>

**Statement of financial position**

<table>
<thead>
<tr>
<th></th>
<th>Retail Banking</th>
<th>Corporate and Institutional Banking</th>
<th>Commercial Banking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities</td>
<td>-</td>
<td>884 624</td>
<td>-</td>
<td>884 624</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>5 112 643</td>
<td>2 663 221</td>
<td>352 441</td>
<td>8 128 305</td>
</tr>
<tr>
<td>Other assets for reportable segments</td>
<td>29 903</td>
<td>3 752 113</td>
<td>5 324</td>
<td>3 787 340</td>
</tr>
<tr>
<td>Total assets for reportable segments</td>
<td>5 142 546</td>
<td>7 299 958</td>
<td>357 765</td>
<td>12 800 269</td>
</tr>
<tr>
<td>Deposits from non bank customers</td>
<td>3 060 094</td>
<td>4 809 269</td>
<td>2 172 337</td>
<td>10 041 700</td>
</tr>
<tr>
<td>Other liabilities for reportable segments</td>
<td>21 604</td>
<td>1 456 546</td>
<td>80 823</td>
<td>1 558 973</td>
</tr>
<tr>
<td>Total liabilities for reportable segments</td>
<td>3 081 698</td>
<td>6 265 815</td>
<td>2 253 160</td>
<td>11 600 673</td>
</tr>
</tbody>
</table>
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.

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 15.30 on Monday 20 June 2016.

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