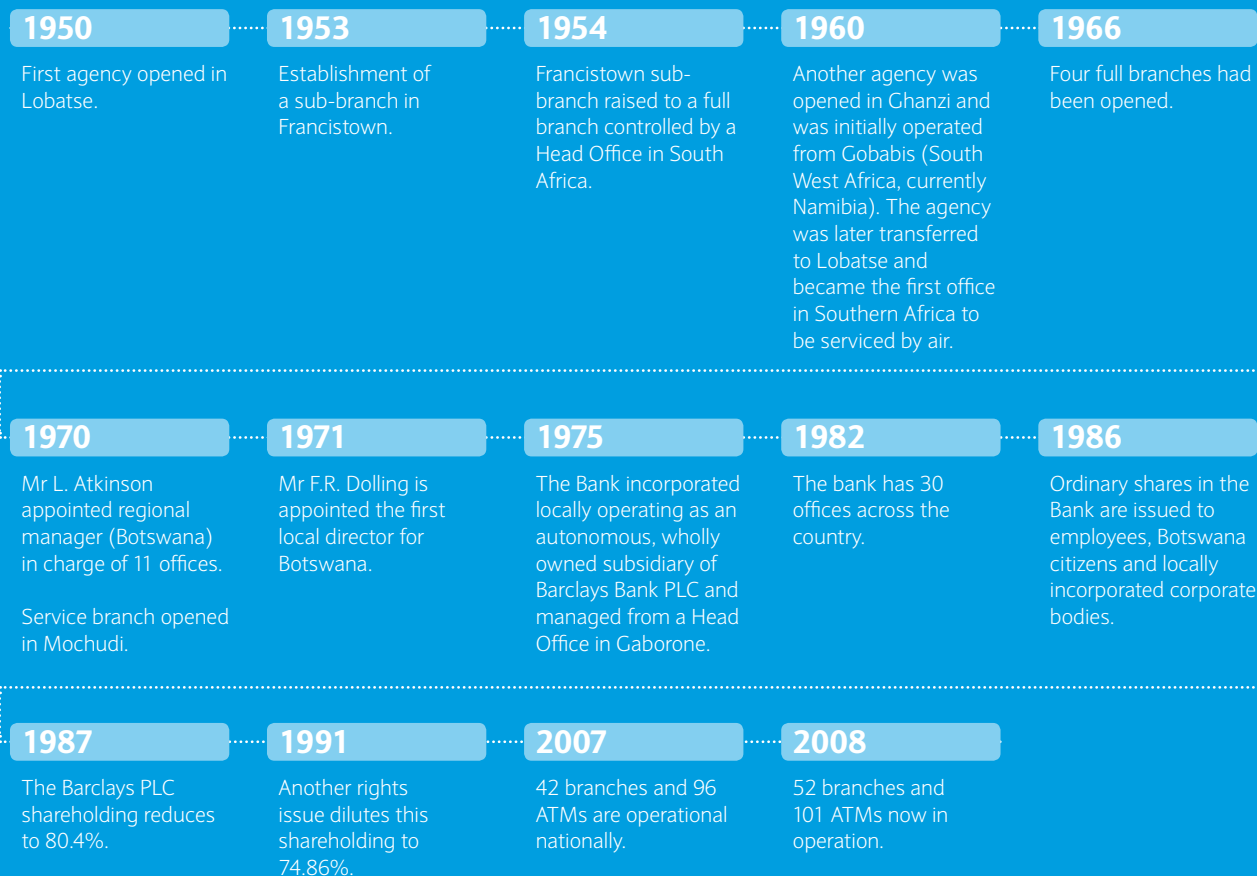




Barclays Bank of Botswana Limited | **Annual Report 2008**

## Barclays Bank of Botswana Timeline



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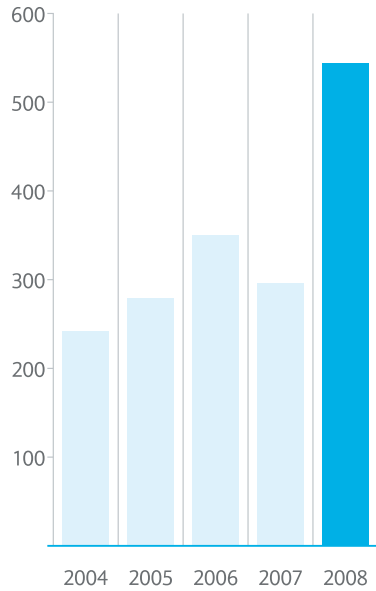
### Our Key Value Drivers at Barclays

- Customers – help our customers achieve their ambitions
- Colleagues – help our people grow
- Community – partner to help Botswana and its people develop
- Company – commit to accelerated investment in our Botswana business
- Control – practice world class risk management

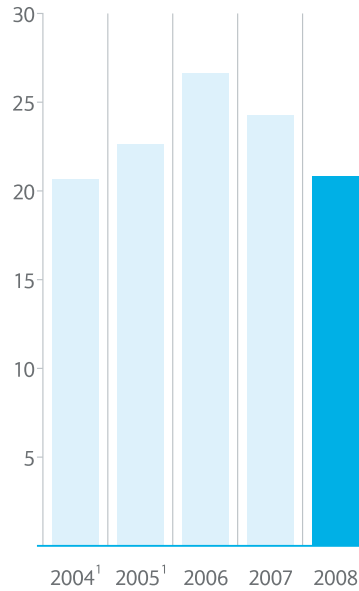
# Key Financial Highlights

for the year ended 31 December 2008

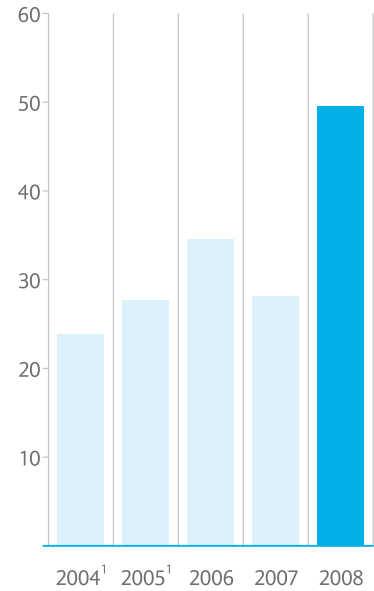
Profit before tax (P'm)



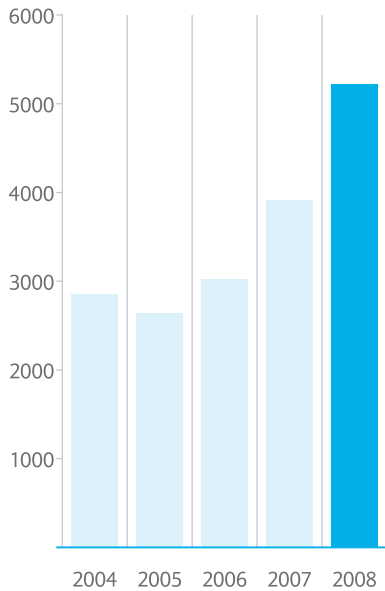
Dividends per share (thebe)



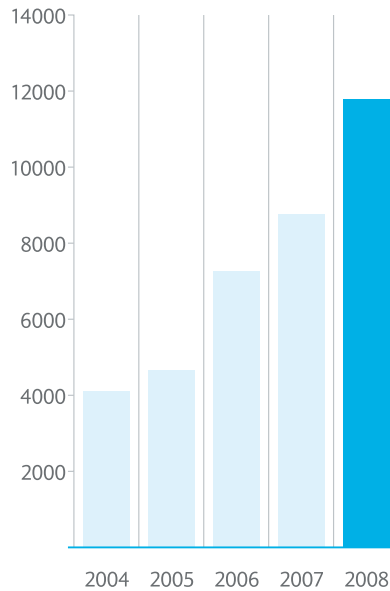
Basic and diluted earnings per share (thebe)



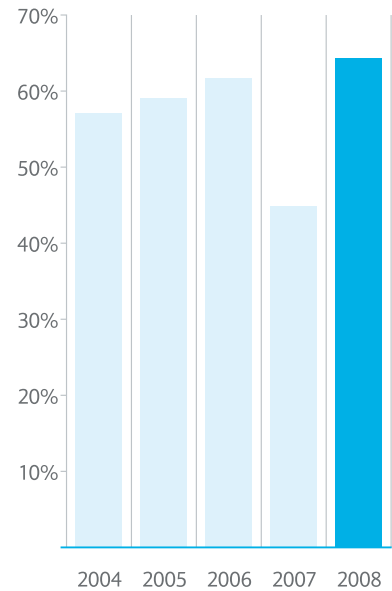
Customer loans and advances (P'm)<sup>2</sup>



Customer deposits (P'm)<sup>2</sup>



Return on average shareholders equity



<sup>1</sup>These are based on number of shares after the 2005 share split

<sup>2</sup> Customer deposits and customer loans and advances are based on year end balances

## Board of Directors

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FROM LEFT TO RIGHT: [Blackie Marole](#), Independent Non-Executive Director, Chairman of the Board of Directors. [Rizwan Desai](#), Independent Non-Executive. [Thuli Johnson](#), Managing Director. [Zafar Masud](#), Non-Executive Director. [Lawrence Maika](#), Independent Non-Executive Director. [Dorcas Makgato-Malesu](#), Independent Non-Executive Director. [Wilfred Mpai](#), Finance Director.



**Blackie Marole****Independent Non-Executive Director, Chairman (54)**

Blackie Marole is an economist by profession, holding Bachelors and Masters Degrees in the discipline. He is currently Managing Director of Debswana, serves on the boards of Coal Investment Corporation (CIC Energy) and is the Chairman of the Public Enterprises Evaluation and Privatisation Agency (PEEPA). He has previously served on several boards including those of Botswana Power Corporation and Water Utilities Corporation, both of which he chaired. He has also served on the boards of BCL Limited, Soda Ash Botswana, Botswana Diamond Valuing Company, Diamond Trading Company and De Beers Centenary AG. He was awarded the Presidential Order of Honor (PH) in 2005.

**Rizwan Desai****Independent Non-Executive Director (41)**

Rizwan Desai joined the Board in 2002. He is a partner in the law firm Collins Newman & Co. and director of a number of property development and investment companies. Rizwan is Chairman of the Botswana Stock Exchange and also chairs the Board's Credit Committee. He specialises in corporate and banking law. He holds LLB (Hons) and DIP.L.P qualifications from the University of Edinburgh and an LLM from Harvard Law School.

**Thuli Johnson****Managing Director (46)**

Thuli Johnson joined Barclays Bank of Botswana in 2003 and the Board in 2004. He has extensive experience in Financial Services, notably in Project Finance, Asset Management, and Asset Finance & Development Banking. His responsibilities include Strategy, Financial Performance, Regulatory Compliance and growing the brand and reputation of Barclays Bank of Botswana.

**Zafar Masud****Non-Executive Director (39)**

Zafar Masud is the Regional Managing Director for the Southern Africa hub of Barclays Emerging Markets. He is also Managing Director of Barclays Zambia where he is based. Zafar has a wealth of experience in financial services, having worked with American Express Bank, Dubai Islamic Bank, Citigroup and now Barclays. He has participated in unveiling a number of cutting edge financial products in Pakistan, including a transaction which was awarded the "Deal of the year" by the Global Trade Review. He is the immediate past Chairman of the Bankers Association of Zambia. He holds a BCom degree and MBA.

**Lawrence Maika****Independent Non-Executive Director (58)**

Lawrence Maika joined the Board in 2005. He is a chartered certified accountant by profession, having studied in the United Kingdom, and is a founding member of the Botswana Institute of Accountants. Lawrence is the Managing Director of Nsenya (Pty) Ltd and also manages a firm of accountants. He serves on the board of the Botswana Meat Commission and chairs the Audit Committee of Barclays Bank of Botswana.

**Dorcas Makgato-Malesu****Independent Non-Executive Director (43)**

Dorcas Makgato-Malesu joined the Board in 2006. She is Chief Executive Officer of Botswana Export Development and Investment Authority (BEDIA). Currently she is the Chairperson of the Botswana Brand Management Organisation, Chairperson of Sponsor a Child Trust and Vice Chairperson on the Botswana College of Distance and Opening Learning (BOCODOL). She also has a wealth of experience in the commercial field having worked for the airline industry, mining and Barloworld Botswana. Dorcas has contributed much to sports and sports administration, having chaired the Botswana National Sports Council and having represented Botswana at several international conventions. She also chairs the Barclays Bank of Botswana Pension Fund.

**Wilfred Mpai****Finance Director (45)**

Wilfred Mpai joined Barclays Bank of Botswana in 2007 as Finance Director. He is responsible for Financial Reporting and Control, Business Performance Management and Strategic Planning for the Bank. Wilfred was previously with Debswana where he held a number of positions in the Debswana/De Beers group including; Administrative Manager - Debswana Pension Fund; Financial Controller - DTC (London); Group Management Accountant; Financial Manager; Group Services Manager - Debswana. Wilfred is a Chartered Secretary (ACIS) and Chartered Certified Accountant (FCCA).

## Country Management Committee

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FROM LEFT TO RIGHT: [Doreen Ncube](#), Head of Compliance. [Thuli Johnson](#), Managing Director. [Aupa Monyatsi](#), Chief Operating Officer. [Esther Norris](#), Head of Corporate Affairs. [Kudzani Pickup](#), Acting Director, Corporate Banking.

OPPOSITE PAGE LEFT TO RIGHT: [Sanjay Abraham](#), Head of Cards. [Maria Purcell](#), Human Resources Director. [Wilfred Mpai](#), Finance Director. [Khumoetsile Sekucha](#), Acting Director, Risk. [David Hardisty](#), Retail Director. [Solomon Moremong](#), Treasurer.





## Chairman's Report

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Any doubts that we live in a global village were put to rest in the last quarter of 2008. The global economic growth bubble that had been fuelled to a very large extent by unsustainable sub-prime mortgage lending in the United States of America finally burst. The result has been a lack of available credit and long-term investment funds, lower consumer spending, reduced employment and incomes, and capital losses on personal savings and other assets.

While all this started out as a financial crisis in the United States and Europe, it has escalated into a widespread economic crisis with steep falls in private demand in most major industrial economies, and increasingly in the developing economies. Even Botswana - thousands of kilometres away from the epicentre of the turmoil - is not immune. We've been affected mainly because of reduced demand for not just diamonds, but also for commodities like copper and nickel. This is a major problem for a mineral-led economy like Botswana's.

However, for much of the review period - until the crunch bit in the latter part of 2008 - Botswana had been having a relatively good year. Indeed, for fiscal 2008/2009, GDP measured in current prices rose by 12.5% and in constant 1993/1994 prices, output expanded by 3.3%. This was slightly down on the 5.3% achieved in the previous year, a result largely attributable to the poor performance of the mining sector, particularly in the final quarter of the year.

“Our overall financial performance in the review period was excellent. We set ourselves tough targets, and we exceeded them with income rising by 40% and profit before tax up 84%.”

***Blackie Marole, Chairman***

By contrast, the performance of the services sector, including banks, insurance and business services sector, was strong. This sector grew by 11.1%, up from growth of 5.9% the previous year. This is despite the fact that the global financial crisis resulted in capital suddenly becoming an extremely expensive commodity in very short supply, adversely affecting liquidity.

As part of the Botswana financial sector, Barclays Bank of Botswana has managed to withstand the turmoil that has wreaked havoc among so many of our larger, international peers. The Bank of Botswana statistics indicate that liquidity in the entire Botswana banking system remains at sound levels. Certainly, Barclays' liquidity levels at the end of the review period were most satisfactory, auguring well for our ability to continue serving the people of Botswana and to contribute to the growth of our country.

Our overall financial performance in the review period was excellent. We set ourselves tough targets, and we exceeded them with income rising by 40% and profit before tax up 84%, albeit off the back of a significant impairment suffered in 2007. If we strip out the impact of the impairment on our 2007 results, our profit before tax in the review period is 48%.

Our earnings per share went up 76%. Both loans and advances to customers and customer deposits rose by 34% each.

However, that was pre the credit crunch. There is no way to predict with any level of accuracy precisely what the impact of the global financial crisis will be on Botswana, including her financial institutions.

However, we do know that we cannot just carry on as if nothing has happened and hope that everything will be alright.

In this regard, I believe the Honourable Baledzi Gaolathe, Minister of Finance and Development Planning set precisely the right tone in his budget speech to the National Assembly on 2 February 2009. He laid out a sensible strategy that Government will use to pilot the country through the turbulent times that undoubtedly lie ahead. It's a strategy that the private sector would do well to emulate and adapt to suit our own circumstances.

There is no question that the Government is going to play a critical role in determining how well the Botswana economy fares over the next year or two. The global financial crisis has started to impact negatively on the real economy.

The main risk to Botswana is the fall in mineral exports, particularly diamond sales which started to fall steeply in November 2008. As a result, there will be a slow down in economic growth and a decline in government revenues from the end of 2008/2009 until possibly 2010/2011.

The launch, therefore, of the 10th National Development Plan or NDP 10 which will cover a period of seven years to March 2016 is to be strongly welcomed. With the theme "Accelerating Vision 2016", NDP 10 is about accelerating economic growth, reducing poverty, diversifying the economic base and creating more and sustainable employment opportunities. The importance of these objectives, particularly in the economic circumstances in which we now find ourselves, cannot be over-emphasised. Barclays Bank of Botswana is committed to doing everything in its power to contribute to the successful achievement of NDP 10's goals, both through our daily business activities as well as in our actions as a good corporate citizen.

What the launch of NDP 10 indicates, is that despite its reducing income, Government will continue to spend prudently in order to keep the economy on a growth path.

The turmoil in the global financial sector has led to falling producer and consumer confidence, which has resulted in deterioration in global growth prospects. The IMF has predicted that in 2009, developed economies will register negative growth of 2.0%, having managed to maintain a barely noticeable 1.0% growth in 2008. As a developing economy, Botswana cannot afford to allow itself to be pushed into negative growth.

Government, therefore, has budgeted for a deficit in order to stabilise the economy and try, even in these difficult times, to boost growth and employment. This will be financed largely by drawing from government reserves resulting from accumulated surpluses over the good years, as well as from borrowings where favourable financing is available.

Development expenditure is budgeted to rise from P6.55 billion in 2008/2009 to P10.56 in the current fiscal year; while recurrent expenditure will rise from P23.5 billion to P27.36 billion, an increase of 16.4%.

Programmes that have the potential to create more job opportunities and stimulate growth will continue and may even be accelerated. These include projects such as the expansion of the Morupule B Power Station; Mmamabula Export Power; the North-South Water Carrier II Pipeline; the rural electrification programme; roads and bridge projects; the airports infrastructure project; tourism development; and the construction of major dams among others.

## Chairman's Report *(continued)*

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At the same time, Government has emphasised the need for financial restraint and discipline. So, for example, there will be no increase in public service salaries in 2009/2010. In addition, Minister Gaolathe promised in the budget that there will have to be belt tightening in Government, all aimed at improving efficiency.

The reason for this is that because of the uncertainty as to the duration of the global economic slowdown, the cushion provided by Government's reserves may not be sufficient to sustain current rates of expenditure.

### So what does 2009 hold for Barclays?

Based on our performance in 2008, one would expect the bank to still achieve some growth in its business. But 2009 is extremely uncertain and one has to be cautious.

Like Government, we've put in place a plan that will enable us to ameliorate the potential effects of the global economic crisis and take advantage of any opportunities that arise while continuing with our growth strategy. As such, we are cautiously optimistic about the year ahead.

Our expansion strategy which we put in place in 2007 was largely responsible for our excellent performance in the review period. We effectively expanded our footprint and diversified and expanded our customer base. However, it's clear that the benefits derived in 2008 will continue into 2009 by helping to shield the Bank from some of the fallout that could still come our way.

A major achievement of our 2008 results is that we experienced a significant reduction in impairment. We learned our lesson well from 2007 and the bank has improved its impairment management policies, a development that will stand us in good stead as the year progresses and the anticipated increase in liquidations and retrenchments starts to affect our customers. We have already put in place a more cautious approach around our credit policy and we will ensure that responsible lending - both from the Bank's and our customers' perspectives - continue to be the watchwords at Barclays.

It is vitally important for the future wellbeing of our country that we ensure the continued health of our financial system. That soundness itself depends on the ability of players in the sector, banks included, to remain profitable. If one looks at the contribution we make to the country's economy from the tax base and the supply side measured as the amount of money we spend with local suppliers it's clear that Barclays is a significant contributor to the economy. The Board is proud of our standing in our country.

I am confident that Barclays, with its prudent management strategies is well placed to continue to meet the expectations of all our stakeholders.

### Acknowledgements

I would like to thank the Barclays Bank of Botswana Board of Directors for their leadership and support throughout 2008. Two members of the Board retired during the review period: Mr Ketane Sithole and Mr Michael Miebach. I thank them for their valuable contributions to the Bank. Mr Zafar Masud joined the Board on 26 August 2008.

My congratulations go to our management team for the excellent results achieved. Without their input and foresight, we would undoubtedly be facing a very uncertain 2009 instead of looking ahead with quiet confidence. At the same time, I thank our Barclays colleagues for their tremendous efforts and the enthusiasm with which they ensured the success of our expansion programme.

I would also like to thank management and colleagues for making Barclays a model Botswana institution, with an unmatched commitment to social responsibility and a willingness to provide support - financial and in kind - to the communities in which we operate.

To our customers, thank you for your ongoing support of Barclays. I can assure you that your interests will always remain our very first priority.

To our shareholders, thank you for your steadfast commitment to Barclays. We will continue to strive for even better results in 2009.

Finally, my gratitude goes to Barclays Emerging Markets, the division of our major shareholder, Barclays plc, for their brand leadership and for helping to instil pride in our brand throughout the region.



**B Marole**  
**Chairman**



“Our expansion strategy which we put in place in 2007 was largely responsible for our excellent performance in the review period. We effectively expanded our footprint and diversified and expanded our customer base.”

*Blackie Marole*

## Managing Director's Report

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“Despite the global financial crisis which started to impact on the Botswana economy in the last quarter of the review period, 2008 was a very good year for the Bank, both from an operational and financial perspective.”

*Thuli Johnson, Managing Director*

“The growth of our retail business far outstripped the retail banking growth in the country. That, in many ways, has to do with the expansion in the channels we are using - agents and a larger branch network. It enables more people to have access to our products and services. We now have the dominant market share of retail asset and liability balances in the local market and we are well-positioned to maintain this growth.”

Controlled growth is sustainable growth. That was the guiding tenet for Barclays Bank of Botswana in 2008. It's a principle that has not only allowed us to produce sterling results in the review period, but one which has enabled us to put in place a solid structure that will prove invaluable in the uncertain economic times that lie ahead.

Despite the global financial crisis which started to impact on the Botswana economy in the last quarter of the review period, 2008 was a very good year for the Bank, both from an operational and financial perspective. It was a year in which we successfully leveraged the expansion plan we rolled out in 2007, with the overarching aim of being as accessible as possible to as many Botswana as possible.

Our accessibility goes beyond our physical presence, albeit that this has increased substantially. We have increased the size of our branch network to 52 branches (inclusive of sales and service centres) and our ATM network has increased to 101. That's impressive. Even more so is the fact that every one of our new branches reached break-even within six to twelve months depending on its location - a clear indication that our growth, while rapid, has been carefully controlled.

For us, accessibility also means being easy to do business with. We have devoted considerable effort and planning to ensure this applies to all our operations. We've introduced new products to meet the needs of a broader spectrum of current and potential customers, and this has resulted in a growing number of our customers using a greater number of our products.

Indeed, this aspect of our business grew by almost 60 per cent during the review period while our new customer accounts increased by between 2,000 and 3,000 per month.

The net result of our expansion strategy was that we effectively moved from a position of negative customer growth in 2006, to an extremely positive position in 2008, particularly on the retail banking side of our operation.

All of this has translated into a highly satisfactory set of financial results.



T W Johnson  
**Managing Director**

## Financial Review

Total income grew by 40% from P823 million to P1.16 billion, a 40% increase, including a one-off gain of P28m from the sale of Barclays Botswana's shares in Visa Inc., following its Initial Public Offering.

Total assets went up from P10.7 billion to P13.8 billion (29%); with loans and advances to customers rising by P1.3 billion or 34% - driven by growth in our retail banking division. At the same time, customer deposits increased by 34% from P8.7 billion to P11.8 billion, largely as a result of an aggressive drive undertaken by our Corporate Banking division. The Bank is in an exceptionally strong position in terms of liquidity. This is most satisfactory, particularly in the light of the global credit crunch and a contracting domestic economy.

Total income grew by 40% from P823 million to P1.16 billion, a 40% increase, including a one-off gain of P28m from the sale of Barclays Botswana's shares in Visa Inc., following its Initial Public Offering.

Reported profit before tax increased by 84%; however, excluding the one-off VISA gain and adjusting for a one-off corporate impairment in 2007 of P72m, underlying profit before tax grew by 40% to P515m.

These results reflect the benefits of investment in people, expansion of the distribution network, and development and enhancement of products and services. New channels were introduced, extending Barclays Botswana's reach into unbanked areas to the benefit of existing and new customers.

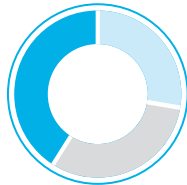
Impairment charges reduced from P95m to P61m. As stated above, the impairment charge for 2007 included a significant one-off corporate impairment of P72m. On an underlying basis, impairments increased, reflecting growth in customer loans and penetration into the mass market segment. Delinquency rates continue to be monitored closely to ensure pricing matches risk.

Operating expense growth of 27% reflects the significant investment made in the retail expansion programme that started during 2007. Through a deliberate effort to manage costs in all expense lines, as well as general efficiency improvements, Barclays Botswana has seen its cost to income ratio reduced from the 2007 rate of 53% to 48%, excluding the one-off gain on the sale of its Visa shares. A number of initiatives are being implemented currently within Barclays Botswana to manage the cost to income ratio.

Also notable is the fact that we successfully reduced our cost-to-income ratio from 53% in 2007 to 48% during the review period. This was achieved through buying smart; restricting expenditure on non-core requirements such as travel; and effectively managing our recruitment costs which threatened to escalate on the back of our expansion. The introduction of a unit-cost, activity-based cost database will ensure we continue to manage the costs of our products and services effectively.

### Total assets

+29%



■ 2006 ■ 2007 ■ 2008

### Total income

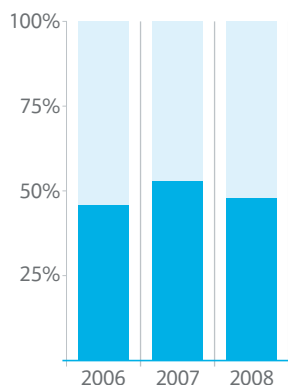
+40%



■ 2006 ■ 2007 ■ 2008

### Cost to income

■ Income  
■ Cost



Also notable is the fact that we successfully reduced our cost-to-income ratio from 53% in 2007 to 48% during the review period.



## Business Units Overview

A highlight of the review period was undoubtedly the fact that both our Retail and Treasury operations outperformed the market. Our unsecured, consumer loan volumes grew significantly every month, effectively increasing our market share.

All three business units - Retail Banking, Corporate Banking and Treasury - performed strongly in their niche areas.

A highlight of the review period was undoubtedly the fact that both our Retail and Treasury operations outperformed the market. Our unsecured, consumer loan volumes grew significantly every month, effectively increasing our market share.

Indeed, the growth of our Retail Business far outstripped the retail banking growth in the country. That, in many ways, has to do with the expansion in the channels we are using - the agents and a larger branch network. It enables more people to have access to our products and services. We now have the leading market share of retail asset and liability balances in the local market and we are well-positioned to maintain this growth.

Our retail success really underpins our overall growth in 2008 with higher volume of transactions, and greater up-take of loans.

Having said that, the retail sector is an inherently risky market. Bearing in mind the rapid growth of our book, impairments have increased. However, every effort is being made to keep the volume and size of impairments to acceptable and manageable levels.

Our Corporate Banking division achieved mixed results. Our liability management was very strong, and played a significant role in contributing to the bank's strong liquidity position.

Our custodial services were rated top in Botswana for overall service excellence by the Global Custodian Magazine for the fifth successive year. In addition, specialist rating agency, Thomas Murray, awarded us a rating of A - for our overall systems and controls.

Our trade finance operations received a boost when we won the tender for Government Trade Finance for the second successive year.

Another part of the bank's business that performed strongly was Treasury. Foreign exchange income was very strong and margins on our liabilities were also good following the introduction of a number of products including derivative products. We were able to leverage our capability very strongly with a number of customers.

However, much of the growth achieved by our Treasury operation stemmed from activity in the mining sector in the early parts of the review period, underpinned by high resource prices. This changed significantly as the year progressed and will undoubtedly impact negatively on the unit's performance going forward.

Overall, our excellent 2008 results are a tribute to the holistic approach we have taken to driving the bank's growth strategy forward. Every aspect of our operation - people, processes, and technology - has been evaluated and, where necessary, changed to deal with the challenges associated with sustainable growth.

### Contribution to profit

■ Retail ■ Corporate ■ Treasury



↓ Retail Manager  
Personal Banker ↓

Foreign exchange income was very strong and margins on our liabilities were also good following the introduction of a number of products including derivative products.



## Technology Review

Looking ahead, our investment in technology infrastructure allows us to introduce innovative new services such as mobile phone banking, scheduled to be launched early in the current financial year.

We were acutely aware that growth, unaccompanied by improvements in service delivery, would be unsustainable. While we introduced new products to meet the needs of our different customer segments, we also recognise that ultimately, one bank's products are remarkably similar to another's. The key differentiator is service. We know that our continued growth will depend on how good our customer service is; on our efficiency; and on our cost of delivery.

So we devoted considerable time and effort in 2008 to ensure that our operating platform - our technology - is sufficiently robust to support our enlarged footprint, and our objective of delivering world class service.

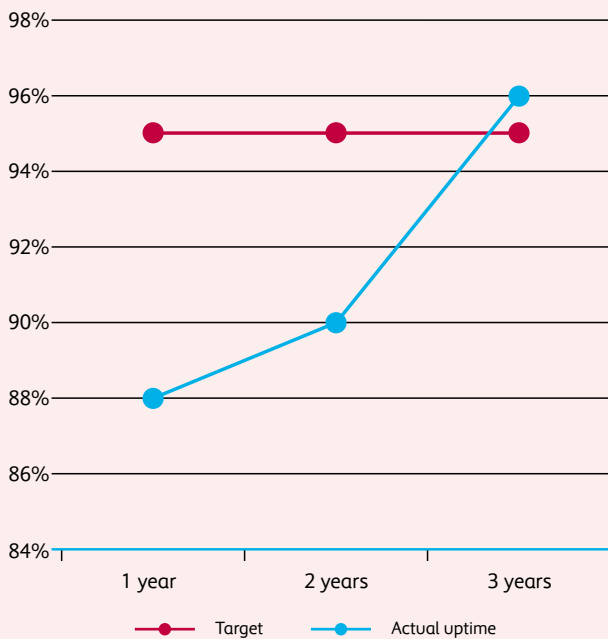
We have enhanced our Information Technology platforms, migrating away from the unreliable VSAT (satellite-based) network to a far more robust, considerably faster, terrestrial backbone. All branches are now linked via a high-capacity, high-redundancy fibre optic network, which we can monitor proactively and remotely. This has resulted in a marked improvement from 88% to 96% of systems' uptime and availability. The result is better service for our customers, regardless of where they are located.

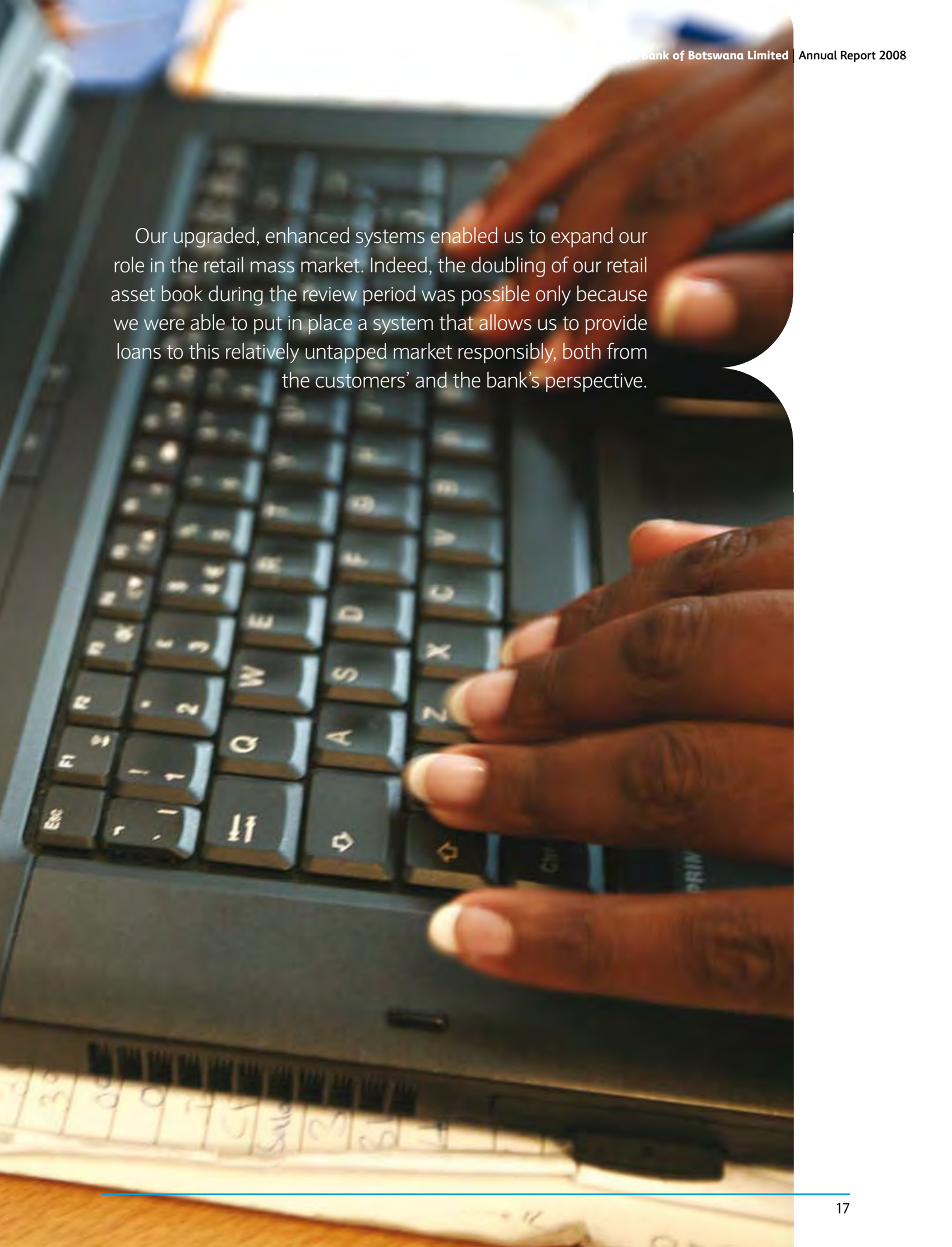
Looking ahead, our investment in technology infrastructure allows us to introduce innovative new services such as mobile phone banking, scheduled to be launched in quarter three of 2009. A whole host of other activities based on automation and business process reengineering will be unveiled in the coming months.

We've also used our enhanced network to enable the automation of numerous, previously manual systems. This has resulted in, for example, marked improvements in the speed and accuracy of cross border payments while simultaneously reducing the risk associated with such payments.

More importantly perhaps, our upgraded, enhanced systems enabled us to expand our role in the retail mass market. Indeed, the doubling of our retail asset book during the review period was possible only because we were able to put in place a system that allows us to provide loans to this relatively untapped market responsibly, both from the customers' and the Bank's perspective.

Systems Uptime 2006-2008





Our upgraded, enhanced systems enabled us to expand our role in the retail mass market. Indeed, the doubling of our retail asset book during the review period was possible only because we were able to put in place a system that allows us to provide loans to this relatively untapped market responsibly, both from the customers' and the bank's perspective.

## Process Review

Our goal is to ensure that our impairments remain within acceptable levels and that our commitment to “responsible lending” is given substance, underpinned by a strict policy of “treating customers fairly”.

Building on our investments in infrastructure, we also changed our operational processes to enable controlled, sustainable growth. Recognising that the mass market, by its very nature, carries higher levels of risk than Barclays was historically accustomed to; we have put in place a proactive fraud and risk management system.

Our goal is to ensure that our impairments remain within acceptable levels and that our commitment to “responsible lending” is given substance, underpinned by a strict policy of “treating customers fairly”.

This demands that we ensure our customers understand the intricacies of the products they are obtaining from us; and that we only provide liability products to those customers with the propensity and ability to repay them.

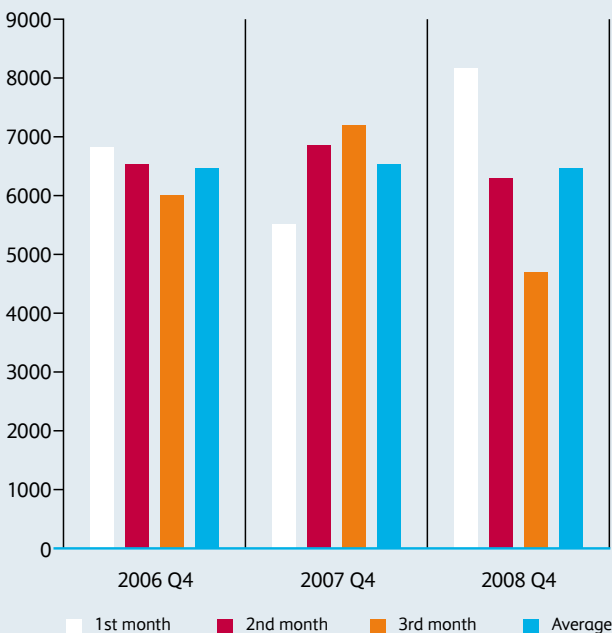
We have also taken steps to ensure that the introduction of new products is subjected to rigorous pre-approval processes that considers all aspects of the product from both the customers’ and the Bank’s perspective.

At the same time, we have embarked on a programme to enhance efficiencies which will drive down costs while simultaneously improving customer service. To date, our efforts have achieved measurable success. One example is the fact that whereas the standard time for the approval of a loan was four days at best, but more usually one week, we can now turn around a loan within 24 hours. Our goal is to reduce this still further without, in any way, increasing risk to the Bank.

Indeed, during the review period we significantly improved our credit risk management ability - absolutely essential in light of our aggressive move into the mass market segment.

We have also focused on our overall control environment. That means improving our ability to do business in an efficient and effective way, minimising the errors that we make, improving efficiencies in the organisation and making sure that our people do what they are supposed to do as diligently as they are supposed to do it. An audit of our control procedures as well as our internal audit process clearly shows a significant improvement in terms of our operational platforms and in terms of the capability of our people to deliver to our customers seamlessly.

Volumes of new loans approved 2006-2008





## Human Resources Review

Our key human resource agenda continues to revolve around people development, talent nurturing, rewards and recognition. In line with our growth, our permanent staff numbers grew by 215 of whom 98% are Batswana. In addition, 65 Batswana benefited from temporary positions.

Our key human resource agenda continues to revolve around people development, talent nurturing, rewards and recognition. In line with our growth, our permanent staff numbers grew by 215 of whom 98% are Batswana. In addition, 65 Batswana benefited from temporary positions. We currently have over 1400 employees, making Barclays the largest employer in the banking sector in Botswana.

Throughout 2008, we paid particular attention to managing skills within the organisation and to put in place programmes that enable us to identify, attract, develop and retain the type and level of skills we require. Regular talent reviews were held during the course of the year to enable us to offer our people career development opportunities.

We made improvements to our internship programme through which 18 University of Botswana students were exposed to various functions of the Bank. The success of the programme cemented a strong collaboration between Barclays and the University management in ensuring an effective blend of academic programmes to business expectations.

Our graduate development programme was extended in 2008, with 11 new graduates joining, bringing the total number of graduates in the programme to 23.

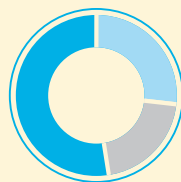
We also continued to pay close attention to diversity and inclusion. For instance, as part of our commitment to developing women leaders we have placed one of our colleagues on a long term assignment in Dubai.

In line with our commitment to improved customer service, employee training was a major focus throughout the year with a total of 1528 employees receiving formal training during the year.

The Employee Assistance Programme continues to ensure our people receive assistance for health related matters, including access to 24 hour telephone counselling.

We also play a major role in assisting employees manage the challenges associated with HIV/AIDS with voluntary counselling and testing for our employees as well as the provision of free anti-retroviral therapy handled through a reputable service provider.

**Number of employees trained**



In line with our commitment to improved customer service, employee training was a major focus throughout the year with a total of 1528 employees receiving formal training during the year



## Community Investment

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“My relationship with Barclays extends beyond banking services; it includes among others, working together in community projects across the country, projects that are very close to my heart. Over the years, the Bank has demonstrated its passion and commitment for empowering the communities in which it operates and has played a pivotal role in improving the quality of lives of those less fortunate,” former President of the Republic of Botswana Mr F.G... Mogae.

### A year for giving back to the community

As an institution committed to the development of the communities in which we operate, 2008 was a year of giving back to Botswana in meaningful and numerous ways. The Bank identified and partnered with organisations and communities working for different noble causes with an emphasis on Financial Education, Entrepreneurship Skills Development, Environmental Conservation, Orphans and Vulnerable Children and Health.

Our community program is at the heart of our sustainability agenda and continues to grow from strength to strength. In 2008 we were able to demonstrate our steadfast commitment to establishing sustainable partnerships with community organisations that are committed to sustainable development.

Our Community Investment Program is based on three major strategies:

### Banking on Brighter Futures

Our focus under this theme includes financial inclusion, skills development and entrepreneurship, access to employment and education particularly financial education. During the year under review, we partnered with Stepping Stones International, supporting them with P816,000 over a period of three years for the development of six income-generating projects. Stepping Stones is dedicated to creating an enabling environment for orphans and vulnerable children to grow and develop their future. The partnership will enable the children and youth to develop their entrepreneurial skills and generate income for themselves.

### Partnering with Local Communities

Under this theme, Barclays is able to respond to the specific needs of our communities that are socio-economic in nature. In 2008 we focused on health, environmental conservation, children and youth as well as family welfare.

- We donated P450,000 to SOS Children’s Village to build a home for orphans in the new village being developed in Serowe. The relationship between SOS and Barclays dates back to 1986 when the first Barclays house was established at the Children’s Village in Tlokeng.
- To respond to the cancer epidemic, we partnered with Cancer Association of Botswana (CAB) to raise awareness and to strengthen support groups. P150,000 was donated to CAB to assist in running a series of educational and cancer awareness radio programmes, workshops for the support groups and translation of educational material into Setswana.
- The need to conserve and preserve the environment is growing daily and Barclays partnered with Somarelang Tikologo to initiate an environmental school project in the Francistown area to translate educational material into Setswana and to provide support for green micro entrepreneurs.

### Charity Begins at Work

Our colleagues are central to our community program and they continue to engage with their communities in various ways. We encourage our colleagues to take part in our community investment program by volunteering their time and skill to NGO’s and other charitable organisations. We do this by providing 16 hours off work to volunteer time and skill and providing small grants.



## Community Investment *(continued)*

It is because of this commitment to economic growth that we have brought our products and services to almost every Motswana through the creation of an easily accessible services network that ideally brings Barclays Bank closer to the people.

Throughout the year under review colleagues have engaged in fundraising efforts to support community projects. In addition, they have gone out and volunteered their time and skill with community organisations. Their activities included tree planting and litter picking in commemoration of Earth Day and World Environment Day; computer literacy training; orphan care and cancer awareness programs. A total of 85 fund raising and volunteering activities were held and 30 community organisations supported.

Under our Charity Begins at Work theme, our colleague franchise went all out to give to the communities in various forms. We created long lasting relationships. Our annual Make A Difference Day was also a huge success.

In 2008, 73 projects addressing issues of financial education, organic gardening, environmental conservation and preservation, orphan care and support and computer literacy were implemented across Botswana with an overall value of over P 1million.

### Make A Difference Day - Success Indicators

	2007	2008
Total number of Projects	51	73
Total number of employee volunteers	1280	1489
Total value of volunteering grants	P 693,324	P 1,017,933

### Other Community initiatives

- We have reaffirmed our commitment to support education in Botswana by partnering with the University of Botswana to help develop students' skills and improve their understanding of the business sector. In 2008, we had the first lecture aimed at inspiring students to start shaping a career path as they prepare to enter a competitive business environment. Going forward, we will be hosting a series of lectures where we will be sharing different topics with them.
- In 2008, we launched the Barclays - F.G.... Mogae Scholarship Fund in honour of former President Mr Festus G. Mogae. We committed P1.5 million to support this historic initiative. The Fund is targeting 25 young Batswana who are unable to get financial support for their education to pursue their Masters programmes. In the year under review, five students were awarded the scholarship. Indeed this shows our reaffirmation and commitment towards the development of education in Botswana, and we are proud of that.



## Looking Ahead

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We are looking at ways to work more closely with our customers and to help them manage their finances more effectively through this difficult financial period.

Our plans and priorities for 2009 and beyond have to be seen within the context of the turmoil in the global economy, and the impact this is having on Botswana particularly with the fall in demand for minerals. The impact of this reaches beyond the mines to the industry's supplier base. We therefore welcome Government's commitment to supporting the economy through increased spending as this will assist those businesses that supply services to Government to continue to operate.

As for Barclays, having expanded our reach into the retail sector considerably, we are particularly concerned about the impact the economic slowdown will have on the level of delinquency within that sector. There were already indications of some businesses starting to experience financial difficulties towards the end of 2008 and into early 2009.

We believe this is likely to accelerate and deepen as the current year progresses. We anticipate that the ripple effects of the recession will initially be felt by smaller companies, their employees and their suppliers.

So our focus in 2009 will continue to be on controlled, sustainable growth. We will slow down the rate of growth we experienced in 2008 especially in our Retail Banking operation. We will continuously seek out better ways to grow our Corporate Banking operations and moderate our growth in the unsecured retail sector.

We're predicting a year that will be difficult from a delinquency point of view. So we're investing in the right technology to ensure that we can collect efficiently while simultaneously looking at ways to accelerate growth in liabilities.

In addition, we are keenly aware of the fact that if we are going to slow down our growth and experience higher impairments, we must also trim our costs and focus on becoming more efficient in order to deliver on our financial performance.

We are currently looking at implementing a number of productivity efficiency programmes. One of these is to be able to replace as many manual processes as possible with technology interventions. Hopefully these will not only improve our risk profile as we will be better able to manage our processes, but it will also allow us to serve our customers faster and more efficiently. Indeed, one of our priorities in 2009 is to train more of our people to be able to take up customer-facing roles.

At this juncture, it's also important to ensure that we have the right quality of information on our customers and our portfolio. We are therefore continuing our investment in our management information capability and ensuring that we are putting resources where they can make the most meaningful contribution to our operations.

In addition to our initiatives to obtain better customer information, we are looking at ways to work more closely with our customers and to help them manage their finances more effectively through this difficult financial period.

It is important to bear in mind that Barclays is a strong bank. We are well capitalised to take on any set backs that may take place in the economy and we are a bank that people can continue to trust. Our liquidity levels are excellent, we have world-class risk management processes and systems; and we are fortunate to have great people and a strong leadership team.

Our financial performance in 2008 demonstrated the great franchise we have. We are very confident that we have put in place the right measures which we will constantly review to ensure we continue as a strong business even in what we anticipate will be a very difficult year in 2009.

We are well placed to continue to support Botswana's growth and our customers.

Our financial performance in 2008 demonstrated the great franchise we have.

We are very confident that we have put in place the right measures which we will constantly review to ensure we continue as a strong business even in what we anticipate will be a very difficult year in 2009.



## Directors' Report

for the year ended 31 December 2008

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The Directors have pleasure in submitting their report to shareholders together with the audited financial statements for the year ended 31 December 2008.

### 1 Share capital

Details of the Bank's share capital are given in Note 28 to the financial statements.

### 2 Financial results

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

### 3 Dividends

The dividends are set out in Note 2 to the financial statements.

### 4 Directorate

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

#### B Marole

(Independent Non-executive)

Chairman

#### T W Johnson

(Executive)

Managing Director

#### W Mpai

(Executive)

Finance Director

#### R K Desai

(Independent Non-executive)

#### L Maika

(Independent Non-executive)

#### D Makgato-Malesu

(Independent Non-Executive)

#### K Sithole

(Independent Non-executive) (Retired 26th June 2008)

#### M Miebach

(Non-executive)\*\* (Resigned 15th July 2008)

#### Z Masud

(Non-executive)\* (Appointed 26th August 2008)

Managing Director, Sub-Saharan Africa.

### 5 Independent auditors

PricewaterhouseCoopers  
Plot 50371  
Fairgrounds Office Park  
Gaborone

### 6 Company secretary

L Tema  
6th Floor  
Barclays House  
Khama Crescent  
Gaborone

PO Box 478  
Gaborone  
Botswana

### 7 Transfer secretaries

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

### 8 Registered office

6th Floor, Barclays House  
Khama Crescent  
Gaborone

### 9 Company registration

Registration Number 1732

\* Pakistani

\*\* German



We have increased the size of our branch network to 52 branches inclusive of sales and service centres and our ATM network has increased to 101. That's impressive. Even more so is the fact that every one of our new branches reached break-even within six to twelve months.

## Directors' Statement of Responsibility

for the year ended 31 December 2008

---

The directors of Barclays Bank of Botswana Limited are responsible for the annual financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Botswana (Companies Act, 2003) and the Botswana Banking Act Cap 46:04.

The Bank maintains systems of internal control which are designed to provide assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Bank's assets. The directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control.

Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

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

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

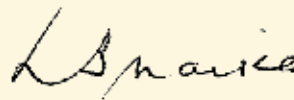
The Board of Directors have reviewed and approved the accompanying financial statements, set out on pages 40 to 104 for issue.



B Marole  
**Chairman**



T W Johnson  
**Managing Director**



L Maika  
**Chairman of the Board Audit Committee**

**13th March 2009**

The Bank maintains systems of internal control which are designed to provide assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Bank's assets.

## Corporate Governance Statement

for the year ended 31 December 2008

Barclays Bank of Botswana is committed to robust corporate governance practices and applies the highest standards of business integrity in all its activities. Corporate governance has been a major focal point in recent years and several training initiatives have been undertaken to improve the process.

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

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

In accordance with the requirements of Internal Control: Guidance for Directors on the Combined Code, issued by the Institute of Chartered Accounts in England and Wales, the Board ensures that management identifies measures and monitors a variety of risks through various control mechanisms. The risks and the measures related thereto are explained on pages 84 to 102 in this document.

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

### The Board

#### Primary Role

The main focus of the Board is on the business policies and strategies of the bank.

Operating within a corporate governance framework ensures that the Board:

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

#### Objectives

The objectives of the Board are to:

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

The Board comprises the Chairman, who has no executive responsibilities, other non-executive directors (all of whom the Board considers to be independent) and two executive directors, including the Managing Director. The brief biographical details of these directors are set out on page 3 in this document. The Board approves the roles and responsibilities of the Chairman and Managing Director. The roles are separate, well documented and understood.

Under the leadership of the Managing Director, the Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and running the Bank. Based on their knowledge and experience, non-executive directors challenge, monitor and approve the strategies and policies recommended by the CMC. Executive directors have annual performance contracts against which they are measured and managed.

The Board meets regularly and has a formal schedule of matters reserved for it. Meetings of the Board are structured to allow and encourage open discussion and free debate.

This ensures that non-executive directors are able to challenge executive directors effectively. When necessary, the Chairman meets privately with non-executive directors to brief them and to address any concerns they may have.

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

A quorum consists of four directors. During 2008, the Board held five meetings. The attendance record of individual directors is provided in the table below:

Blackie Marole	4/5
Rizwan Kadir Desai	5/5
Ketane Sithole	3/3
Lawrence Maika	5/5
Dorcas Makgato-Malesu	4/5
Thulisizwe Johnson	5/5
Michael Miebach	2/3
Wilfred Mpai	5/5
Zafar Masud	2/2

#### Audit Committee

The Board appoints a minimum of three members, who are directors without any executive responsibility, to the Audit Committee. During the year there were three non-executive directors on the committee, one of whom is the chairperson for the committee. However, in line with the best practices of corporate governance, a non-executive director other than the Chairman of the Board has been appointed to chair the Committee and this position is accordingly held by Lawrence Maika.

#### Directors' Remuneration (BWP)

Director	Board	Audit Committee	Credit Committee	Remuneration Committee	Pension Fund	Executive Remuneration	Total Cost to Company
Blackie Marole	81,000	—	—	31,150	—	—	112,150
Lawrence Maika	68,250	108,150	—	—	—	—	176,400
Rizwan Desai	68,250	—	31,150	22,625	—	—	122,025
Dorcas Makgatho-Malesu	63,750	73,125	9,800	5,000	31,150	—	182,825
Thulisizwe Johnson	—	—	—	—	—	2,518,674	2,518,674
Wilfred Mpai	—	—	—	—	—	1,782,268	1,782,268
Zafar Masud	—	—	—	—	—	—	0
Ketane Sithole	30,000	11,750	—	—	—	—	41,750
Michael Miebach	—	—	—	—	—	—	0
	<b>311,250</b>	<b>193,025</b>	<b>40,950</b>	<b>58,775</b>	<b>31,150</b>	<b>4,300,942</b>	<b>4,936,092</b>

The Audit Committee has written terms of reference that have been approved by the Board and are in compliance with the Banking Act, Cap 46:04. The external and internal auditors have free access to the Chairman of the Committee. Meetings are held at least four times a year. The function of the committee is to assist the Board in discharging its duties under the Companies Act, Banking Act and common law. In particular, it monitors financial controls, accounting systems and shareholder reporting. It also assesses the management of financial risks.

The Banking Act imposes additional responsibilities on the Board of the Bank. This is especially true with regards to annual reporting on the functions of the Bank's system of internal controls and its continuing viability as a going concern. The Audit Committee assists the Board in discharging these responsibilities.

#### Credit Committee

The Board Credit Committee includes the Managing Director, two non-executive Board members and the Risk Director. It is chaired by a non-executive director who is not the chair of the main board, being Rizwan Desai. The main purposes of the Committee are to approve the Bank's credit policy, review and approve credit limits within Banking Act requirements, to review portfolio management information and set sector caps and to review information on significant non-performing accounts in the Bank's credit portfolio.

While some of the functions of the Credit Committee include statutory Board duties, the ambit of its terms of reference are wider than that and include a real partnership with risk executives to ensure the health of the Bank's lending book.

## Corporate Governance Statement *(continued)*

for the year ended 31 December 2008

Meetings of the Credit Committee are held quarterly for pre-set meetings. However, ad hoc meetings for approval of facilities on an urgent basis can be called on short notice and held by telecon and decisions taken by round robin, in line with the terms of reference.

### Remuneration and Nominations Committee

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

Pre-set meetings are held quarterly, although any member may request a meeting through the secretary.

### Country Management Committee (CMC)

#### Primary role

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

#### Objectives

The objectives of the CMC are to ensure:

- That business is conducted in compliance with the country's legislation and regulations.
- Effective implementation of Barclays Emerging Markets policies and governance arrangements across all lines and functions of the business.
- Integrity of the operational, control, compliance and governance framework of the Bank as a part of Barclays Emerging Markets.
- Efficient implementation of business plans.
- That performance is maximised across all lines and functions of the business.
- Enhancement of the Barclays Brand.

### Composition and quorum

The CMC consists of the following:

- Managing Director (as its Chairman)
- Finance Director
- Treasurer
- Corporate Director
- Retail Director
- Chief Operating Officer
- Risk Director
- Head of Compliance
- Head of Corporate Affairs

The quorum consists of four members, including the Chairman or an alternate.

### Standing Agenda

A typical CMC meeting will cover the following:

- Minutes of the previous meeting with emphasis on action tracking
- Delegated actions from the Board and other issues which have cross-functional implications, including:
  - A review of business change management projects
  - Operational risk management and audit profile, specifically including 'less than satisfactory' audits
- Crises and incident management
- Business performance
- Customer service issues
- Regulatory issues
- Brand enhancement
- Employee relations issues
- Community affairs
- Learning and development
- Internal communications
- Any other business.

### Country Asset and Liability Management Committee (ALCO)

#### Primary role

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



## Corporate Governance Statement *(continued)*

for the year ended 31 December 2008

### Objectives

The objectives of the Country ALCO are to manage:

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

### Composition and quorum

Membership of Country ALCO comprises the following:

- Managing Director (as its Chairman)
- Finance Director
- Retail Director
- Corporate Director
- Treasurer
- Secretariat (provided by Treasury)

A quorum consists of four members, including the Chairman alternate and one other executive director.

### Risk and Control Committee

#### Primary role

The duties and responsibilities of this management committee are to:

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

### Composition and quorum

Membership of the Risk and Control Committee comprises the following:

- Managing Director - Chairman
- Finance Director
- Risk Director
- Chief Operating Officer
- Corporate Director
- Retail Director
- Head of Compliance
- Legal Counsel
- Head of Operational Risk
- Head of Risk and Control Rigour

The external auditors attend the meetings to provide independent challenges to the members of the committee.

A quorum consists of six members present, and must include the Chairperson or Vice Chairperson.

### Remunerations and Promotions Committee (RPC)

#### Primary Role

The duties and responsibilities of this management committee are:

- Approval of salary increases, bonus, long term incentives and out of cycle awards, all subject to Group approval;
- Bonus pot funding requests in line with Board Remunerations Committee decisions.
- Approval of customised reward schemes subject to Group governance.
- Monitoring of compliance with Legal and regulatory requirements as they apply to appointments and rewards.
- Oversight of appointments, compensation and reviews for all CMC members and direct reports to the MD.
- Review and recommend proposed placements onto CMC.

### Composition and quorum

Membership of the Remunerations and Promotions Committee comprises the following:

- Managing Director - Chairman
- Finance Director
- Human Resources Director
- Chief Operating Officer

A quorum consist of four members present, one of whom must be the Chairperson.

## Operations Committee (OPCO)

### Primary Role

The duties and responsibilities of this management committee are:

- Oversight of all key operational issues facing the Country Business (including IT and other operational projects) and to ensure timely, robust delivery of operational and IT investments within budget.
- Ensuring the effectiveness of the following across Barclays Bank of Botswana:
  - Operational and IT Capability
  - Resource management
  - Change Management - management oversight and review of all operational and IT projects and that projects are managed according to Prince 2 principles and within timescales and budget
- Review Group, Global Retail & Commercial Banking (GRCB) and Emerging Markets (EM) operations and IT projects intended for or impacting upon the country.
- Sourcing and Alliances
- Business Continuity Management
- Issues are escalated and reported to the Managing

Director, Country Management Committee and Emerging Markets Chief Operating Officer where resolution at OpCo is not possible.

### Composition and quorum

Membership of the committee comprises:

- Chief Operating Officer - Chairman
- Managing Director
- Finance Director
- Retail Director
- Head of Cards
- Corporate Director
- Head of Compliance
- Head of Corporate Affairs
- Human Resources Director
- Treasurer
- Executive Assistant to the Managing Director

A quorum consists of four members, including the Chairperson.

## Brand and Reputation Committee (B&RC)

### Primary role

The duties and responsibilities of the Committee are to:

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

### Composition and quorum

- Managing Director - Chairman
- Finance Director
- Chief Operating Officer
- Legal Counsel
- Risk Director
- Head of Corporate Affairs
- Corporate Director
- Retail Director
- Head of Cards
- Head of Compliance
- Human Resources Director
- Treasurer

All members must attend in person, unless they have the prior written consent of the Chairperson to send an alternate.



The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the Botswana Companies Act (2003) and the Botswana Banking Act (1995).

Barclays Bank of Botswana Limited

# Annual Financial Statement

for the year ended 31 December 2008

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## Independent Auditor's Report

to the members of Barclays Bank of Botswana Limited



We have audited the group annual financial statements and annual financial statements of Barclays Bank of Botswana Limited, set out on pages 40 to 102, which comprise the consolidated and separate balance sheets as at 31 December 2008, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### 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 compliance with the Botswana Companies Act in Botswana (2003) and the Botswana Banking Act (1995).

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects the consolidated and separate financial position of Barclays Bank of Botswana Limited as at 31 December 2008, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

.....  
**Certified Public Accountants**

**Gaborone, 25th March 2009**

## Income Statement

for the year ended 31 December 2008 (in thousands of Pula)

	Notes	Consolidated		Company	
		2008	2007	2008	2007
Interest income	3	1,611,534	1,358,740	1,611,534	1,358,740
Interest expense	3	(823,653)	(803,564)	(823,653)	(803,564)
Net interest income		787,881	555,176	787,881	555,176
Fee and commission income	4	222,517	162,233	203,091	156,543
Fee and commission expense	4	(10,437)	(4,766)	(10,437)	(4,766)
Net fee and commission income		212,080	157,467	192,654	151,777
Net trading income	5	126,065	106,510	126,065	106,510
Other operating income	6	29,571	3,724	29,571	3,724
Net other income		155,636	110,234	155,636	110,234
<b>Total income</b>		<b>1,155,597</b>	<b>822,877</b>	<b>1,136,171</b>	<b>817,187</b>
Impairment charges and other credit provisions	7	(60,669)	(94,902)	(60,669)	(94,902)
<b>Net income</b>		<b>1,094,928</b>	<b>727,975</b>	<b>1,075,502</b>	<b>722,285</b>
Staff costs	8	(215,006)	(147,680)	(215,006)	(147,680)
Administration and general expenses	9	(292,761)	(262,786)	(286,546)	(262,188)
Depreciation of property, plant and equipment	20	(34,609)	(22,337)	(34,609)	(22,337)
Amortisation of intangible assets		(9,260)	—	(9,260)	—
<b>Operating expenses</b>		<b>(551,636)</b>	<b>(432,803)</b>	<b>(545,421)</b>	<b>(432,205)</b>
<b>Profit before income tax</b>		<b>543,292</b>	<b>295,172</b>	<b>530,081</b>	<b>290,080</b>
Tax	10	(121,754)	(54,853)	(118,451)	(53,579)
<b>Profit after tax</b>		<b>421,538</b>	<b>240,319</b>	<b>411,630</b>	<b>236,501</b>
<b>Earnings per share</b>					
Basic and diluted earnings per share (thebe)	2	49.5	28.2	48.3	27.8
<b>Dividends per share</b>					
Interim dividend per share (thebe)	2	9.0	9.0	9.0	9.0
Proposed final dividend per share (thebe)	2	11.735	15.255	11.735	15.255

The accompanying notes form an integral part of the consolidated financial statements

## Balance Sheet

for the year ended 31 December 2008 (in thousands of Pula)

	Notes	Consolidated		Company	
		2008	2007	2008	2007
<b>Assets</b>					
Cash and cash equivalents	11	217,310	184,139	199,971	175,063
Balances with the Bank of Botswana	12	445,789	368,914	445,789	368,914
Financial assets designated at fair value	13	14,251	—	14,251	—
Derivative financial instruments	14	39,338	28,440	39,338	28,440
Loans and advances to banks	15	241,287	24,525	241,287	24,525
Loans and advances to customers	16	5,228,998	3,897,782	5,228,998	3,897,782
Available for sale financial instruments	17	4,830,465	4,129,477	4,830,465	4,129,477
Other assets	18	106,296	192,672	106,296	192,672
Balances with related companies	19	2,511,216	1,646,421	2,511,216	1,646,421
Property, plant and equipment	20	138,991	130,706	138,991	130,706
Intangible assets	21	10,304	19,564	10,304	19,564
Retirement benefit asset	8	85,694	81,173	85,694	81,173
<b>Total assets</b>		<b>13,869,939</b>	<b>10,703,813</b>	<b>13,852,600</b>	<b>10,694,737</b>
<b>Liabilities</b>					
Deposits from banks	22	5,440	37,396	5,440	37,396
Deposits due to customers	23	11,761,480	8,745,910	11,761,480	8,745,910
Derivative financial instruments	14	121,159	59,584	121,159	59,584
Balances with related companies	19	90,013	6,997	90,013	6,997
Debt securities in issue	24	936,575	952,462	936,575	952,462
Other liabilities	25	164,115	332,388	164,115	332,388
Provisions	26	7,131	5,246	7,131	5,246
Current tax liabilities		9,124	3,049	9,624	1,904
Deferred tax liabilities	27	12,219	12,550	12,219	12,550
<b>Total liabilities</b>		<b>13,107,256</b>	<b>10,155,582</b>	<b>13,107,756</b>	<b>10,154,437</b>
<b>Shareholders' equity</b>					
Stated capital	28	17,108	17,108	17,108	17,108
Retained earnings		680,467	479,046	662,628	471,115
Other reserves		65,108	52,077	65,108	52,077
<b>Total equity attributable to equity holders</b>		<b>762,683</b>	<b>548,231</b>	<b>744,844</b>	<b>540,300</b>
<b>Total liabilities and equity</b>		<b>13,869,939</b>	<b>10,703,813</b>	<b>13,852,600</b>	<b>10,694,737</b>

The accompanying notes form an integral part of the consolidated financial statements

## Cash flow Statement

for the year ended 31 December 2008 (in thousands of Pula)

	Notes	Consolidated		Company	
		2008	2007	2008	2007
<b>Reconciliation of profit before tax to net cash flows from operating activities</b>					
Profit before tax		543,292	295,172	530,081	290,080
Adjustment for non-cash items:-					
Allowance for impairment		60,669	94,902	60,669	94,902
Depreciation of property, plant and equipment	19	34,609	22,337	34,609	22,337
Amortisation of intangibles	20	9,260	—	9,260	—
Net increase in financial assets designated at fair value		(14,251)	—	(14,251)	—
Other provisions including pensions		(4,521)	(11,467)	(4,521)	(11,467)
Net profit on disposal of property, plant and equipment		(523)	(2,676)	(523)	(2,676)
Profit on sale of shares		(13,575)	—	(13,575)	—
Other non-cash movements		(1,041)	3,625	(1,041)	3,625
<b>Changes in operating assets and liabilities</b>					
Increase in deposits		3,021,863	1,495,444	3,021,863	1,495,444
(Decrease) / increase in other liabilities		(166,388)	324,979	(166,388)	324,979
Increase in advances		(1,401,230)	(990,174)	(1,401,230)	(990,174)
Net increase in derivative financial instruments		50,677	20,427	50,677	20,427
Increase on statutory reserve with Bank of Botswana		(119,224)	(65,512)	(119,224)	(65,512)
Increase in balances with related parties		(781,779)	(656,721)	(781,779)	(656,721)
Decrease in investments and market placements		12,342	204	12,342	204
Decrease in other assets		86,376	71,680	86,376	71,680
Tax paid		(131,658)	(139,512)	(126,710)	(139,360)
<b>Net cash from operating activities</b>		<b>1,184,898</b>	<b>462,708</b>	<b>1,176,635</b>	<b>457,768</b>
Purchase of property and equipment		(43,328)	(61,396)	(43,328)	(61,396)
Purchase of intangible assets		—	(19,564)	—	(19,564)
Proceeds on sale of property and equipment		917	3,266	917	3,266
Proceeds on sale of shares		13,575	—	13,575	—
<b>Net cash used in investing activities</b>		<b>(28,836)</b>	<b>(77,694)</b>	<b>(28,836)</b>	<b>(77,694)</b>
Dividends paid		(206,692)	(213,038)	(206,692)	(213,038)
Redemption of debt securities		(100,000)	—	(100,000)	—
Proceeds of borrowings and issuance of debt securities		90,000	202,235	90,000	202,235
<b>Net cash from financing activities</b>		<b>(216,692)</b>	<b>(10,803)</b>	<b>(216,692)</b>	<b>(10,803)</b>
<b>Net increase in cash and cash equivalents</b>		<b>939,370</b>	<b>374,211</b>	<b>931,107</b>	<b>369,271</b>
Cash and cash equivalents at beginning of the year		4,354,641	3,980,430	4,345,565	3,976,294
<b>Cash and cash equivalents at the end of the year</b>		<b>5,294,011</b>	<b>4,354,641</b>	<b>5,276,672</b>	<b>4,345,565</b>
Cash and cash equivalents comprise:					
Cash and cash equivalents		217,310	184,139	199,971	175,063
Current account with Bank of Botswana		71,462	113,811	71,462	113,811
Balances with other banks		240,956	19,464	240,956	19,464
Bank of Botswana Certificates		4,769,723	4,069,250	4,769,723	4,069,250
Deposits from other banks		(5,440)	(32,023)	(5,440)	(32,023)
		5,294,011	4,354,641	5,276,672	4,345,565

The accompanying notes form an integral part of the consolidated financial statements

## Statement of Changes in Equity

for the year ended 31 December 2008 (in thousands of Pula)

<b>Consolidated</b>							
	Stated capital	Share capital	General risk reserve	Investment revaluation reserve	Fixed property revaluation reserve	Retained earnings	Total equity
<b>Balance at 1 January 2007</b>	17,108	2,060	27,533	394	12,933	460,922	520,950
Profit for the period	—	—	—	—	—	240,319	240,319
Prior year dividends paid	—	—	—	—	—	(136,343)	(136,343)
First interim dividend paid (2007)	—	—	—	—	—	(76,695)	(76,695)
Transfer from retained earnings	—	—	9,157	—	—	(9,157)	—
Revaluation of available for sale investments	—	—	—	—	—	—	—
Transfer from revaluation reserve	—	—	—	—	—	—	—
<b>Balance at 31 December 2007</b>	17,108	2,060	36,690	394	12,933	479,046	548,231
<b>Balance at 1 January 2008</b>	17,108	2,060	36,690	394	12,933	479,046	548,231
Profit for the period	—	—	—	—	—	421,538	421,538
Prior year dividends paid	—	—	—	—	—	(129,997)	(129,997)
First interim dividend paid (2008)	—	—	—	—	—	(76,695)	(76,695)
Transfer from retained earnings	—	—	13,439	—	—	(13,439)	—
Transfer from investment revaluation reserve	—	—	—	(394)	—	—	(394)
Transfer from revaluation reserve	—	—	—	—	(14)	14	—
<b>Balance at 31 December 2008</b>	17,108	2,060	50,129	—	12,919	680,467	762,683
<b>Company</b>							
	Stated capital	Share capital	General risk reserve	Investment revaluation reserve	Fixed property revaluation reserve	Retained earnings	Total equity
<b>Balance at 1 January 2007</b>	17,108	2,060	27,533	394	12,933	456,809	516,837
Profit for the period	—	—	—	—	—	236,501	236,501
Prior year dividends paid	—	—	—	—	—	(136,343)	(136,343)
First interim dividend paid (2007)	—	—	—	—	—	(76,695)	(76,695)
Transfer from retained earnings	—	—	9,157	—	—	(9,157)	—
Transfer from revaluation reserve	—	—	—	—	—	—	—
<b>Balance at 31 December 2007</b>	17,108	2,060	36,690	394	12,933	471,115	540,300
<b>Balance at 1 January 2008</b>	17,108	2,060	36,690	394	12,933	471,115	540,300
Profit for the period	—	—	—	—	—	411,630	411,630
Prior year dividends paid	—	—	—	—	—	(129,997)	(129,997)
First interim dividend paid (2008)	—	—	—	—	—	(76,695)	(76,695)
Transfer from retained earnings	—	—	13,439	—	—	(13,439)	—
Transfer from investment revaluation reserve	—	—	—	(394)	—	—	(394)
Transfer from revaluation reserve	—	—	—	—	(14)	14	—
<b>Balance at 31 December 2008</b>	17,108	2,060	50,129	—	12,919	662,628	744,844

The accompanying notes form an integral part of the consolidated financial statements

## Accounting Policies

for the year ended 31 December 2008 (in thousands of Pula)

### 1. Reporting entity

Barclays Bank of Botswana Limited (“the Bank”) is a company domiciled in Botswana. The address of the Bank’s registered office is 6th Floor, Barclays House, Khama Crescent, Gaborone. The consolidated financial statements of the Bank as at and for the year ended 31 December 2008 comprise those of the Bank and its subsidiaries (together referred to as “the Bank”). The Bank primarily is involved in corporate banking, retail banking, and in treasury products and services.

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

### 2. Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

During the period the Bank early adopted IFRS 8, Operating Segments, to enhance the transparency of the segmental disclosures. The standard replaces IAS 14 - Segmental Reporting and aligns operating segments reporting with segments reported to senior management.

The following IFRIC interpretations issued during 2006 and 2007 which apply to accounting periods beginning on or after 1st January 2008 did not result in any changes in the Bank’s accounting policies

	Effective date
IFRIC 11 IFRS 2 - Group and Treasury share transactions	1/1/08
IFRIC 12 - Service Concession Arrangements	1/1/08
IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1/1/08

The financial statements were approved by the Board of Directors on 13th March 2009.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as modified by:

- revaluation of available-for-sale financial assets
- revaluation of derivative financial instruments measured at fair value through profit and loss
- revaluation of land and buildings

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in page 55.

### 3. Significant accounting policies

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

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank.

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### Acquisition of subsidiaries *(continued)*

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

### Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. The accounting policies for subsidiaries are consistent with the policies adopted by the Bank.

A listing of the Bank's subsidiaries is set out in note 30 to the financial statements.

### (ii) Associates

Associates are all entities over which the Bank has significant influence but does not control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for through the equity method of accounting and are initially recognised at cost. The Bank's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Bank's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Details of the Bank's associate company are set out in note 32 to the financial statements.

## (b) Foreign currency

### Functional currency and presentation currency

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

### Transactions and balances

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

## (c) Interest income and expense

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

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

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (d) Trading income

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

### (e) Fees and commission

#### Fees and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan origination fees are recognised over the period of the loan (together with related direct costs). Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time-proportionate basis.

#### Other fees and commission expense

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

### (f) Borrowing costs

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

### (g) Income tax expense

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

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

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Withholding Tax (WHT) arising on the declaration of dividends to shareholders, are set-off against current income tax in the income statement to the extent of available Additional Company Tax (ACT) and any WHT is recognised as a liability in the period during which the related dividends are accounted for.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for current tax purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

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

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

### (h) Financial assets and liabilities

#### Financial assets

The Bank classifies its financial assets in the following categories: financial assets designated at fair value through profit or loss, loans and advances and available for sale financial assets. Management determines the classification of financial assets at initial recognition.

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### *Financial instruments at fair valued through profit or loss*

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or;
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial instruments may be designated at fair valued through profit or loss (designated under the fair value option) on inception. Financial instruments cannot be reclassified to or from this category after initial recognition. Financial instruments designated at fair value are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

Regular way purchases and sales of financial instruments held for trading under fair value option are recognised on trade date, being the date on which the Bank irrevocably commits to purchase or sell the asset.

### *Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

Loans and advances extended to members of staff at rates below the ruling market rates are originally recorded at amortised cost, determined based on the effective interest yield method. Under this method, the fair value of the capital value granted is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate.

The difference between the capital amount advanced and amortised cost is recognised as an expense when the loan is granted and unwinds to income over the period of the loan based on the effective interest rate yield curve.

Regular way purchases and sales of loans and advances are recognised on contractual settlement.

### *Available-for-Sale Investments*

Available for sale investments are non-derivative financial investments that are designated as available for sale and are not categorised as held at fair value through profit or loss or loans and advances. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method, impairment losses and translation differences on monetary items are recognised in the income statement. The investments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

Regular way purchases and sales of available-for-sale financial instruments are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

### *Financial Liabilities*

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

### *Determining fair value*

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset, the Bank uses appropriate valuation techniques to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

IAS 39 sets down a two-tier fair value hierarchy. This hierarchy requires that financial instruments are fair valued in accordance with the following:

## Accounting Policies *(continued)*

for the year ended 31 December 2008

- (i) where an active market exists for the instrument, fair value is based on quoted prices; and
- (ii) where there is no active market for the instrument, fair value is estimated using valuation techniques, including the use of recent market transactions.

### Offsetting

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

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

### (i) Impairment of financial instruments

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

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

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

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (i) Impairment of financial instruments *(continued)*

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

When a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

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

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

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

#### Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative, unless there is the legal ability and intention to settle net.

The fair value of derivatives is determined by calculating the expected cash flows under the terms of each specific contract, discounted back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models.

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

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

#### Fair value hedge accounting

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

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

#### Cashflow hedges

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

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

### Derivatives that do not qualify for hedge accounting

Derivative contracts entered into as economic hedges that do not qualify for hedge accounting are held at fair value through profit or loss.

### (k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand, balances with Bank of Botswana, balances with other banks net of deposits from other banks and Bank of Botswana Certificates with a maturity of less than 90 days. Cash and cash equivalents excludes the Statutory Reserve held with the Bank of Botswana.

### (l) Property, plant and equipment

Land and buildings comprise mainly branches, residential properties and offices and are shown at fair value, based on periodic (at least tri-annual) valuations by external independent valuers, less subsequent depreciation for buildings.

All other property, plant and equipment are stated in the balance sheet at historical cost less accumulated depreciation and provisions for impairment, if any.

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

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

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

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

- Leasehold property - Unexpired period of the leases
- Freehold property - 50 years
- Rented property improvements - Unexpired period of the leases
- Office equipment, computers, ATMs and point of sale devices - 3 - 7 years
- Motor vehicles - 5 years
- Furniture and fittings - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (m) Intangible assets - software

#### Computer software

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

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

### (n) Lease agreements

#### (i) Where the Bank is the Lessor

##### Finance leases

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

##### Operating leases

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

#### (ii) Where the Bank is the Lessee

##### Finance leases

The Bank classifies leases as property, plant and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a

constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the assets.

##### Operating leases

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

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

### (o) Provisions

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

No provision is recognised when the possibility of the liability crystallising is uncertain, if it depends on a future contingent event or if the obligation cannot be measured with sufficient reliability. In such cases, a contingent liability is disclosed.

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

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

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (p) Financial guarantees

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

Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees') and to other parties in connection with the performance of customers under obligations related contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

On initial recognition, financial guarantees are measured in the financial statements at fair value on the date that the guarantee was given also taking into account transaction costs that are directly attributable to the issue. Subsequently, other than where the fair value option is applied, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

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

### (q) Issued debt and equity securities

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

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

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

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

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

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

### (r) Employee benefits

#### (i) Pension obligations

The Bank operates a combined defined contribution and defined benefit pension scheme for the majority of its employees. The scheme is funded through payments to a separate trustee-administered fund, the quantum of which is determined through periodic actuarial calculations.

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

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (i) Pension obligations *(continued)*

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the member employees' expected average remaining working lives. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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

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

### (ii) Termination benefits

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

### (iii) Short-term benefits

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

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

Employees on contract receive terminal gratuities in accordance with their contracts of employment.

An accrual is made for the estimated liability towards such employees up to the balance sheet date. All other employees are members of the Bank's pension scheme and do not qualify for such terminal gratuities.

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

### (iv) Share-based payment transactions

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement.

### (s) Earnings per share

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

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

### (t) Segment reporting

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

## Accounting Policies *(continued)*

for the year ended 31 December 2008

### (u) Fiduciary activities

Through its subsidiary, Barclays Botswana Nominees (Pty) Limited, the Bank acts as a trustee as well as in various fiduciary capacities that result in holding or placing assets on behalf of customers. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Bank.

### (v) Acceptances

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

### (w) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other in making financial or operating decisions. A number of 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, as summarised in the notes to the financial statements.

### (x) New standards and interpretations not yet adopted

Consideration has been given to the implications of the following new and revised standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations which will be applied by the Bank in future financial periods:

IFRS 3 - Business Combinations and IAS 27 - Consolidated and Separate Financial Statements are revised standards issued in January 2008. The revised IFRS 3 applies prospectively to business combinations first accounted for in accounting periods beginning on or after 1st July 2009 and the amendments to IAS 27 apply retrospectively to periods beginning on or after 1st July 2009. The main changes in existing practice resulting from the revision to IFRS 3 affect acquisitions that are achieved in stages and acquisitions where less than 100% of the equity is acquired. In addition, acquisition related costs - such as fees paid to advisers - must be accounted for separately from the business combination, which means that they will be recognised as expenses unless they are directly connected with the issue of debt or equity securities. The revisions to IAS 27 specify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions.

IFRIC 13 - Customer Loyalty Programs addresses accounting by entities that grant loyalty award credits

(such as 'points' or travel miles) to customers who buy other goods or services. It requires entities to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations.

IAS - 1 Presentation of Financial Statements is a revised standard applicable to annual periods beginning on 1st January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. These do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

IAS 23 - Borrowing Costs is a revised standard applicable to annual periods beginning on 1st January 2009. The revision does not impact Barclays. The revision removes the option not to capitalise borrowing costs on qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale.

IFRS 8 - Operating Segments is applicable to annual periods beginning 1st January 2009. It replaces IAS 14 Segmental Reporting and would align operating segmental reporting with segments reported to senior management. The standard does not change the recognition, measurement or disclosure of specific transactions in the financial statements.

An amendment to IFRS 2 Share-based Payment was issued in January 2008 that clarifies that vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, which results in the acceleration of charges.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements were issued in February 2008 that require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments, which are applicable to annual periods beginning on 1st January 2009, do not impact Barclays.

Amendments to IAS 39 Financial Instruments: Recognition and measurement - exposures qualifying for hedge accounting prohibits the designation of inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one sided hedged risk when designating options as hedges. The amendments, which are applicable to annual periods beginning on 1st January 2009, do not impact Barclays.

- IFRIC 13 Customer loyalty programmes
- IFRIC 15 Agreements for the construction of real estate
- IFRIC 16 Hedges of a net investment in a foreign operation

## Use of estimates and judgements

for the year ended 31 December 2008

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

### Key sources of estimation uncertainty

#### Impairment losses on loans and advances

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

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

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

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

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

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

#### Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

#### Residual values of property, plant and equipment

Residual values are based on expected future circumstances measured at current prices. Land and buildings are shown at fair value, based on periodic (at least tri-annual) valuations by external independent valuers, less subsequent depreciation for buildings.

#### Basis for determining fair values of investments

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

#### Retirement benefit asset

The amounts recognised in the balance sheet have been determined based on a valuation performed at 31 December 2008 by independent actuaries using the projected unit credit method. The assumptions and methodology used are consistent with IAS 19. The pension costs and balance sheet items are dependent on the assumptions made for future experience. IAS 19 sets out how these assumptions should be set. The assumptions are shown in note 8 to the financial statements.

Sensitivity analysis on impairment losses on managements estimates is shown as follows:

P'000	Existing impairment allowance	Impact on changes in Emergence Period		Impact on changes in Loss Given Default		Impact on changes in PD		Impact on changes in Recovery experience	
		(+) 3 mths	(-) 3 mths	(+) 5%	(-) 5%	(+) 10%	(-) 10%	(+) 5%	(-) 5%
Identified	171,582	—	—	(4,569)	4,569	(1,265)	1,265	—	—
Unidentified	3,726	278	(278)	(137)	137	(274)	274	(56)	56
<b>Total</b>	<b>175,308</b>	<b>278</b>	<b>(278)</b>	<b>(4,706)</b>	<b>4,706</b>	<b>(1,539)</b>	<b>1,539</b>	<b>(56)</b>	<b>56</b>

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

## Segment reporting

for the year ended 31 December 2008

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Segment information is presented in respect of the Bank's business segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and tangible assets other than goodwill.

### Business segments

The Bank comprises the following main business segments:

- **Corporate Banking**  
Includes loans, deposits and other transactions and balances with corporate customers
- **Retail Banking**  
Includes loans, deposits and other transactions and balances with retail customers
- **Treasury**  
Undertakes the Bank's funding and centralised treasury risk management activities through borrowings, issues of debt securities, investing in liquid assets such as short-term placements and corporate and government debt securities.

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

Segment reporting on a geographical basis is not provided as no significant activities are performed outside of Botswana. The geographical distribution of assets and liabilities are provided in the Financial risk management section of the Financial Statements

## Segment reporting *(continued)*

for the year ended 31 December 2008

### Business segments *(in thousands of Pula)*

#### 2008

	Retail banking	Corporate banking	Treasury services	Shared services	Consolidated
<b>Interest income</b>					
Gross interest income	791,241	200,632	619,661	—	1,611,534
Inter-segment revenue	(211,627)	445,615	(233,988)	—	—
Total segment revenue	579,614	646,247	385,673	—	1,611,534
<b>Interest expense</b>					
External interest expense	(112,899)	(508,497)	(202,257)	—	(823,653)
Total interest expense	(112,899)	(508,497)	(202,257)	—	(823,653)
<b>Other income</b>					
Non interest income	132,670	71,672	125,386	37,988	367,716
Total segment income	599,385	209,422	308,802	37,988	1,155,597
<b>Impairment charges and other credit provisions</b>					
	(58,993)	(1,676)	—	—	(60,669)
<b>Total net income</b>	<b>540,392</b>	<b>207,746</b>	<b>308,802</b>	<b>37,988</b>	<b>1,094,928</b>
<b>Operating expenses</b>					
Staff costs	(90,997)	(15,735)	(3,206)	(105,068)	(215,006)
Property costs	(7,414)	(91)	—	(13,844)	(21,349)
Equipment costs	(13,062)	(463)	(1,011)	(12,722)	(27,258)
Other costs	(47,814)	(7,725)	(2,563)	(75,329)	(133,431)
Recharges	(4,738)	(5,323)	(1,740)	(108,182)	(119,983)
Depreciation	(25,280)	(6,049)	(643)	(2,637)	(34,609)
Total operating expenses	(189,305)	(35,386)	(9,163)	(317,782)	(551,636)
Profit before income tax	351,087	172,360	299,639	(279,794)	543,292
Income tax expense	(81,771)	(40,144)	(69,788)	69,949	(121,754)
Profit after tax	269,316	132,216	229,851	(209,845)	421,538
<b>Balance sheet</b>					
Loans and advances to customers	4,325,882	903,116	—	—	5,228,998
Deposits due to customers	2,315,795	9,445,685	—	—	11,761,480
Capital expenditure	—	—	—	13,781	13,781

## Segment reporting *(continued)*

for the year ended 31 December 2008

### Business segments *(in thousands of Pula)*

#### 2007

	Retail banking	Corporate banking	Treasury services	Shared services	Consolidated
<b>Interest income</b>					
External interest income	495,833	206,650	656,257	—	1,358,740
Inter-segment revenue	(80,705)	429,301	(348,596)	—	—
Total segment revenue	415,128	635,951	307,661	—	1,358,740
<b>Interest expense</b>					
External interest expense	(95,162)	(521,676)	(186,726)	—	(803,564)
Total interest expense	(95,162)	(521,676)	(186,726)	—	(803,564)
<b>Other income</b>					
Non interest income	104,338	59,403	100,236	3,724	267,701
Total segment income	424,304	173,678	221,171	3,724	822,877
<b>Impairment charges and other credit provisions</b>					
	(21,830)	(73,072)	—	—	(94,902)
Total net income	402,474	100,606	221,171	3,724	727,975
<b>Operating expenses</b>					
Staff costs	(73,667)	(13,562)	(3,356)	(54,159)	(144,744)
Property costs	(6,119)	(20)	—	(12,208)	(18,347)
Equipment costs	(9,308)	(388)	(1,130)	(9,516)	(20,342)
Other costs	(44,742)	(8,077)	(730)	(53,362)	(106,911)
Recharges	(13,680)	(19,588)	(363)	(86,491)	(120,122)
Depreciation	(15,814)	(306)	(431)	(5,786)	(22,337)
Total operating expenses	(163,330)	(41,941)	(6,010)	(221,522)	(432,803)
Profit before income tax	239,144	58,665	215,161	(217,798)	295,172
Income tax expense	(44,577)	(10,935)	(53,790)	54,450	(54,853)
Profit after tax	194,567	47,730	161,371	(163,349)	240,319
<b>Balance sheet</b>					
Loans and advances to customers	2,887,278	1,010,504	—	—	3,897,782
Deposits due to customers	1,999,268	6,746,642	—	—	8,745,910
Capital expenditure	—	—	—	61,396	61,396

## Notes to the Financial Statements

for the year ended 31 December 2008

### 1 Financial assets and liabilities

#### Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities.

P'000	Notes	Fair value through profit or loss	Loans and advances	Available- for-sale	Amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>							
Cash and cash equivalents	(a)	—	217,310	—	—	217,310	217,310
Balances with the Bank of Botswana	(c)	—	445,789	—	—	445,789	445,789
Financial assets designated at fair value	(b)	14,251	—	—	—	14,251	14,251
Derivative financial instruments	(b)	39,338	—	—	—	39,338	39,338
Loans and advances to banks	(c)	—	241,287	—	—	241,287	241,287
Loans and advances to customers	(c)	—	5,228,998	—	—	5,228,998	5,215,360
Available for sale financial instruments	(b)	—	—	4,830,465	—	4,830,465	4,830,465
Balances with related parties	(c)	—	2,511,216	—	—	2,511,216	2,511,216
		<b>53,589</b>	<b>8,644,600</b>	<b>4,830,465</b>	<b>—</b>	<b>13,528,654</b>	<b>13,515,016</b>
Deposits due to customers	(d)	—	—	—	11,761,480	11,761,480	11,761,480
Deposits from banks	(c)	—	—	—	5,440	5,440	5,440
Debt securities in issue	(e)	—	—	—	936,575	936,575	936,575
Balances with related parties	(c)	—	—	—	90,013	90,013	90,013
Derivative financial instruments	(b)	121,159	—	—	—	121,159	121,159
Current tax liabilities	(a)	—	—	—	9,124	9,124	9,124
		<b>121,159</b>	<b>—</b>	<b>—</b>	<b>12,802,632</b>	<b>12,923,791</b>	<b>12,923,791</b>
<b>31 December 2007</b>							
Cash and cash equivalents	(a)	—	184,139	—	—	184,139	184,139
Balances with the Bank of Botswana	(c)	—	368,914	—	—	368,914	368,914
Financial assets designated at fair value	(b)	—	—	—	—	—	—
Derivative financial instruments	(b)	28,440	—	—	—	28,440	28,440
Loans and advances to banks	(c)	—	24,525	—	—	24,525	24,525
Loans and advances to customers	(c)	—	3,897,782	—	—	3,897,782	3,884,144
Available for sale financial instruments	(b)	—	—	4,129,477	—	4,129,477	4,129,477
Balances with related parties	(c)	—	1,646,421	—	—	1,646,421	1,646,421
		<b>28,440</b>	<b>6,121,781</b>	<b>4,129,477</b>	<b>—</b>	<b>10,279,698</b>	<b>10,266,060</b>
Deposits from banks	(d)	—	—	—	37,396	37,396	37,396
Deposits from customers	(c)	—	—	—	8,745,910	8,745,910	8,745,910
Derivative financial instruments	(b)	59,584	—	—	—	59,584	59,584
Debt securities in issue	(e)	—	—	—	952,462	952,462	952,462
Balances with related parties	(c)	—	—	—	6,997	6,997	6,997
Current tax liabilities	(a)	—	—	—	3,049	3,049	3,049
		<b>59,584</b>	<b>—</b>	<b>—</b>	<b>9,745,814</b>	<b>9,805,398</b>	<b>9,805,398</b>

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### Notes

- (a) Fair value approximates carrying value due to the minimal credit losses and short-term nature of the financial assets and liabilities.
- (b) Financial instruments at fair value are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates.
- (c) The fair value for loans and advances, and other lending is estimated using discounted cash flows, applying either market rates where practicable or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. In certain cases the fair value approximates carrying value because the instruments are short term in nature or reprice frequently.
- (d) Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate to their carrying value. The fair value of all other deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Bank for deposits of similar remaining maturities.
- (e) Fair values of short-term debt securities in issue are approximately equal to their carrying amount. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using other valuation techniques.

### Gains and losses on financial assets *(in thousands of Pula)*

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

	Consolidated		Company	
	2008	2007	2008	2007
Financial income from Available for sale financial assets	521,923	550,186	521,923	550,186
Financial income from loans and receivables	1,089,611	808,554	1,089,611	808,554
Other financial assets at fair value through profit and loss	14,251	—	14,251	—
Net foreign exchange gains	126,025	106,510	126,025	106,510
<b>Total</b>	<b>1,751,810</b>	<b>1,465,250</b>	<b>1,751,810</b>	<b>1,465,250</b>
Financial expenses from financial liabilities at amortised cost	641,747	642,575	641,747	642,575
Other financial instruments at fair value through profit and loss	181,748	158,249	181,748	158,249
Ineffectiveness on fair value hedges	740	—	740	—
<b>Total</b>	<b>824,235</b>	<b>800,824</b>	<b>824,235</b>	<b>800,824</b>

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 2. Earnings and dividends per share

#### Basic and diluted earnings per share

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

	Consolidated		Company	
	2008	2007	2008	2007
Profit attributable to equity holders of bank (P'000)	421,538	240,319	411,630	236,501
Weighted average number of ordinary shares in issue (thousands)	852,161	852,161	852,161	852,161
Earnings per share (thebe)	49	28	48	28

There were no potentially dilutive shares at 31 December 2008.

#### Dividends per share

	Consolidated		Company	
	2008	2007	2008	2007
First interim dividend paid 9 (net 7.65) thebe per share on 852 161 250 shares	76,695	76,695	76,695	76,695
	76,695	76,695	76,695	76,695
Final dividend proposed 11.735 (net 9.975) thebe per share on 852 161 250 shares	100,000	130,000	100,000	130,000
	100,000	130,000	100,000	130,000
Total gross	176,695	206,695	176,695	206,695

During the year ended 31 December 2008, a first dividend of 9 thebe per ordinary share (2007: 9 thebe) was declared and paid. In addition, a final dividend of 11.734 thebe per ordinary share (2007: 15.256 thebe) has been proposed and will be submitted for formal approval at the annual general meeting. As such, this dividend has not been recognised in the financial statements at 31 December 2008.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 3. Net interest income *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Loans and advances to banks	23,857	13,510	23,857	13,510
Bank of Botswana certificates	520,427	548,583	520,427	548,583
Related companies	137,523	149,744	137,523	149,744
Loans and advances to customers	890,993	622,799	890,993	622,799
Leases	37,238	22,501	37,238	22,501
Short term funds and other market placements	1,496	1,603	1,496	1,603
Interest income	1,611,534	1,358,740	1,611,534	1,358,740
Deposits from banks	6,700	12,709	6,700	12,709
Deposits from customers	627,740	616,834	627,740	616,834
Debt securities in issue	7,307	13,032	7,307	13,032
Related companies	158	2,740	158	2,740
Derivative financial instruments	181,748	158,249	181,748	158,249
Interest expense	823,653	803,564	823,653	803,564
Net interest income	787,881	555,176	787,881	555,176

Included within various captions under interest income for the year ended 31 December 2008 is a total of P5.3 million (2007: P4.8 million) accrued on impaired financial assets.

### 4. Net fee and commission income *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Fee and commission income</b>				
Risk related services	38,058	22,321	38,058	22,321
Non risk related services	184,459	137,242	165,033	131,552
Barclaycard International	—	2,670	—	2,670
Total fee and commission income	222,517	162,233	203,091	156,543
Inter bank transaction fees	(10,437)	(4,766)	(10,437)	(4,766)
Fee and commission expense	(10,437)	(4,766)	(10,437)	(4,766)
Net fee and commission income	212,080	157,467	192,654	151,777

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 5. Net trading income *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Foreign exchange:</b>				
Exchange gain and loss	829	4,575	829	4,575
Treasury sales activities	37,821	31,542	37,821	31,542
Market making activities	87,415	70,393	87,415	70,393
Net trading income	126,065	106,510	126,065	106,510

### 6. Other operating income *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Rental income	1,222	1,048	1,222	1,048
Net movement from financial instruments designated at fair value	14,251	—	14,251	—
Profit on sale of shares	13,575	—	13,575	—
Profit on sale of property, plant and equipment	523	2,676	523	2,676
Other operating income	29,571	3,724	29,571	3,724

### 7. Impairment charges and other credit provisions *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Impairment charges on loans and advances				
- New and increased impairment allowances	70,376	107,100	70,376	107,100
- Releases	(5,280)	(8,495)	(5,280)	(8,495)
- Recoveries	(4,427)	(3,703)	(4,427)	(3,703)
Impairment charges and other credit provisions	60,669	94,902	60,669	94,902

An analysis of the impairment charges by class of financial instrument is included in financial risk management note (b) 'Credit Risk'.

### 8. Staff costs *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Salaries and accrued incentive payments	192,921	139,683	192,921	139,683
Retirement benefit (income)	(4,521)	(11,468)	(4,521)	(11,468)
Restructuring costs	—	733	—	733
Leave pay provision	1,885	1,500	1,885	1,500
Allowances	14,001	10,170	14,001	10,170
Staff welfare	1,261	582	1,261	582
Health insurance	9,459	6,480	9,459	6,480
Staff costs	215,006	147,680	215,006	147,680

There were no early retirement payments in 2008 (2007: P733,000). This payment relates to one staff member in 2007 who opted for the early retirement package offered by the Bank.

The average number of persons employed by the Bank during the year was 1484 (2007: 1367).

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 8. Staff costs *(in thousands of Pula)*

#### Share option schemes

Certain members of senior and middle management participate in the Barclays Bank Plc share option scheme.

The Group can grant share options to directors and to employees based on performance and more than four years' service. Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting 3 years from the grant date only if the Group achieves targets of profitability and the options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

#### Defined benefit obligations

During 2002 the Bank introduced a defined contribution option to its existing defined benefit pension scheme. All new staff automatically join the defined contribution option.

The Bank is currently enjoying a contribution holiday to both the defined contribution and defined benefit schemes. Details of the pensions plan's assets and liabilities are set out below.

The amounts recognised in the balance sheet have been determined based on a valuation performed at 31 December 2008 by independent actuaries using the projected unit credit method and are as follows:

#### The amounts recognised in the balance sheet are as follows:

*(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Present value of funded obligations				
- Defined contribution accounts	(245,936)	(264,895)	(245,936)	(264,895)
- Defined benefit accounts	(87,429)	(85,014)	(87,429)	(85,014)
	(333,365)	(349,909)	(333,365)	(349,909)
Fair value of plan assets	454,583	491,324	454,583	491,324
Present value of unfunded obligations	121,218	141,415	121,218	141,415
Unrecognised actuarial gains and losses	(35,524)	(60,242)	(35,524)	(60,242)
Recognised asset of defined benefit obligations	85,694	81,173	85,694	81,173

#### Plan assets consist of the following

*(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Equity securities	240,370	348,186	240,370	348,186
Government bonds	87,612	85,480	87,612	85,480
Property occupied by the Bank	19,665	19,780	19,665	19,780
Cash	59,969	14,781	59,969	14,781
Bank's own ordinary shares	18,126	1,714	18,126	1,714
Other	28,841	21,383	28,841	21,383
	454,583	491,324	454,583	491,324

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 8. Staff costs *(in thousands of Pula)*

#### Movement in the liability for defined benefit obligations

	Consolidated		Company	
	2008	2007	2008	2007
Liability for defined benefit obligations at 1 January	349,909	301,300	349,909	301,300
Benefits paid by the plan	(18,128)	(10,898)	(18,128)	(10,898)
Current service costs and interest (see below)	58,802	41,183	58,802	41,183
Employee contributions	16,210	3,531	16,210	3,531
Actuarial (gains)/losses during the year	(73,428)	14,793	(73,428)	14,793
Liability for defined benefit obligations at 31 December	333,365	349,909	333,365	349,909

#### Movement in plan assets

Fair value of plan assets at 1 January	491,324	419,100	491,324	419,100
Contributions paid into the plan	16,210	3,531	16,210	3,531
Benefits paid by the plan	(18,128)	(10,898)	(18,128)	(10,898)
Expected return on plan assets	62,468	52,209	62,468	52,209
Actuarial (losses)/gains during the year	(97,291)	27,382	(97,291)	27,382
Fair value of plan assets at 31 December	454,583	491,324	454,583	491,324

#### Expenses recognised in profit or loss

Current service costs	16,375	4,519	16,375	4,519
Interest on obligation	42,427	36,664	42,427	36,664
Expected return on plan assets	(62,468)	(52,209)	(62,468)	(52,209)
Amortisations	(855)	(442)	(855)	(442)
	(4,521)	(11,468)	(4,521)	(11,468)
Actual return on plan assets	(34,823)	79,591	(34,823)	79,591

#### Actuarial assumptions

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

Discount rate at 31 December	11.50%	11.50%	11.50%	11.50%
Expected return on plan assets at 1 January	12.50%	12.50%	12.50%	12.50%
Future salary increases	10.50%	10.50%	10.50%	10.50%
Future pension increases	7.00%	7.00%	7.00%	7.00%

Assumptions regarding future mortality based on published statistics and mortality tables. The average working life of an individual retiring at the age of 65 is 13.6 years for males and 17.6 years for females

The overall expected long-term rate of return on assets is 12.5 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 8. Staff costs *(in thousands of Pula)*

#### Historical information

	2008	2007	2006	2005	2004
Present value of defined benefit obligation	(333,365)	(349,909)	(301,300)	(214,566)	(193,146)
Fair value of plan assets	454,583	491,324	419,100	316,105	250,519
Surplus in the plan	121,218	141,415	117,800	101,539	57,373
Experience adjustments arising on plan liabilities	73,428	(14,793)	(64,061)	(1,854)	12,262
Experience adjustments arising on plan assets	(97,291)	27,382	73,872	42,607	(13,465)

### 9. Administrative and general expenses *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Advertising	8,278	10,041	8,278	10,041
Auditors' remuneration	3,707	1,701	3,707	1,701
Cash in transit expenses	12,463	9,321	12,463	9,321
Directors' remuneration - non executive	635	484	635	484
Donations	3,717	2,169	3,717	2,169
Equipment costs - operating lease rentals	16,926	10,410	16,926	10,410
Equipment costs - other	10,332	9,932	10,332	9,932
Legal and professional fees	12,501	13,801	12,501	13,801
Property costs - operating lease rentals	12,001	9,184	12,001	9,184
Property costs - other	7,848	11,234	7,848	11,234
Other costs - recharged by Barclays PLC & other related companies	119,983	120,123	119,983	120,123
Other costs - general	48,846	34,977	42,631	34,379
Software licensing and other information technology	1,054	4,053	1,054	4,053
Stationary and postage	11,738	9,556	11,738	9,556
Telephone	11,364	7,873	11,364	7,873
Travel and accommodation	11,368	7,927	11,368	7,927
Administrative and general expenses	292,761	262,786	286,546	262,188

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 10. Tax *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Current tax charge</b>				
Company tax at 15%	82,663	49,266	80,681	48,502
Additional company tax at 10%	55,109	32,844	53,788	32,334
Under / (over) provision prior years - income tax	(164)	—	(164)	—
<b>Total</b>	<b>137,608</b>	<b>82,110</b>	<b>134,305</b>	<b>80,836</b>
<b>Deferred tax charge</b>				
Origination and reversal of temporary differences	(331)	(6,805)	(331)	(6,805)
Withholding tax on dividends	(15,523)	(20,452)	(15,523)	(20,452)
<b>Tax charge</b>	<b>121,754</b>	<b>54,853</b>	<b>118,451</b>	<b>53,579</b>

The effective tax for the year in 2008 and 2007 is lower than the standard rate of corporation tax in Botswana of 25% (2007: 25%). The differences are set out below

	Consolidated		Company	
	2008	2007	2008	2007
Profit before income tax	543,292	295,172	530,081	290,080
Income tax using the domestic corporate tax rate	135,823	73,793	132,520	72,519
Net deductible / (non-deductible) expenses	1,618	1,512	1,618	1,512
Prior periods under / over provisions	(164)	—	(164)	—
Withholding tax on dividends	(15,523)	(20,452)	(15,523)	(20,452)
<b>Tax for the year per the income statement</b>	<b>121,754</b>	<b>54,853</b>	<b>118,451</b>	<b>53,579</b>
<b>Effective tax rate</b>	<b>22%</b>	<b>19%</b>	<b>22%</b>	<b>18%</b>

#### Additional Company Taxation (ACT)

There is approximately P54.8 million (2007: P15.2 million) of ACT available for offset against future withholding tax deductible on the payment of dividends.

Tax year	ACT	Utilised	ACT c/forward	Falls away in year
2007	3,524	(3,524)	—	2012
2008	11,776	(11,776)	—	2013
2009	55,109	(223)	54,886	2014
	70,409	(15,523)	54,886	

#### Tax on Capital Gains

There is no capital losses available for tax purposes for set-off in the next year (2007: P6.7m) against any taxable capital gains arising.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 11. Cash and cash equivalents *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Pula	209,305	176,212	191,966	167,136
Foreign currency	8,005	7,927	8,005	7,927
<b>Total</b>	<b>217,310</b>	<b>184,139</b>	<b>199,971</b>	<b>175,063</b>

### 12. Balances with the Bank of Botswana *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Statutory reserve	374,327	255,103	374,327	255,103
Current account	71,462	113,811	71,462	113,811
<b>Total</b>	<b>445,789</b>	<b>368,914</b>	<b>445,789</b>	<b>368,914</b>

The statutory reserve with the Bank of Botswana is calculated at 5% (2007: 5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing.

### 13. Financial assets designated at fair value *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Equity securities - 35,766 class 'C' Visa Inc. shares	14,251	—	14,251	—
<b>Total</b>	<b>14,251</b>	<b>—</b>	<b>14,251</b>	<b>—</b>

Equity securities are designated at fair value through profit or loss at inception as they are managed and their performance is evaluated on a fair value basis. Fair value is determined with reference to the market value of class 'A' shares as at the reporting date, which are traded in the New York Stock Exchange. The market value of class 'A' shares is the best estimate of the fair value of class 'C' shares. The fair value gains or losses arising from the valuation of equity securities are included in the income statement under other operating income.

### 14. Derivative financial instruments *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Interest rate swap	14,667	2,584	14,667	2,584
Forward foreign exchange	24,671	25,856	24,671	25,856
Derivatives assets held for risk management	39,338	28,440	39,338	28,440
Interest rate swap	15,407	2,451	15,407	2,451
Forward foreign exchange	105,752	57,133	105,752	57,133
Derivatives liabilities held for risk management	121,159	59,584	121,159	59,584
Fair value hedges of interest rate risk	(740)	133	(740)	133
Other derivatives held for risk management	(81,081)	(31,277)	(81,081)	(31,277)
Net derivatives held for risk management	(81,821)	(31,144)	(81,821)	(31,144)
Notional contract amount	2,476,886	2,431,558	2,476,886	2,431,558

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 15. Loans and advances to banks *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Repayable:</b>				
on demand	241,287	24,525	241,287	24,525
<b>Loans and advances to banks</b>	<b>241,287</b>	<b>24,525</b>	<b>241,287</b>	<b>24,525</b>

### 16. Loans and advances to customers *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Loans and advances	5,404,306	4,019,705	5,404,306	4,019,705
Total allowance for impairment losses on loans and advances	(175,308)	(121,923)	(175,308)	(121,923)
<b>Total</b>	<b>5,228,998</b>	<b>3,897,782</b>	<b>5,228,998</b>	<b>3,897,782</b>

Gross loans with variable rates are P2,249,913 (2007: P2,035,964) and fixed rates are P3,154,393 (2007: P1,983,741)

	Consolidated		Company	
	2008	2007	2008	2007
<b>Maturity analysis</b>				
Maturing within one year	736,350	545,863	736,350	545,863
Maturing after one year within five years	3,278,817	2,568,998	3,278,817	2,568,998
Maturing after five years	1,389,139	904,844	1,389,139	904,844
<b>Total</b>	<b>5,404,306</b>	<b>4,019,705</b>	<b>5,404,306</b>	<b>4,019,705</b>
<b>Sector analysis of loans and advances</b>				
Private individuals	4,352,504	2,873,300	4,352,504	2,873,300
Mining companies	417	11,821	417	11,821
Parastatals	13,999	112,017	13,999	112,017
Business	1,037,386	1,022,567	1,037,386	1,022,567
	5,404,306	4,019,705	5,404,306	4,019,705
Impairment allowance	(175,308)	(121,923)	(175,308)	(121,923)
<b>Total</b>	<b>5,228,998</b>	<b>3,897,782</b>	<b>5,228,998</b>	<b>3,897,782</b>
<b>Category analysis of loans and advances</b>				
Overdrafts	305,066	375,934	305,066	375,934
Mortgages	433,636	350,428	433,636	350,428
Term loans	2,874,798	2,008,047	2,874,798	2,008,047
Scheme loans	1,534,391	1,084,207	1,534,391	1,534,391
Finance lease instalments	256,415	201,089	256,415	201,089
Gross loans and advances to customers	5,404,306	4,019,705	5,404,306	4,019,705
Impairment allowance	(175,308)	(121,923)	(175,308)	(121,923)
<b>Total</b>	<b>5,228,998</b>	<b>3,897,782</b>	<b>5,228,998</b>	<b>3,897,782</b>

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 16. Loans and advances to customers *(in thousands of Pula)*

Loans advances to customers include finance lease receivables

	Consolidated		Company	
	2008	2007	2008	2007
<b>Finance lease instalments</b>				
Gross investments in finance leases, receivable:				
Less than one year	9,209	10,296	9,209	10,296
Between one and five years	318,260	229,528	318,260	229,528
More than five years	4,836	11,250	4,836	11,250
	332,305	251,074	332,305	251,074
Unearned future income on finance leases	(75,890)	(49,985)	(75,890)	(49,985)
Net investment in finance leases	256,415	201,089	256,415	201,089
<b>Maturity analysis of net investment in finance leases</b>				
Less than one year	8,606	9,480	8,606	9,480
Between one and five years	243,969	183,598	243,969	183,598
More than five years	3,840	8,011	3,840	8,011
Net investment in finance leases	256,415	201,089	256,415	201,089

### Movement in Impairment Allowance

	Consolidated and Company		
	Identified Impairment	Unidentified Impairment	Total
Balance at 1 January 2007	37,132	2,529	39,661
Increased impairment	105,221	1,879	107,100
Impairment no longer required	(7,305)	(1,190)	(8,495)
Net increase in impairments	97,916	689	98,605
Amounts written off	(15,913)	(430)	(16,343)
Balance at 31 December 2007	119,135	2,788	121,923
<b>2007 Charge to the income statement</b>			
Net increase in impairments	97,916	689	98,605
Amounts recovered previously written off	(3,703)	—	(3,703)
Net charge to the income statement	7	94,213	94,902
<b>2008 Charge to the income statement</b>			
Balance at 1 January 2008	119,135	2,788	121,923
Increased impairment	74,068	2,635	76,703
Impairment no longer required	(10,159)	(1,448)	(11,607)
Net increase in impairments	63,909	1,187	65,096
Amounts written off	(11,711)	—	(11,711)
Balance at 31 December 2008	171,333	3,975	175,308
<b>2008 Charge to the income statement</b>			
Net increase in impairments	63,909	1,187	65,096
Amounts recovered previously written off	(4,427)	—	(4,427)
Net charge to the income statement	7	59,482	60,669

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 17. Available for sale financial instruments *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Debt securities	127	12,469	127	12,469
Treasury bills and other eligible bills	4,825,343	4,112,013	4,825,343	4,112,013
Equity securities	4,995	4,995	4,995	4,995
<b>Available for sale financial instruments</b>	<b>4,830,465</b>	<b>4,129,477</b>	<b>4,830,465</b>	<b>4,129,477</b>
Government bonds	—	2,546	—	2,546
Corporate bonds	—	9,796	—	9,796
Debentures - private schools	122	122	122	122
Debentures - sports clubs	5	5	5	5
<b>Debt securities</b>	<b>127</b>	<b>12,469</b>	<b>127</b>	<b>12,469</b>
Bank of Botswana certificates	4,825,343	4,112,013	4,825,343	4,112,013
Treasury bills and other eligible bills	4,825,343	4,112,013	4,825,343	4,112,013
Investment in Barclays House (Pty) Ltd	4,995	4,995	4,995	4,995
<b>Equity securities</b>	<b>4,995</b>	<b>4,995</b>	<b>4,995</b>	<b>4,995</b>
<b>Available for sale financial instruments</b>	<b>4,830,465</b>	<b>4,129,477</b>	<b>4,830,465</b>	<b>4,129,477</b>
Movement in available for sale financial instruments				
<b>At the beginning of the year</b>	<b>4,129,477</b>	<b>3,947,891</b>	<b>4,129,477</b>	<b>3,947,891</b>
Net additions	700,988	181,586	700,988	181,586
<b>At end of the year</b>	<b>4,830,465</b>	<b>4,129,477</b>	<b>4,830,465</b>	<b>4,129,477</b>

The investment in Barclays House (Pty) Ltd is stated at fair value, which approximates the cost of the investment. Barclays House (Pty) Ltd is a property holding company.

Bank of Botswana Certificates are designated as available for sale financial instruments on initial recognition.

### 18. Other assets *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Accounts receivable and prepayments	34,617	26,350	34,617	26,350
Items in the course of collection from other banks	71,679	163,616	71,679	163,616
Sundry receivables	—	2,706	—	2,706
<b>Other assets</b>	<b>106,296</b>	<b>192,672</b>	<b>106,296</b>	<b>192,672</b>

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 19. Balance with related companies *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Amounts due from:</b>				
Holding company - Barclays PLC	1,998,923	1,126,437	1,998,923	1,126,437
Barclaycard International (a division of Barclays PLC)	509,133	518,376	509,133	518,376
Other Barclays PLC group companies	—	247	—	247
ABSA	3,160	1,361	3,160	1,361
<b>Total</b>	<b>2,511,216</b>	<b>1,646,421</b>	<b>2,511,216</b>	<b>1,646,421</b>
<b>Amounts due to:</b>				
Holding company - Barclays PLC	58,215	2,030	58,215	2,030
Other Barclays PLC group companies	30,490	676	30,490	676
ABSA	1,308	4,291	1,308	4,291
<b>Total</b>	<b>90,013</b>	<b>6,997</b>	<b>90,013</b>	<b>6,997</b>

The Bank provides and utilises services of its holding company and associates, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services. These transactions are performed on an arms length terms and conditions.

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

Details	Terms
Barclaycard overdaft	13.25% on daily balance
Vostros	10.5% - 14%
Nostros	11% - 12.5%
Recharges	repayable on presentation of invoice
Other costs	repayable on presentation of invoice

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 20. Property, plant and equipment *(in thousands of Pula)*

<b>Consolidated and Company 2008</b>						
	Property at valuation	Motor vehicles at cost	Computers and equipment at cost	Furniture and fittings at cost	Work in progress	Total
<b>Cost</b>						
Balance at 1 January	132,047	2,875	109,980	28,631	—	273,533
Acquisitions	15,531	2,140	12,565	11,556	1,536	43,328
Disposals	(663)	(303)	—	—	—	(966)
Balance at 31 December	146,915	4,712	122,545	40,187	1,536	315,895
<b>Accumulated depreciation</b>						
Balance at 1 January	40,451	2,295	82,277	17,804	—	142,827
Depreciation for the period	12,160	430	16,220	5,799	—	34,609
Disposal	(229)	(303)	—	—	—	(532)
Balance at 31 December	52,382	2,422	98,497	23,603	—	176,904
<b>Net book value</b>	<b>94,533</b>	<b>2,290</b>	<b>24,048</b>	<b>16,584</b>	<b>1,536</b>	<b>138,991</b>

<b>Consolidated and Company 2007</b>						
	Property at valuation	Motor vehicles at cost	Computers and equipment at cost	Furniture and fittings at cost	Work in progress	Total
<b>Cost</b>						
Balance at 1 January	102,354	2,856	90,132	18,112	—	213,454
Acquisitions	30,484	487	19,848	10,577	—	61,396
Disposals	(791)	(468)	—	(58)	—	(1,317)
Balance at 31 December	132,047	2,875	109,980	28,631	—	273,533
<b>Accumulated depreciation</b>						
Balance at 1 January	33,390	2,649	73,922	11,256	—	121,217
Depreciation for the period	7,298	107	8,355	6,577	—	22,337
Disposal	(237)	(461)	—	(29)	—	(727)
Balance at 31 December	40,451	2,295	82,277	17,804	—	142,827
<b>Net book value</b>	<b>91,596</b>	<b>580</b>	<b>27,703</b>	<b>10,827</b>	<b>—</b>	<b>130,706</b>

Property comprise 2 residential properties and 14 commercial properties on freehold land and 48 residential and 14 commercial properties on leasehold land. The residential leases are for 99 years and commercial leases are 50 years. All properties are used by the bank in its operations

The Bank's properties were valued at open market value by independent property valuers during 2007. However, there were no material variations in the carrying values of the properties and therefore no adjustments were made to the revaluation reserve.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 20. Property, plant and equipment *(continued)*

*(in thousands of Pula)*

If the revalued properties had been held at cost, the carrying value would have been as follows

	Consolidated		Company	
	2008	2007	2008	2007
Properties at cost	125,031	114,803	125,031	114,803
Accumulated depreciation	(46,040)	(35,169)	(46,040)	(35,169)
Net book value	78,991	79,634	78,991	79,634

#### Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
	2008	2007	2008	2007
Less than one year	10,001	11,446	10,001	11,446
Between one and five years	11,532	13,037	11,532	13,037
Total future cash flows	21,533	24,483	21,533	24,483
Straight lining already accrued in the balance sheet	(1,574)	(1,574)	(1,574)	(1,574)
Future expenses	19,959	22,909	19,959	22,909

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

### 21. Intangibles - software *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
<b>Cost</b>				
At 1st January 2007	19,564	—	19,564	—
Additions	—	19,564	—	19,564
At 31 December 2007	19,564	19,564	19,564	19,564
<b>Accumulated amortisation</b>				
At 1st January 2008	—	—	—	—
Amortisation charge	(9,260)	—	(9,260)	—
At 31st December 2008	(9,260)	—	(9,260)	—
Net book value	10,304	19,564	10,304	19,564

Intangible assets comprise internally generated and other software

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 22. Deposits from banks *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Unsecured and payable on demand	5,440	37,396	5,440	37,396
	5,440	37,396	5,440	37,396

### 23. Deposits due to customers *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Interest bearing deposits	10,779,816	7,889,661	10,779,816	7,889,661
Non-interest bearing deposits	981,664	856,249	981,664	856,249
<b>Total</b>	<b>11,761,480</b>	<b>8,745,910</b>	<b>11,761,480</b>	<b>8,745,910</b>
Maturity analysis				
On demand	7,501,407	5,649,527	7,501,407	5,649,527
Maturing within one year	4,245,578	3,085,374	4,245,578	3,085,374
Maturing after one year but within five years	14,462	11,009	14,462	11,009
Maturing after five years	33	—	33	—
<b>Total</b>	<b>11,761,480</b>	<b>8,745,910</b>	<b>11,761,480</b>	<b>8,745,910</b>
Category analysis of deposits				
- Pula	1,069,490	981,263	1,069,490	981,263
- Foreign currency	410,762	190,933	410,762	190,933
Current accounts	1,480,252	1,172,196	1,480,252	1,172,196
- Pula	5,112,201	2,449,135	5,112,201	2,449,135
- Foreign currency	830,853	2,252,802	830,853	2,252,802
Savings accounts	5,943,054	4,701,937	5,943,054	4,701,937
- Pula	413,340	1,556,048	413,340	1,556,048
- Foreign currency	3,924,834	1,315,729	3,924,834	1,315,729
Term deposits	4,338,174	2,871,777	4,338,174	2,871,777
<b>Total</b>	<b>11,761,480</b>	<b>8,745,910</b>	<b>11,761,480</b>	<b>8,745,910</b>
Sector analysis of deposits				
Private individuals	3,932,431	2,665,371	3,932,431	2,665,371
Other financial institutions	52,896	79,778	52,896	79,778
Parastatals	48,228	45,522	48,228	45,522
Business	7,451,375	5,770,738	7,451,375	5,770,738
Local Government	240,084	172,992	240,084	172,992
Central Government	36,466	11,509	36,466	11,509
<b>Total</b>	<b>11,761,480</b>	<b>8,745,910</b>	<b>11,761,480</b>	<b>8,745,910</b>

Deposits with variable rates are P1,309,712 (2007: P3,097,426) and fixed rates are P9,470,104 (2007: P4,792,235)

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 24. Debt securities in issue *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Debt securities issued at amortised cost				
Floating rate debt securities	102,263	102,070	102,263	102,070
Medium-term notes	834,312	850,392	834,312	850,392
<b>Total</b>	<b>936,575</b>	<b>952,462</b>	<b>936,575</b>	<b>952,462</b>

#### Floating rate notes

The Bank privately placed floating rate notes amounting to P100 million (authorised amount P150 m) in November 2002, which are redeemable on 30 October 2014 with an option for earlier redemption on 30 October 2009. These notes constitute direct, subordinated and unsecured obligations of the Bank and are unsecured claims of general creditors and depositors of the Bank. These notes carry interest at the Bank of Botswana Certificates rate plus 0.85% and interest is paid half-yearly on 30 April and 31 October.

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

#### Medium term notes

In 2004, the Bank established and listed a domestic Medium Term Note Programme on the Botswana Stock Exchange. Under the programme, the issuer, Barclays Bank of Botswana Ltd, may from time to time issue up to BWP1,5 billion of notes for such periods and on such terms as may be agreed between the issuer and investors. To date, the Bank has issued BWP913 361 000 of Senior Debt Notes of various maturities and interest rates to match the tenor of its long term asset book. Senior debt does not form part of the Bank's capital base and ranks the same as other deposits and unsubordinated debt.

#### In issue

Issuance date	Amount	Interest Rate %	Redemption date
26 May 2004	63,750	10.50	26 May 2009
13 October 2004	50,010	11.10	13 October 2009
10 August 2005	100,000	11.00	10 August 2010
25 January 2006	106,240	Bank rate less 3.5%	25 January 2011
08 June 2006	35,000	10.75%	21 February 2011
09 June 2006	40,000	10.75%	06 March 2011
09 June 2006	21,361	10.25%	17 February 2011
09 June 2006	15,000	10.25%	22 February 2016
09 June 2006	85,000	10.75%	05 April 2016
12 December 2007	207,000	11.25%	12 December 2014
09 May 2008	90,000	11.00%	09 May 2015
	<b>813,361</b>		

#### Redeemed during year

Issuance date	Amount	Interest Rate %	Redemption date
28 September 2004	100,000	11.25%	28 September 2008
<b>Total issued to date</b>	<b>913,361</b>		

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 25. Other liabilities *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Creditors and accruals	19,771	104,344	19,771	104,344
Items in the course of collection by other banks	144,344	228,044	144,344	228,044
	164,115	332,388	164,115	332,388

### 26. Provisions *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Balance at 1 January	5,246	3,746	5,246	3,746
Net movement during the year	1,885	1,500	1,885	1,500
Balance at 31 December	7,131	5,246	7,131	5,246

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

### 27. Deferred tax assets and liabilities *(in thousands of Pula)*

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated and Company					
			2008			2007
	Assets	Liabilities	Net	Assets	Liabilities	Net
Accelerated tax depreciation - fixed assets	(1,866)	—	(1,866)	(5,166)	—	(5,166)
Accelerated tax depreciation - leased assets	—	3,640	3,640	—	9,994	9,994
Revaluation of properties	—	—	—	—	3,332	3,332
Retirement benefit asset	—	21,423	21,423	—	20,296	20,296
Loan impairments	(8,652)	—	(8,652)	(13,527)	—	(13,527)
Other	(2,326)	—	(2,326)	(2,380)	—	(2,380)
Net tax assets/(liabilities)	(12,844)	25,063	12,219	(21,072)	33,622	12,550

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 27. Deferred tax assets and liabilities *(in thousands of Pula)*

Movements in temporary differences during the year

	<b>Consolidated and Company</b>			
	Opening balance	Recognised in income statement	Recognised in equity	Closing balance
<b>2008</b>				
Accelerated tax depreciation - fixed assets	(5,166)	3,300	—	(1,866)
Accelerated tax depreciation - leased assets	9,994	(6,354)	—	3,640
Revaluation of properties	3,332	(3,332)	—	—
Retirement benefit asset	20,296	1,127	—	21,423
Loan impairments	(13,526)	4,874	—	(8,652)
Other	(2,380)	54	—	(2,326)
Net tax assets/(liabilities)	12,550	(331)	—	12,219
<b>2007</b>				
Accelerated tax depreciation - fixed assets	(4,922)	(244)	—	(5,166)
Accelerated tax depreciation - leased assets	7,591	2,403	—	9,994
Revaluation of properties	5,254	(1,922)	—	3,332
Retirement benefit asset	16,307	3,989	—	20,296
Loan impairments	(4,875)	(8,651)	—	(13,526)
Other	—	(2,380)	—	(2,380)
Net tax assets/(liabilities)	19,355	(6,805)	—	12,550

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 28. Capital and reserves *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Stated capital				
Ordinary shares				
Issued and fully paid				
852,161,250 shares	17,108	17,108	17,108	17,108

All issued shares are fully paid.

#### Reserves

##### Share capital reserve

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

##### General risk reserve

A general risk reserve has been created in accordance with the requirements of the Bank's regulator, the Bank of Botswana. This reserve represents 1% of the Bank's loans and advances net of impairment provision as measured in accordance with IAS 39.

##### Investment revaluation reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

##### Revaluation reserve

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

##### Undistributed profits

Undistributed profits are retained in the revenue reserve.

All reserves are shown net of deferred tax where applicable.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 29. Contingent liabilities and commitments *(in thousands of Pula)*

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

	Consolidated		Company	
	2008	2007	2008	2007
Undrawn commitments to customers	465,945	837,352	465,945	837,352
Letters of credit	238,725	146,912	238,725	146,912
Performance and bid bonds	497,996	259,548	497,996	259,548
<b>Total</b>	<b>1,202,666</b>	<b>1,243,812</b>	<b>1,202,666</b>	<b>1,243,812</b>

#### Undrawn commitments to customers

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

#### Performance and bid bonds

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

#### Letters of credit

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

#### Capital commitments

At 31 December 2008 the commitments for capital expenditure under contract amounted to P4.9 million (2007: P18.98 million).

#### Operating lease commitments

Please refer to note 20 for details of operating lease commitments arising out of non-cancellable lease arrangements.

### 30. Bank entities

#### Significant subsidiaries

	Nature of Business	Country of incorporation	Ownership interest	
			2008	2007
Barclays Botswana Nominees (Pty) Limited	Custodial services	Botswana	100%	100%
Barclays Insurance Services (Pty) Limited	Insurance agency	Botswana	100%	100%

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 31. Related party transactions *(in thousands of Pula)*

The Bank is controlled by Barclays PLC. (incorporated in the United Kingdom) which owns 74.86% of the ordinary shares. The remaining 25.14% of the shares are widely held. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The related party transactions, outstanding balances at the year end (refer note 19), and relating expense and income for the year are as follows:

For the year end and as at 31st December 2008 *(in thousands of Pula)*

	Consolidated and Company				
	Associate	Barclays PLC	Barclaycard	ABSA	Total
Interest received	—	56,611	71,664	9,248	137,523
Interest paid	—	—	—	—	—
Interest received - forwards & swaps	—	—	—	—	—
Interest paid - forwards & swaps	—	158	—	—	158
Fees and commissions received	—	—	—	—	—
Fees and commissions paid	—	—	—	—	—
Recharge expense	—	119,991	(8)	—	119,983

For the year end and as at 31st December 2007 *(in thousands of Pula)*

	Consolidated and Company				
	Associate	Barclays PLC	Barclaycard	ABSA	Total
Interest received	—	87,960	57,180	4,604	149,744
Interest paid	—	1,595	—	—	1,595
Interest paid - forwards	—	1,145	—	—	1,145
Fees and commissions received	—	—	2,670	—	2,670
Fees and commissions paid	—	—	—	—	—
Recharge expense	5,528	112,475	2,120	—	120,123

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

Payments to Barclays PLC include payments for live system support, change management and other functional support. Payments to the associate company comprises payments made to Brains Computer Processing (Pvt) Ltd for processing day-to-day banking transactions.

All the above transactions are carried out under normal commercial terms and conditions.

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

Please refer to note 19 for details of amounts due to / due from the above related parties.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 31. Related party transactions *(in thousands of Pula)*

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

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

There were no material related party transactions with companies where a Director or other member of Key Management Personnel (or any connected person) is also a Director or other member Key Management Personnel (or any connected person) of Barclays.

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

	Non-Executive Directors P'000	Executive Directors P'000	Key Management Personnel P'000
<b>2008</b>			
<i>Lending - balance at 31 December 2008</i>			
Property loans	756	2,219	2,985
Overdrafts	22	121	123
Other loans	138	103	972
<i>Lending policy</i>	<i>Commercial rates</i>	<i>Staff rates</i>	<i>Staff rates</i>
A total of P724 031 was received as interest income on loans to directors and key management.			
Deposits - balance at 31 December 2008	689	829	3
A total of P38 113 was paid as interest on deposit held by directors and key management during the year.			
Remuneration - year ended 31 December 2008	658	2,683	6,462
<b>2007</b>			
<i>Lending - balance at 31 December 2007</i>			
Property loans	371	2,269	1,246
Overdrafts	5	—	—
Other loans	34	—	651
<i>Lending policy</i>	<i>Commercial rates</i>	<i>Staff rates</i>	<i>Staff rates</i>
Deposits - balance at 31 December 2007	445	809	75
Remuneration - year ended 31 December 2007	177	1,405	3,577

No provision for impairment has been recognised in respect of loans to Directors or other members of Key Management Personnel (2007: Nil).

All loans are provided on normal commercial terms to Directors with exception of P6,522,421 of loans which are provided to Executive Directors and members of Key Management Personnel on staff preferential interest rates (between 3% and 11.5%). The mortgage loans issued to Executive Directors and other Key Management Personnel of P5,203,942 are repayable over 17 years. Property loans are collateralised by properties with a total fair value of P3,772,000.

## Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

### 32. Investment in associate *(in thousands of Pula)*

The key balance sheet and income statement information of Brains Computer Processing (Pty) Ltd which is unlisted, are as follows:

	Assets P'000	Liabilities P'000	Revenues P'000	Profit/(loss) P'000	% interest held
Year ended 31 December 2008	—	—	—	—	—
Year ended 31 December 2007	808	921	238	(922)	33.3

The Bank disposed its shareholding in Brains Computer Processing (Pty) Ltd during the year.

### 33. Post balance sheet events *(in thousands of Pula)*

Until 31 December 2008, all Barclaycard credit card business activities in Botswana were undertaken by Barclays Bank PLC, with the Bank lending operational and transactional support only. With effect from 1 January 2009, the Bank acquired this entire business from Barclays Bank PLC. As a result of this transaction, the Bank has assumed all ownership risks and rewards with respect to the Barclaycard International credit card loan and advance portfolio in Botswana.

The details of the acquisition of the business are as follows:

	P'm
Cash	122
<b>Total purchase consideration</b>	<b>122</b>
Loans and advances to customers (at amortised cost)	463
Amounts due to Barclays Bank of Botswana	(463)
<b>Fair value of net assets acquired</b>	<b>—</b>
<b>Excess of consideration over assets acquired</b>	<b>122</b>

The cash component of the purchase consideration was settled through proceeds from a medium term note issuance of P122m.

In accordance with applicable International Financial Reporting Standards, this transaction will be accounted for as a “common control” business combination. Accordingly, through application of the predecessor values method of accounting, all assets acquired will be measured at the values at which these were recorded in the accounting records of Barclays PLC and the excess of the purchase consideration over the value of assets acquired will be accounted for as a reduction of the Bank's equity.

There have been no other material changes in the affairs or financial position of the Bank between the year end and the date of the approval of these financial statements.

### 34. Shares held for investors *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Shares held for institutional investors by the Custodial Services Department, Barclays Botswana Nominees (Pty) Ltd (at fair value)	9,182,477	5,608,931	9,182,477	5,608,931
	9,182,477	5,608,931	9,182,477	5,608,931

### 35. Certificates held for customers *(in thousands of Pula)*

	Consolidated		Company	
	2008	2007	2008	2007
Government Bonds held on behalf of customers	731,065	573,520	731,065	573,520

### 36. Ultimate holding company

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

1 Churchill Place, London E14 5 HP, United Kingdom

## Financial Risk Management

for the year ended 31 December 2008

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### (a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- interest rate risk
- foreign currency risk
- operational risk.”

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

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

The Bank Audit Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### (b) Credit risk

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

Credit risk is the Bank’s largest risk and considerable resources, expertise and controls are devoted to managing it.

#### Management of credit risk

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

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### i) Financial assets subject to credit risk

For the purposes of the Bank's disclosures regarding credit quality, its financial assets have been analysed as follows:

	2008						
	Cash and balances with central bank	Loans and advances to customers	Loans and advances to banks	Available for sale assets	Derivatives	Other assets	Total
<b>As at 31st December</b>							
Neither past due nor impaired	445,789	5,150,174	241,287	4,830,465	39,338	2,631,763	13,338,816
Past due but not impaired	—	54,845	—	—	—	—	54,845
Impaired	—	199,287	—	—	—	—	199,287
<b>Total</b>	<b>445,789</b>	<b>5,404,306</b>	<b>241,287</b>	<b>4,830,465</b>	<b>39,338</b>	<b>2,631,763</b>	<b>13,592,948</b>
Impairment allowance	—	(175,308)	—	—	—	—	(175,308)
<b>Total carrying value</b>	<b>445,789</b>	<b>5,228,998</b>	<b>241,287</b>	<b>4,830,465</b>	<b>39,338</b>	<b>2,631,763</b>	<b>13,417,640</b>

	2007						
	Cash and balances with central bank	Loans and advances to customers	Loans and advances to banks	Available for sale assets	Derivatives	Other assets	Total
<b>As at 31st December</b>							
Neither past due nor impaired	368,914	3,859,890	24,525	4,129,477	28,440	1,839,093	10,250,339
Past due but not impaired	—	15,799	—	—	—	—	15,799
Impaired	—	144,016	—	—	—	—	144,016
<b>Total</b>	<b>368,914</b>	<b>4,019,705</b>	<b>24,525</b>	<b>4,129,477</b>	<b>28,440</b>	<b>1,839,093</b>	<b>10,410,154</b>
Impairment allowance	—	(121,923)	—	—	—	—	(121,923)
<b>Total carrying value</b>	<b>368,914</b>	<b>3,897,782</b>	<b>24,525</b>	<b>4,129,477</b>	<b>28,440</b>	<b>1,839,093</b>	<b>10,288,231</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

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

The following table presents the maximum exposure at 31 December 2008 and 2007 to credit risk of balance sheet and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements after allowance for impairment and netting where appropriate.

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

	2008	2007
<b>On balance sheet:</b>		
Cash and balances with central banks	445,789	368,914
Derivative financial assets	39,338	28,440
Loans and advances to banks	241,287	24,525
Loans and advances to customers:		
Overdrafts	235,408	315,465
Mortgages	427,672	157,366
Term loans	2,793,575	2,150,892
Scheme loans	1,524,425	1,082,842
Lease instalments	247,918	191,217
Total loans and advances to customers	5,228,998	3,897,782
Available for sale:		
– Treasury and other eligible bills	4,825,343	4,112,013
– Equity securities	4,995	4,995
– Debt securities	127	12,469
Total available for sale	4,830,465	4,129,477
Other assets	2,631,763	1,839,093
<b>Total on balance sheet</b>	<b>13,417,640</b>	<b>10,288,231</b>
<b>Off balance sheet:</b>		
Guarantees and letters of credit pledged as collateral security	736,721	406,460
Commitments	465,945	837,352
<b>Total off balance sheet</b>	<b>1,202,666</b>	<b>1,243,812</b>
<b>Total maximum exposure at 31st December</b>	<b>14,620,306</b>	<b>11,532,043</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

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

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

	2008			Total
	Investment grade	Non-investment grade	Special mention/ sub-standard	
Cash and balances at central banks	445,789	—	—	445,789
Loans and advances to banks	241,287	—	—	241,287
Loans and advances to customers:				
Overdrafts	41,613	171,181	16,837	229,631
Mortgages	81,034	230,414	9,177	320,625
Term loans	1,096,642	1,536,556	188,553	2,821,751
Scheme loans	1,529,971	1,656	8,235	1,539,862
Lease instalments	188,373	48,736	1,196	238,305
Total loans and advances to customers	2,937,633	1,988,543	223,998	5,150,174
Derivative financial instruments	39,338	—	—	39,338
Financial assets designated at fair value	14,251	—	—	14,251
Available for sale:				
Treasury bills and other eligible bills	4,825,343	—	—	4,825,343
Equity securities	4,995	—	—	4,995
Debt securities	127	—	—	127
Total available for sale	4,830,465	—	—	4,830,465
Other assets	2,617,512	—	—	2,617,512
Total financial assets subject to credit risk neither past due nor impaired	11,126,275	1,988,543	223,998	13,338,816

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

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

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

	2007			Total
	Investment grade	Non-investment grade	Special mention/ sub-standard	
Cash and balances at central banks	368,914	—	—	368,914
Loans and advances to banks	24,525	—	—	24,525
Loans and advances to customers:				
Overdrafts	274,187	8,749	586	283,522
Mortgages	86,234	57,097	3,826	147,157
Term loans	1,455,036	571,554	38,300	2,064,890
Scheme loans	697,388	461,752	30,942	1,190,082
Lease instalments	210,921	1,134	76	212,131
Total loans and advances to customers	2,723,766	1,100,286	73,730	3,897,782
Derivative financial instruments	28,440	—	—	28,440
Total financial assets designated at fair value	—	—	—	—
Available for sale:				
Debt securities	12,469	—	—	12,469
Equity securities	4,995	—	—	4,995
Treasury bills and other eligible bills	4,112,013	—	—	4,112,013
Total available for sale	4,129,477	—	—	4,129,477
Other assets	1,839,093	—	—	1,839,093
Total financial assets subject to credit risk neither past due nor impaired	9,114,215	1,100,286	73,730	10,288,231

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### v) Financial assets renegotiated

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

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

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. At 31st December 2008, the carrying amount of such assets was as follows

	2008 Carrying Amount	2007 Carrying Amount
Loans and advances to banks	—	—
Loans and advances to customers:		
Overdrafts	1,593	—
Mortgages	—	—
Term loans	—	1,537
Scheme loans	—	—
Lease instalments	—	—
<b>Total loans and advances to customers</b>	<b>1,593</b>	<b>1,537</b>
Financial assets designated at fair value:		
Loans and advances	—	—
<b>Total financial assets designated at fair value</b>	<b>—</b>	<b>—</b>
Other assets	—	—
<b>As at 31st December</b>	<b>1,593</b>	<b>1,537</b>

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

	2008				Total
	Past due 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3 months and over	
Loans and advances to banks	—	—	—	—	—
Loans and advances to customers:					
Overdrafts	2,009	—	—	—	2,009
Mortgages	226	236	253	—	715
Term loans	9,828	3,574	1,529	—	14,931
Scheme loans	982	908	508	—	2,398
Lease instalments	34,792	—	—	—	34,792
<b>Total loans and advances to customers</b>	<b>47,837</b>	<b>4,718</b>	<b>2,290</b>	<b>—</b>	<b>54,845</b>
Financial assets designated at fair value:					
Loans and advances	—	—	—	—	—
<b>Total financial assets designated at fair value</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Other assets	—	—	—	—	—
<b>As at 31st December</b>	<b>47,837</b>	<b>4,718</b>	<b>2,290</b>	<b>—</b>	<b>54,845</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### vi) Financial assets that are past due but not individually impaired *(continued)*

An age analysis of assets that are past due but not individually impaired are as follows:-

	<b>2007</b>				
	Past due 1 month	Past due 1-2 months	Past due 2-3 months	Past due 3 months and over	Total
Loans and advances to banks	—	—	—	—	—
Loans and advances to customers:					
Overdrafts	—	—	—	—	—
Mortgages	6,975	272	—	—	7,247
Term loans	7,465	516	405	—	8,386
Scheme loans	161	5	—	—	166
Lease instalments	—	—	—	—	—
<b>Total loans and advances to customers</b>	<b>14,601</b>	<b>793</b>	<b>405</b>	<b>—</b>	<b>15,799</b>
Financial assets designated at fair value:					
Loans and advances	—	—	—	—	—
<b>Total financial assets designated at fair value</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Other assets	—	—	—	—	—
<b>As at 31st December</b>	<b>14,601</b>	<b>793</b>	<b>405</b>	<b>—</b>	<b>15,799</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### vii) Impaired financial assets

Financial assets individually assessed as impaired is as follows:

	2008			2007		
	Original carrying amount	Impairment allowance	Revised carrying amount	Original Carrying amount	Impairment allowance	Revised carrying amount
Cash and balances with central bank	—	—	—	—	—	—
Loans and advances to banks	—	—	—	—	—	—
Loans and advances to customers:						
Overdrafts	63,927	(62,703)	1,224	64,493	(63,771)	722
Mortgages	5,222	(1,292)	3,930	—	—	—
Term loans	6,609	(3,018)	3,591	4,557	(3,756)	801
Scheme loans	—	—	—	—	—	—
Lease instalments	18,109	(13,180)	4,929	19,617	(12,314)	7,303
<b>Total loans and advances to customers</b>	<b>93,867</b>	<b>(80,193)</b>	<b>13,674</b>	<b>88,667</b>	<b>(79,841)</b>	<b>8,826</b>
Available for sale:						
Debt securities	—	—	—	—	—	—
Treasury bills and other eligible bills	—	—	—	—	—	—
<b>Total available for sale</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Other assets	—	—	—	—	—	—
<b>Total financial assets individually assessed as impaired</b>	<b>93,867</b>	<b>(80,193)</b>	<b>13,674</b>	<b>88,667</b>	<b>(79,841)</b>	<b>8,826</b>
Financial assets collectively assessed as impaired	105,420	(95,115)	10,305	55,349	(42,082)	13,267
<b>Total impaired financial assets</b>	<b>199,287</b>	<b>(175,308)</b>	<b>23,979</b>	<b>144,016</b>	<b>(121,923)</b>	<b>22,093</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### viii) Collateral and other credit enhancements held

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

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

	2008 Fair value	2007 Fair value
<b>Nature of assets</b>		
– Residential property	4,606	4,403
– Commercial and industrial property	9,036	1,445
– Other credit enhancements	6,102	6,874
<b>Total</b>	<b>19,744</b>	<b>12,722</b>

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

#### Collateral and other credit enhancements obtained

The carrying value of assets held by the Bank as at 31st December 2008 as a result of the enforcement of collateral was as follows:

	2008 Carrying amount	2007 Carrying amount
<b>Nature of assets</b>		
– Residential property	164	3,000
– Commercial and industrial property	—	—
– Other credit enhancements	137	—
<b>Total</b>	<b>301</b>	<b>3,000</b>

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (b) Credit risk *(in thousands of Pula)*

#### ix) Impaired financial assets

Financial assets individually assessed as impaired is as follows:

	2008				
	At beginning year	Amounts written off	Recoveries	Amounts charged to profit	Balance at 31st December
Loans and advances to banks					
Loans and advances to customers:					
Overdrafts	64,493	—	(566)	—	63,927
Mortgages	—	—	—	5,222	5,222
Term loans	4,557	—	—	2,052	6,609
Scheme loans	—	—	—	—	—
Lease instalments	19,617	—	(1,508)	—	18,109
<b>Total loans and advances to customers</b>	<b>88,667</b>	<b>—</b>	<b>(2,074)</b>	<b>7,274</b>	<b>93,867</b>
<b>Total impairment allowance</b>	<b>79,841</b>	<b>—</b>	<b>—</b>	<b>352</b>	<b>80,193</b>

	2007				
	At beginning year	Amounts written off	Recoveries	Amounts charged to profit	Balance at 31st December
Loans and advances to banks					
Loans and advances to customers:					
Overdrafts	2,278	—	(1,343)	63,558	64,493
Mortgages	—	—	—	—	—
Term loans	10,798	(748)	(5,493)	—	4,557
Scheme loans	—	—	—	—	—
Lease instalments	13,386	—	(755)	6,986	19,617
<b>Total loans and advances to customers</b>	<b>26,462</b>	<b>(748)</b>	<b>(7,591)</b>	<b>70,544</b>	<b>88,667</b>
<b>Total impairment allowance</b>	<b>7,568</b>	<b>—</b>	<b>(755)</b>	<b>73,028</b>	<b>79,841</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

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### (c) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Asset and Liability Committee ("ALCO") sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The distribution of sources and maturities of deposits is managed actively by ALCO which comprises senior management, subject to overall control by and regular reporting to Barclays Group Plc Treasury.

ALCO is charged to ensure access to funds and to avoid a concentration of funding needs at any one time or from any one source.

ALCO also controls asset maturities as well as the volume and quality of holdings of liquid assets and short term funds. In evaluating the Bank's liquidity position, ALCO takes account of lending commitments not drawn, the use of overdraft facilities and the possible impact of outstanding contingent liabilities, such as letters of credit and guarantees.

The maturity profiles of the local currency and foreign currency assets and liabilities are summarised on pages 95 and 96.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Strategies are in place to issue long term fixed term liabilities as and when the balance sheet structure necessitates it.

Assets and liabilities are generated from a variety of different sources and opportunities over a period of time and therefore inherently this will create a mismatch in the balance sheet. ALCO actively and closely manages this mismatch.

#### Management of liquidity risk

The Bank'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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### Exposure to liquidity risk

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

Ratio of net liquid assets to deposits from customers:

	Consolidated		Company	
	2008	2007	2008	2007
<b>At 31 December</b>				
Foreign currency	4.84%	10.53%	4.84%	10.53%
Local currency	27.37%	18.02%	27.37%	18.02%
<b>Average for the period</b>				
Foreign currency	7.67%	5.70%	7.67%	5.70%
Local currency	19.98%	21.04%	19.98%	21.04%
<b>Maximum for the period</b>				
Foreign currency	11.57%	10.53%	11.57%	10.53%
Local currency	28.05%	24.27%	28.05%	24.27%
<b>Minimum for the period</b>				
Foreign currency	4.40%	1.93%	4.40%	1.93%
Local currency	13.52%	18.02%	13.52%	18.02%

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

	Less than 1 months	1-3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<b>At 31 December 2008</b>						
<b>Assets</b>						
Cash and cash equivalents	217,310	—	—	—	—	217,310
Balances with the Bank of Botswana	445,789	—	—	—	—	445,789
Financial assets designated at fair value	—	—	—	14,251	—	14,251
Derivative financial instruments	—	—	39,338	—	—	39,338
Loans and advances to banks	241,287	—	—	—	—	241,287
Loans and advances to customers	914,639	3,365	59,548	2,881,989	1,369,457	5,228,998
Available for sale financial instruments	127	4,825,343	—	—	4,995	4,830,465
Other asset	106,296	—	—	—	—	106,296
Balances with related companies	2,511,216	—	—	—	—	2,511,216
Property, plant and equipment	—	—	—	—	138,991	138,991
Intangible assets	—	—	—	10,304	—	10,304
Retirement benefit asset	—	—	—	—	85,694	85,694
<b>Total assets</b>	<b>4,436,664</b>	<b>4,828,708</b>	<b>98,886</b>	<b>2,906,544</b>	<b>1,599,137</b>	<b>13,869,939</b>

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### Exposure to liquidity risk *(continued)*

	Less than 1 months	1-3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits from banks	5,440	—	—	—	—	5,440
Deposits due to customers	10,362,006	1,231,267	153,712	14,462	33	11,761,480
Derivative financial instruments	—	—	121,159	—	—	121,159
Balances with related companies	90,013	—	—	—	—	90,013
Debt securities in issue	12,218	17,290	195,622	819,539	314,401	1,359,070
Other liabilities	164,115	—	—	—	—	164,115
Provisions	—	—	—	—	7,131	7,131
Current tax liabilities	—	—	9,124	—	—	9,124
Deferred tax liabilities	—	—	—	12,219	—	12,219
<b>Total liabilities</b>	<b>10,633,792</b>	<b>1,248,557</b>	<b>479,617</b>	<b>846,220</b>	<b>321,565</b>	<b>13,529,751</b>
<b>Net liquidity gap</b>	<b>(6,197,128)</b>	<b>3,580,151</b>	<b>(380,731)</b>	<b>2,060,324</b>	<b>1,277,572</b>	<b>340,188</b>

### At 31 December 2007

Total assets	4,283,482	4,291,329	445,774	1,417,327	265,901	10,703,813
Total liabilities	(9,175,668)	(2,739)	(3,057)	(861,568)	(112,550)	(10,155,582)
Net liquidity gap	(4,892,186)	4,288,590	442,717	555,759	153,351	548,231

### (d) Market risk

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

#### Management of market risks

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

#### Market risk measurement

The techniques used to measure and control market risk include:

- Daily value at risk
- Stress tests

#### Daily value at risk (Dvar)

Dvar is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day, measured to a confidence level of 98%. Dvar is calculated using the historical simulation method with a historical sample of two years.

#### Stress tests

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### Analysis of trading market risk exposures

The table below shows the Dvar statistics for 2008

12 months to 31 December 2008			
	Average P'000	High P'000	Low P'000
Interest rate risk	2,543	3,288	1,807
Foreign currency risk	924	1,529	225
	3,467	4,817	2,032

12 months to 31 December 2007			
	Average P'000	High P'000	Low P'000
Interest rate risk	2,605	3,982	1,874
Foreign currency risk	936	1,662	258
	3,541	5,644	2,132

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

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

Consolidated and Company				
	100 bp parallel increase	100 bp parallel decrease	50 bp increase after 1 year	50 bp decrease after 1 year
<b>2008</b>				
At 31 December	(3,004)	3,004	(1,502)	1,502
Average for the period	(1,497)	1,497	(749)	749
Maximum for the period	7,320	15,569	3,660	7,784
Minimum for the period	(7,784)	14,639	(3,892)	7,320
<b>2007</b>				
At 31 December	1,697	(1,697)	848	(848)
Average for the period	4,536	(4,536)	2,268	(2,268)
Maximum for the period	23,266	(23,266)	11,633	(11,633)
Minimum for the period	(1,129)	1,129	(565)	565

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (e) Interest rate risk

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

	Interest rates	Interest rates
	Low*	High*
<b>Assets:</b>		
Loans and advances to banks	11.00%	12.50%
Bank of Botswana certificates	11.34%	12.55%
Loans and advances to customers	12.00%	34.50%
Loans and advances to staff	0.00%	13.25%
Balances with related companies	0.00%	13.55%
Available for sale financial instruments	0.00%	13.75%
<b>Liabilities:</b>		
Deposits due to customers	0.00%	14.50%
Deposits from banks	10.50%	14.00%
Balances with related companies	0.00%	10.30%
Medium term notes	10.25%	11.55%
Floating rate notes	12.00%	13.21%

\* Range of interest rates for each class of Balance sheet asset / liability

### Exposure to interest rate risk – non-trading portfolios

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

P'000	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
<b>At 31 December 2008</b>							
<b>Assets</b>							
Cash and cash equivalents	—	—	—	—	—	217,310	217,310
Balances with the Bank of Botswana	—	—	—	—	—	445,789	445,789
Financial assets designated at fair value	—	—	—	—	—	14,251	14,251
Derivative financial instruments	—	—	—	—	—	39,338	39,338
Loans and advances to banks	241,287	—	—	—	—	—	241,287
Loans and advances to customers	914,639	3,365	59,548	2,881,989	1,369,457	—	5,228,998
Available for sale financial instruments	—	4,825,343	—	—	—	5,122	4,830,465
Other assets	—	—	—	—	—	106,296	106,296
Balances with related companies	2,511,216	—	—	—	—	—	2,511,216
Property, plant and equipment	—	—	—	—	—	138,991	138,991
Intangible assets	—	—	—	—	—	10,304	10,304
Retirement benefit asset	—	—	—	—	85,694	—	85,694
<b>Total assets</b>	<b>3,667,142</b>	<b>4,828,708</b>	<b>59,548</b>	<b>2,881,989</b>	<b>1,455,151</b>	<b>977,401</b>	<b>13,869,939</b>
<b>Liabilities</b>							
Deposits from banks	5,440	—	—	—	—	—	5,440
Deposits due to customers	9,380,342	1,231,267	153,712	14,462	33	981,664	11,761,480
Derivative financial instruments	—	—	—	—	—	121,159	121,159
Balances with related companies	90,013	—	—	—	—	—	90,013
Debt securities in issue	—	—	136,974	302,601	497,000	—	936,575
Other liabilities	—	—	—	—	—	164,115	164,115
Provisions	—	—	—	—	—	7,131	7,131
Current tax liabilities	—	—	—	—	—	9,124	9,124
Deferred tax liabilities	—	—	—	—	—	12,219	12,219
<b>Total liabilities</b>	<b>9,475,795</b>	<b>1,231,267</b>	<b>290,686</b>	<b>317,063</b>	<b>497,033</b>	<b>1,295,412</b>	<b>13,107,256</b>
<b>Total interest sensitivity gap</b>	<b>(5,808,653)</b>	<b>3,597,441</b>	<b>(231,138)</b>	<b>2,564,926</b>	<b>958,118</b>	<b>(318,011)</b>	<b>762,683</b>
<b>At 31 December 2007</b>							
Total local currency assets	4,173,939	2,020,851	126,330	2,467,247	904,844	1,010,602	10,703,813
Total local currency liabilities	(5,753,504)	(2,091,361)	(403,584)	(385,310)	(312,341)	(1,209,482)	(10,155,582)
Net interest sensitivity gap	(1,579,565)	(70,510)	(277,254)	2,081,937	592,503	(198,880)	548,231

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (f) Hedge accounting

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

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

During the year, P740 was recognised in the income statement as hedge ineffectiveness.

The fair value of the hedge as at 31 December 2008 is as follows;

P'000	2008	2007
Fair value of interest rate swap assets	14,667	2,584
Fair value of interest rate swap liabilities	15,407	2,451
Net Fair value of interest rate risk	(740)	133
Notional amount	52,933	12,783

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

### (g) Foreign currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. As a result of the Bank's net exposure to on-balance sheet assets and liabilities denominated in foreign currency at the year end, foreign exchange translation gains / (losses) for the period would have been P28m more had the Pula been 1% stronger / (weaker) against all foreign currencies to which the balance sheet was exposed at 31 December 2008.

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

The Bank conducts its foreign currency operations in accordance with guidelines periodically received from Bank of Botswana, its regulator. From June 2005, it had an intra day limit of US\$ 10million and with an overnight limit of US\$8million. From May 2008 to December 2008, it had an intra day limit of US\$25million and an overnight limit of US\$17 million. These limits were adhered to throughout the year.

### (h) Operational risks

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

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

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### (h) Operational risks *(continued)*

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

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

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

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

### (i) Geographical analysis of assets and liabilities

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

### (j) Capital management

#### Capital ratios

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

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

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

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

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

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

## Financial Risk Management *(continued)*

for the year ended 31 December 2008

### (j) Capital management *(continued)*

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

P'000	Consolidated		Company	
	2008	2007	2008	2007
Tier 1 capital	599,632	458,608	581,793	455,653
Tier 2 capital	250,315	145,945	250,315	145,945
Total regulatory capital	849,947	604,553	832,108	601,598
<b>Risk weighted assets</b>				
Total risk weighted assets	5,396,460	3,883,958	5,396,460	3,883,958
Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%)	11.1%	10.9%	10.8%	10.8%
Risk asset ratio (Basel Committee guide: minimum 8%)	15.8%	15.6%	15.4%	15.5%
Bank of Botswana preferred minimum risk asset ratio	15.0%	15.0%	15.0%	15.0%

## Shareholders information

for the year ended 31 December 2008

	2008		2007
Barclays Bank Plc	637,943,800	74.9%	637,943,800
Stanbic Nominees Re: BIFM BPOPF	32,175,822	3.8%	5,741,214
BBN (Pty) Ltd Re: FAM 3582376	23,372,905	2.7%	—
Stanbic Nominees Re: BIFM	22,859,534	2.7%	23,628,474
BBN (Pty) Ltd Re: IAM 030/14	20,732,975	2.4%	23,072,338
Motor Vehicle Accident Fund	18,036,440	2.1%	18,036,440
BBN (Pty) Ltd Re: SIMS 212/005	7,916,652	0.9%	6,334,326
BBN (Pty) Ltd Re: FAM 201/010	4,824,984	0.6%	1,515,500
Stanbic Nominee Re: Cf BPOPF	4,707,235	0.6%	—
BBN (Pty) Ltd Re: FAM 3184508	4,327,285	0.5%	—
Stanbic Nominees Re: Ag BPOPF	4,276,398	0.5%	—
Stanbic Nominees Re: BIFM BPOPLF	3,644,318	0.4%	28,205,686
BBN (Pty) Ltd Re: IAM 3292343	2,580,322	0.3%	—
BBN (Pty) Ltd Re: SSB 001/77	2,425,925	0.3%	2,425,925
BBN (Pty) Ltd Re: IAM 030/30	1,800,920	0.2%	1,988,020
Botswana Medical Aid Society	1,590,000	0.2%	1,590,000
BBN (Pty) Ltd Re: FAM 3582252	1,288,936	0.2%	—
Bob Staff Pension Fund	1,214,756	0.1%	—
BBN (Pty) Ltd Re: IAM 030/23	1,063,186	0.1%	1,280,774
BBN (Pty) Ltd Re: SIMS 207/002	1,000,000	0.1%	1,772,582
BBN (Pty) Ltd Re: IAM 030/20	947,793	0.1%	—
Others	53,431,064	6.3%	98,626,171
	<b>852,161,250</b>	<b>100.0%</b>	<b>852,161,250</b>

## Value Added Statement

for the year ended 31 December 2008

	<b>Consolidated</b>	
	2008	2007
<b>Value created</b>		
Income from services	1,949,679	1,622,717
Cost of services	(823,653)	(803,564)
Value created by operations	1,126,026	819,153
Non-operating income	29,571	3,724
Operating expenditure excluding staff costs and depreciation	(353,430)	(360,625)
Total value created	802,167	462,252
<b>Value distributed</b>		
Employees - salaries and benefits	215,006	109,667
Shareholders - dividends	206,692	204,519
Government - taxation	121,754	56,326
Total value distributed	543,452	370,512
<b>Value retained</b>		
Retained income	214,846	27,281
Depreciation and amortisation	43,869	22,337
Total value retained	258,715	49,618
<b>Total value distributed and retained</b>	<b>802,167</b>	<b>462,252</b>

## Notice to Shareholders

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

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Notice is hereby given that the 23rd Annual General Meeting of shareholders of Barclays Bank of Botswana Limited will be held at the Gaborone International Conference Centre on Thursday 25 June 2009 at 12:30hrs for the following purpose:

1. To receive, approve and adopt the financial statements for the year ended 31 December 2008 together with the directors' and independent auditors' reports thereon.
2. To confirm the appointment to the board during the year of Zafar Masud and Usman Ahmed who hold office only until the next Annual General Meeting following appointment in accordance with Section 20.5 of the Constitution.
3. To elect directors in the place of Rizwan Desai and Dorcas Makgato-Malesu who retire by rotation in accordance with Section 20.10 of the Constitution and, who being eligible, offer themselves for re-election.
4. To fix the remuneration of the directors for the ensuing year.
5. To approve the remuneration of the auditors for the year ended 31 December 2008.
6. To appoint auditors for the ensuing year.
7. In the event that you wish to nominate any person(s) as directors or auditors other than one of the directors retiring or incumbent auditors, you must deliver to the Company Secretary, not less than seven nor more than 14 clear days before the date of the meeting, a nomination signed by a member qualified to attend and vote at the meeting with notice by the nominated persons that they are willing to be elected as directors or auditors, as the case may be.
8. To approve, by special resolution, substantial gifts made by the Company, details of which are available at the Company's registered office for perusal.

### Proxies

A member entitled to attend and vote at above mentioned meeting is entitled to appoint a proxy to attend, speak and to vote in his/her stead. A proxy need not also be a member. A proxy form is available at the end of the Annual Report. Further proxy forms are available at the office of the Company Secretary at Barclays Bank of Botswana Limited, Head Office, Barclays House, 6th Floor, Khama Crescent, Gaborone. Completed proxy forms must be deposited there not less than 48 hours before the meeting.

### BY ORDER OF THE BOARD



Ms L Tema  
Company Secretary





**Barclays Bank of Botswana Limited**

Barclays House, Khama Crescent

P O Box 478, Gaborone, Botswana

Telephone: +267 395 2041, Facsimile: +267 391 3672

[www.barclays.com](http://www.barclays.com)

## Proxy Form

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Please complete in block letters.

I/We \_\_\_\_\_

of \_\_\_\_\_

being a member of Barclays Bank of Botswana Limited, hereby appoint

\_\_\_\_\_

or failing him/her \_\_\_\_\_

or failing him/her \_\_\_\_\_

as my/our proxy to vote for me/us on my/our behalf at the TWENTY-THIRD ANNUAL GENERAL MEETING of the company to be held at the Gaborone International Conference Centre on Thursday 25 June 2009 at 12:30pm.

As witness my hand this \_\_\_\_\_ day of \_\_\_\_\_

SIGNATURE \_\_\_\_\_

WITNESS \_\_\_\_\_

### NOTE:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.
2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/signatories.
3. This form of proxy should be signed and returned so as to reach the Registered Office of the company (6th Floor, Barclays House, Khama Crescent, P O Box 478, Gaborone) no later than 48 hours before the meeting.