



Annual Report 2005



Barclays Bank of [Botswana](#) Limited

Barclays Africa and Middle East

Botswana 



- Botswana
- Egypt
- Ghana
- Kenya
- Mauritius
- Seychelles
- South Africa
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Barclays Africa and Middle East Overview

For over 100 years Barclays Bank has been part of the African financial services landscape. This partnership with Africa has seen Barclays bringing to the African market, a heritage of innovation, world-class expertise, products and services that have helped our customers to achieve their ambitions and assisted the development of the financial services sector on the continent. We have grown local market expertise and in turn, the African market has contributed significantly to the success of Barclays globally, and continues to contribute to our ongoing provision of market-leading capabilities, products and services.

During the 2005 financial year across Africa and the Middle East business we realised strong profit growth, and with the benefits of the Absa acquisition, we have a solid platform for further growth in 2006. In 2005 Profit before tax grew to £142m (2004: £127m) and income performance was up 22% on last year at £373m (2004: £306m).

In 2005 Barclays

- continued to focus on providing exceptional customer service backed by our solid reputation as a market leader in the African financial services arenas
- invested in community programmes worldwide totalling £32 million for the year. The Miles Ahead project successfully raised £1.6 million for communities in need across Africa and the Middle East, and in addition many country specific community programmes were undertaken throughout the year. Nearly all our 7 500 staff volunteered on one or more days to do community work

- made positive strides towards the diversification of our business portfolio focusing on growth customer segments and sectors of the economies in which we operate, particularly local businesses. This was supported by our drive to deliver products and services to our customers which reflect our global reach as well as our local roots in our markets
- continued to invest in the skills of our people, which forms the platform for our commitment to customer service and delivery. In addition we launched our Employee Wellness Programme which further enhances our appeal as an employer for whom the best talent in the market will want to work.

Looking forward to 2006, Barclays Africa and Middle East is well positioned to provide a leading contribution to the development of the regional banking environment. We are committed to driving an agenda of superior customer service and product delivery across our footprint of 15 countries in Africa and the Middle East, by leveraging on our expertise in the region on behalf of our customers to help them achieve their ambitions.



Dominic Bruynseels
Chief Executive Officer
Barclays Africa and Middle East



Barclays Bank of Botswana Country Overview

Barclays Bank PLC commenced operations in Botswana 55 years ago with the opening of an agency in Lobatse in 1950. By independence in 1966, four full branches had been opened and a network of agencies serving major villages was being developed.

In 1975, the Bank was incorporated locally. Until May 1986, it operated as an autonomous, wholly-owned subsidiary of Barclays Bank PLC and was managed from its head office in Gaborone.

In 1986, ordinary shares in the Bank were issued to employees of the Bank, Botswana citizens and locally incorporated

corporate bodies. The effect of this issue was a reduction in the Barclays Bank PLC shareholding to 89.8%.

Following a further rights issue to Botswana citizens in 1987, the Barclays Bank PLC shareholding was reduced to 80.4%. A subsequent rights issue in 1991 diluted this shareholding to 74.86%.

Today, Barclays Bank of Botswana Limited operates a network of 17 branches, eight Prestige Centres, one Premier Centre, four agencies and 44 ATMs around the country.

This year Barclays Bank of Botswana was awarded the Barclays Bank PLC Group Chairman's Award for its 2004 community achievements.



Barclays staff participate in Make a Difference Day activities by volunteering their time to paint the Francistown Centre for the Deaf

The achievement of the Millennium Development Goals will make an additional 200 million people in Africa bankable. Barclays recognises that the provision of more cost effective ways of banking to the emerging banking class in Africa is critical in support of these initiatives. As a result, the Bank has identified the small-medium enterprise sector as an area that unleashes entrepreneurial spirit and a solid foundation for sustainable development both in the local community and further afield.

Directors' Profiles



Blackie Marole

Non-executive Chairman (age 51). An economist by profession with a degree from the University of Botswana and a Masters degree from Williams College in Massachusetts, USA. He is currently Managing Director of Debswana and also serves on the Boards of Botswana Diamond Valuing Company, CIC Energy and the Vision 2016 council.



Thulisizwe Johnson

Managing Director (age 43). 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, asset finance and development banking. He was Chairman of the Vision 2016 Council and of the Botswana National Sports Council (BNSC) and has served as director on a number of other entities.



Tony Allen

Chief Operating Officer (age 50). Joined Barclays Bank of Botswana in 2005 and the Board in 2006. He has been with the Barclays Group since 1973 and has worked in several of its businesses since then. He has extensive experience in the audit field, notably, serving as Head of Audit for Group Internal Audit for Barclays Africa and Middle East.



Simon Gibbons

Finance Director (age 37). Joined Barclays Bank of Botswana in 2005 and the Board in 2006. He has been with the Barclays Group since 1999 and has worked in several of its businesses since then, including a stint in the Caribbean. He is a qualified Chartered Accountant.



Dominic Bruynseels

Non-executive Director (age 46). Joined the Board in 2003. He is an associate of the Chartered Institute of Bankers (UK) and holds an MBA degree. During his 26-year career at Barclays, he has held a variety of UK Head Office, Regional and Branch roles. He is also extensively involved in development in Africa through various organisations. He is currently Chief Executive Officer of Barclays Africa and Middle East and an Executive Director of Absa Group.



Rizwan Desai

Non-executive Director (age 38). Joined the Board in 2002. He is a partner in the legal firm Collins Newman & Co and has interests in a number of property development and investment companies. Rizwan is Chairman of the Botswana Stock Exchange. He specialises in corporate and banking law. He holds LLB (Hons) and DIP.L.P qualifications from the University of Edinburgh and a LLM from Harvard Law School.



Lawrence Maika

Non-executive Director (age 55). Joined the Board in 2005. He is an 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.



Petronella Matumo

Non-executive Director (age 44). Joined the Board in 1998. She is a hotelier by profession, having studied in Ireland and Switzerland. Petronella is the Managing Director of Dithlogo Holdings (Pty) Ltd, a private equity investment company, and serves on the Boards of Debt Participation Capital Funding Limited, Motswedi Securities (Pty) Ltd, The Fishmonger, AfriSwitch (Pty) Ltd, and the National Tourism Advisory Council. She is a member of FSG (Pty) Ltd and former member and Chairman of Mascom Wireless Botswana (Pty) Ltd.



Ketane Sithole

Non-executive Director (age 54). Joined the Board in 1997. He is a Chartered Electrical Engineer and a Fellow of the IEE (U.K.) and its International Member Advisor (Botswana). He also holds an MBA (Cardiff), has a wealth of experience in the power industry spanning 28 years and was previously Chief Executive Officer of Botswana Power Corporation. He is now Country General Manager, Grunwald Construction (Pty) Ltd. He is the Honorary Vice-Chairman of the World Energy Council Executive Assembly for the African continent.



Notice to Shareholders

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

Notice is hereby given that the twentieth Annual General Meeting of shareholders of Barclays Bank of Botswana Limited will be held at the Gaborone Sun Conference room on Friday, 02 June 2006 at 5:00pm for the following purpose:

1. To receive, approve and adopt the financial statements for the year ended 31 December 2005 together with the directors' and independent auditors' reports thereon.
2. To elect directors in the place of D Bruynseels and P Matumo who retire by rotation in accordance with Section 95 of the Articles of Association and, being eligible, offer themselves for re-election.
3. To approve the remuneration of the directors for the prior year.
4. To approve the remuneration of the auditors for the year ended 31 December 2005.
5. To appoint auditors for the ensuing year.

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.

Proxies

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy to attend, speak and on a poll, 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' partnership with Africa has seen the Bank bringing to the African market a heritage of innovation, world-class expertise, products and services that have helped customers to achieve their ambitions and assist the development of the financial services sector on the continent. We are growing a generation of leaders that will drive our agenda to be the pre-eminent bank on the African continent.

Chairman's Statement



Blackie Marole

Ms Petronella Matumo, in her capacity as acting Chairman reporting in the 2004 Annual Report, stated that the Botswana economy was still reliant on the mining sector, particularly on diamonds. The mining sector has remained dominant and growth statistics corroborate this. Whilst a certain level of diversification has been achieved, much of it has been within the mineral sector. Reports are expected, during the course of 2006, to assist with the introduction of new vigorous plans by bodies such as the Business and Economic Advisory Council (BEAC). BEAC has been set up under the auspices of the Office of the State President to guide future planning for the country's economy through a comprehensive strategy for accelerated economic diversification and sustainable growth. These strategies are expected to benefit all sectors of the Botswana economy and its people.

Global economy

World economic performance has remained positive during 2005. Ongoing fuel price increases had a limited impact on the growth recorded by a number of economies world wide. Output is expected to have grown above the forecast long-term average at a rate of 4.3%, compared to the higher growth rate of 5.1% in 2004. The growth in world output for 2006 is forecast to remain at 4.3%. Generally, there have been moderate increases in interest rates due to inflationary pressures related to productivity growth.

Overall, the advanced economies had varying growth rates compared with 2004. Output growth in the USA is estimated to have decreased from 4.2% in 2004 to 3.5% in 2005 and

is expected to decrease further to 3.3% in 2006. The United Kingdom estimate is down from 3.2% in 2004 to 1.9% in 2005, with expected minor improvement in 2006 to 2.2%. The euro area is also expected to record a decrease from 2% in 2004 to 1.2% in 2005 and an increase in 2006 to 1.8% due to improvements in the manufacturing and service sectors.

The developing and emerging economies are expected to record a small improvement in output growth from 6.4% in 2004 to 6.6% in 2005. Most of this growth is from China and India. The real change in the GDP rate for Africa is expected to be a reduction from 5.3% in 2004 to 4.5% in 2005. The SADC region's GDP growth rate is expected to have improved from 4.2% in 2004 to 4.7% in 2005.

Of concern is the high average inflation rate in Africa, with the 7.8% recorded in 2004 increasing to 8.2% in 2005. Inflation in sub-Saharan Africa is higher still with the 9.3% in 2004 increasing to 9.9% in 2005. The SADC region's inflation rate decreased from 10.4% in 2004 to 10.3% in 2005. South Africa is an exception to these high inflation rates. Although its rate is lower, it nevertheless recorded an increase from 1.4% in 2004 to 3.9% in 2005.

Economic trends in Africa are generally of concern with higher than advisable inflation rates accompanied by low growth rates, making it difficult for economies to achieve meaningful growth. However, it is hoped that the G8 proposals for debt cancellation will assist the highly indebted poor countries on the continent to commence their improvement programmes, thus improving economic statistics.



Botswana economic environment

The major changes for the Botswana economy in 2005 related to the value of the Pula, the increase in sales and pricing of Botswana diamonds and the slow-down in the rest of the economy mainly caused by a general reduction in spending, especially in the public sector. The domestic economy achieved a far better result than originally reported in the 2005 budget speech. The estimated deficit of P1.43 billion reported for 2004/2005, became a forecast surplus of P574 million.

GDP growth for 2004/2005 is now stated at 8.3% compared with a forecast of between 4% and 5% in the 2005 budget speech. By December 2005, foreign exchange reserves had increased from the previous year's P24.2 billion to P34.7 billion, being the equivalent of 27 months' imports. These statistics indicate a good platform for future economic growth.

The 2005 budget speech forecast a balanced budget for 2005/2006. The 2006 budget speech amended this forecast to an estimated budget surplus of P1.58 billion. The main contributing factors are related to the Botswana economic cycle of recent years. Mineral revenues are expected to increase by P963 million to P10.89 billion, mainly reflecting further increases in diamond prices and quantities expected to be sold in the year. The 12% devaluation of the Pula and movements in the exchange rate, on the introduction of the crawling peg exchange rate mechanism, will cause much improved Pula returns for exports. The outcome of lower public expenditure than was budgeted was also a major contributing factor to the turnaround of expected economic results.

The recent slowdown in economic activity is of concern to the continuing growth needs of the country. Reduction in the reliance on the public sector by having the private sector play a larger role in economic growth will help address this concern. The changes that will effect this strategy are clearly set out in the 2006 budget speech and the diversification of the Botswana economy is again emphasised. The theme of the speech is "Building an Innovative Economy for the 21st Century". As a first step along this path, government recognises the necessity to build confidence for all in growing the economy, and recognises the need to encourage foreign direct investment as well as to continue the important programmes related to assisting and progressing citizen empowerment. Major improvement in productivity and service delivery is stressed for both public and private sectors. Specific mention was made of poor administration and delivery generally by government and parastatals, as well as by the construction industry within the private sector.

The budget forecast 2006/2007, which estimates a surplus of P922 million, indicates an increase in proposed budget expenditure to P23.22 billion. The main beneficiaries of the recurrent budget are the education and local government sectors as well as the general social services sector, totalling 54% of the overall budget. HIV/Aids continues to be a major government commitment and its financial impact is demonstrated in the allocation to the Office of the State President. Within the overall budget expenditure allocations, government has provided for an 8% across the board increase for public service employees

Barclays continues to support the communities in which it operates through meaningful partnerships with key community partners. The future delivery of the Bank's corporate responsibility will be centred around these long-term partnerships that have great potential for sustainability.



The new Carbo Premier Centre

compared with no increase in 2005. The two years combined provides an average increment increase at 50% of the inflation rate. The P5.8 billion development budget represents 25% of overall government expenditure. Total budgeted revenues and grants are estimated at P24.14 billion, with mineral revenue at 47%, customs and excise at 22%, including a final payment under the old SACU agreement, non-mineral taxes at 12% and VAT at 9%.

With regard to the 2006/2007 budget year, the Minister of Finance and Development Planning explained that two important guidelines have been adopted, which will control expenditure through the Fiscal Rule adopted as part of the mid-term review of National Development Plan 9 (NDP9). Total expenditure must not exceed 40% of GDP, and the development expenditure budget is to be based on 30% of the estimated total expenditure to be incurred throughout NDP9. The original plan was based on 25% of total expenditure. Thus, government recognises the importance of implementing more development projects to assist in the enhancement of economic growth.

Furthermore, government has made a commitment to infrastructure development by facilitating the building of more dams and power stations, creating coal mines and a possible gas extraction project. Formulation of an information and communications technology policy and a framework for an integrated transport policy are in progress. The related initiatives are eagerly anticipated. All of these critical infrastructure projects are necessary to help meet future economic intentions.

It is clear that the 2006/2007 budget is intended to provide the impetus to growth and move the economy away from the slow down that it has experienced over the last two years. Inflation

remains a concern, being the cause of high interest rates. Inflation for 2004 was 7%, which increased in 2005 to 8.3%, with recorded rates of 11.4% and 16.6% for December 2005 and January 2006, respectively. The latter high inflation rate influenced the Central Bank to increase the prime interest rate by a further 50 basis points in February 2006. As the currency devaluations of 2004 and 2005 are the main cause of our high rates of inflation, it is hoped that the current comparative stability of the rate of exchange should assist in achieving much lower rates of inflation in the latter part of 2006. This should then lead to anticipated cuts in the lending rate, thus providing a platform for economic growth.

Financial services are continuing to expand in terms of their asset base, product diversity and service offering. Total pension fund assets are expanding considerably. More organisations are registering under the International Financial Services Centre (IFSC) legislation. The Botswana Stock Exchange is responsible for more business mainly due to the introduction of both corporate and government bonds and other loan instruments. The Botswana Stock Exchange Act is to be replaced by a Securities Act in order to cater for new legislation that is required for the trading of equities and all types of bonds, modernising trading, updating administration and governance procedures to meet best practice, and to further promote capital market growth and development. With regard to other legislative changes, it is pleasing to note that legislation that will facilitate in the control and the clarification of important areas within the expanding economy is to be promulgated. Micro-lenders are, at last, to be regulated through micro-lending

regulations, the aim being to protect borrowers by limiting interest payable and prohibiting the surrender of ATM and Omang cards to lenders. This is a most welcome development as consumers must be protected from unscrupulous practices. Legislation supporting the business environment is to become active in the next few months. This legislation includes the Industrial Development Act, the long-awaited Companies Act, regulations for the Trade Act, the introduction of a Competition Act and a Foreign Direct Investment Act. The latter will assist in clarifying the foreign investment strategy.

The aforementioned initiatives are welcomed as they should enable the achievement of further beneficial growth in the financial sector.

The recent rains have been of much relief to the country as a whole. Combined with a desire to have agriculture play a more important role and with the new increased pricing of beef through BMC, there should be increased confidence in the agricultural sector. The tourism sector is also much improved due, in part, to the weakening of the exchange rate. There is private sector interest in developing three new hotels in Gaborone and management plans are being prepared for further national parks. A welcome development is the introduction of the accommodation grading and classification system. It is hoped that this will lift service standards. The mining sector will continue to dominate the economy with the continuing development of diamond, soda ash, copper, nickel, gold, coal and methane gas activities. It is now hoped that the diversification strategy will lead to growth in a wider sense making Botswana's initiatives yet another good example for our neighbours.

The Bank looks forward to renewed vigour in the business environment, which should flow through to improvements in terms of trade and profitability in all sectors of the Botswana economy.

Conclusion

I wish to thank all stakeholders for their contribution to the continuing success of our Bank during the past year. The success of our activities requires the collective support of all Board members, the management team and, of course, our dedicated staff. Mr Ananth Venkat has retired as the Bank's Financial Director after many years in this position. I thank him for his most important contribution. Mr Malcolm Hewitt also retired as a non-executive director and again I thank him for his wise counsel. I welcome Mr Lawrence Maika in his place. In closing, I particularly wish to thank Ms Petronella Matumo for fulfilling her role as Acting Chairman so capably in the early part of 2005, prior to my appointment.

Finally, and more importantly, I wish to thank our customers for their steadfast commitment to doing business with Barclays. We look forward to serving you better during 2006



Mr B Marole
Chairman

Our continued investment in the skills of our people forms the platform for our commitment to customer service and delivery. Barclays currently employs 6 500 people in sub-Saharan Africa and our colleague propositions are aligned to best practice to attract and retain a diverse and representative workforce in order to ensure that Barclays is the place where the best people want to work.

Managing Director's Report



Thulisizwe Johnson

Financial review

We are pleased to report that the underlying business for the year 2005 has made strong progress.

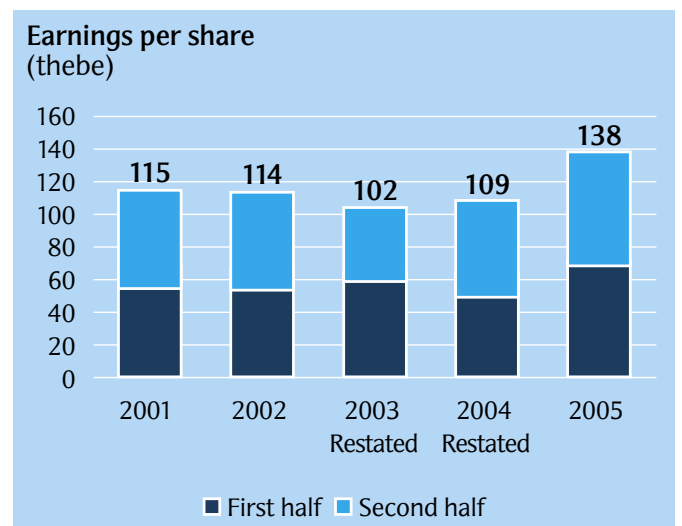
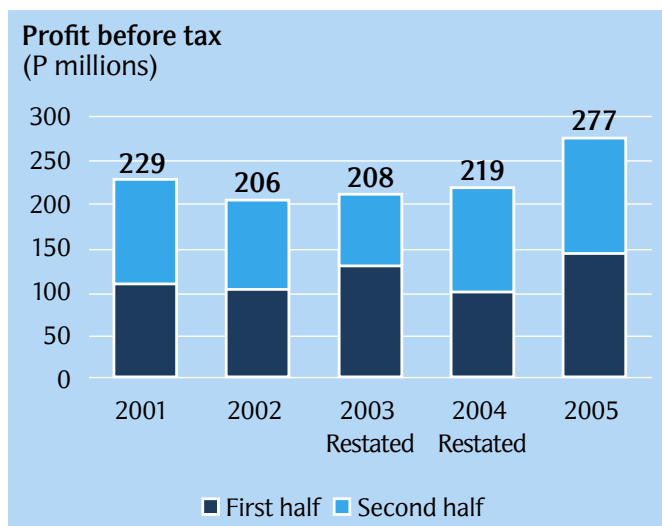
Barclays Bank of Botswana profit before tax increased by 27% to BWP 277 million (2004: P219 million). Earnings per share is up 29 thebe per share from 109t to 138t. Impairment releases have been made on the back of rigorous credit control and further refinements to our impairment modelling methodology in line with International Accounting Standard 39 (Financial Instruments Recognition and Measurement).

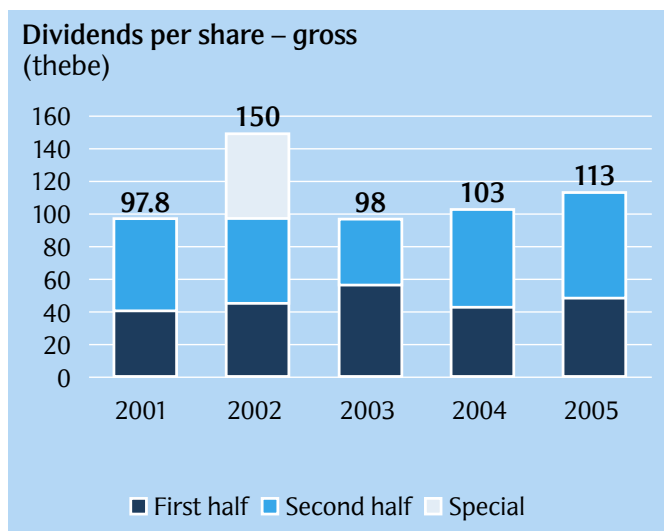
Difficult trading conditions persisted throughout the year under review. However, we have successfully managed to

diversify our earnings base to increase the proportion of interest income generated by our investment portfolio to grow net interest income by 8% year on year.

The Bank has been very active in managing the overall balance sheet through Treasury operations. This 'in turn' has given us far more flexibility to respond to market or economic opportunities that have arisen.

There has been a welcome diversification of the earnings base, taking advantage of investment opportunities in difficult lending conditions and very strong performance in non-interest income, particularly gains on foreign exchange





trading. Operating costs in an inflationary environment continue to be a challenge but are receiving the close attention of management.

The Bank experienced growth in both corporate and retail business operations, driven by a stable economic environment and a product offering for clients that meets expectations, is secure and cost efficient.

Corporate credit

Lending growth in the corporate sector was generally moderate in most sectors, however, there was some strong growth in the

property and construction sub-sectors during the year under review. The specific prudential lending guidelines developed in 2004, for those sectors in which there was a concentration risk, were adhered to in 2005.

The Bank remained selective about the nature and quantum of assets that it took on, so as to ensure that the credit quality, as measured by our internal grading model, remains acceptable. This ensured that the level of impairment of advances amongst our corporate customers remained low and compared favourably against our competitors. The credit risk attached to these assets was thus well contained.

For over 100 years Barclays Bank has been part of the African financial services landscape. We have grown local market expertise and in turn, the African market has contributed significantly to the success of Barclays globally, and continues to contribute to our ongoing provision of market leading capabilities, products and services. Barclays is committed to sustainable investment in Africa evident in Barclays Bank Botswana which has been a success story for over 40 years.

We delivered on our promise of upskilling the Bank's corporate credit and relationship teams in 2005, thereby ensuring that both teams are fully accredited for internal benchmark purposes.

Retail credit

Net growth in retail lending again remained flat during the first part of the year under review, with one of the main reasons being the lack of increase in government employees' salaries and the resulting inability of the aforementioned to afford larger borrowing facilities. Coupled with the Bank's continuation of tight credit criteria, over-commitment (borrowing from many sources) was kept under control. Moderate growth was seen in the second part of the year with the increase in the limit of certain of our products, for those customers who could afford it.

The introduction of the non-guaranteed employer lending schemes gained momentum during the year and this remains a future growth area for the Bank.

The Bank adhered to its policy of maintaining the quality of the retail credit portfolio, as opposed to growing volumes. This ensured that the level of impairments of advances amongst our retail customers was well contained. Death, unemployment and over-commitment were still the primary reasons for most delinquencies in this sector. Despite this, we managed to recover some advances provided for in prior financial years with our more efficient collections and recoveries programme, part of which was achieved by using an external strategic collections partner. Furthermore, the Bank continued to assist customers with debt counselling and support.

Corporate banking division

Corporate banking continues to focus on the large corporate to medium sized business banking market segments, offering an end-to-end solution in line with the clearly defined propositions. The Bank continued its skills and product training for both staff and customers, which added value for both parties. The coming year will see an increase in customer service training, which should ensure improved customer service. Aligned with this will be improved and new product offerings to both existing and new customers in the areas of cash management and trade finance: E-Channel and E-Trade respectively. The offerings are world class and should allow us to further satisfy client needs.

The asset finance offering is now fully embedded and we have started to reap the benefits of the strategy to service both existing and new customers.

The invaluable support of our treasury sales team has helped the Bank to gain new customers, at the same time, complementing the other products and services provided by corporate. The Bank will continue to promote its treasury services to all of its customers.

The Bank's custodial services team again received favourable international awards and media coverage on the high quality of its services and operations. It increased its customer base and the value of its custody book, and is indeed one of the gems in the Barclays crown.

The teething problems of our Customer Service Centre are a thing of the past and this additional service offered to our corporate customers has proved to be extremely popular. It certainly has helped us to provide that deserved "extra care" customer service.

The corporate division is now well positioned to provide the highest levels of customer service and we look forward to an exciting 2006.

Retail financial services

Retail banking continues to focus on the personal and small business banking market segments, with clear and defined propositions in prestige, premier and local business banking. The Bank embarked on the 5 Cs theme, which resulted in a balanced approach to the way we conducted business in 2005: company, customers, colleague, community and control. The first C, company, focused on our performance as a retail bank, as we continued to launch innovative products and enhanced our existing product range. The Bank was the first to launch a community account from which we had much success and growth, the product being welcomed by NGOs. The "Boost" campaign for local business created significant awareness of our commitment to foster and develop the small business segment. The sales campaigns scheduled for the 2005 financial year achieved our sales objectives.

The second C, customer remained our priority for the entire year, and the Bank made its service deliverables non-negotiable. We continued with our refurbishment plan from 2004 into 2005, completed the refurbishment of the Maun branch, and opened the new Carbo Centre Prestige and Premier Suites. The refurbishment programme will continue in 2006 and will include the completion of the Palapye branch, and see the start of refurbishments of the Jwaneng and Molopolole branches.

In 2005, we saw the launch of the customer service revolution, a service campaign to transform the way we serve our customers. We embarked on various initiatives, the highlights of which were the installation of the electronic customer feedback system named Bua le Rona. The Customer Contact Centre was set up to receive both service complaints and compliments. The additional functionalities of ATM hot carding and ATM monitoring have seen record ATM uptime scores of 97%. The Bank obtained an overall 94% service rating in the external service audit. During the year, ATM limits were increased to a maximum of P4 000 and customers were delighted with the introduction of foreign currency (ZAR) dispensing ATM's. The introduction of single fees for Prestige and Premier Customers was market leading and a first for the Bank. The local business seminars to educate and inspire our business customers were attended by most business club members who see this initiative as a value-adding service differentiator.

The Bank's commitment to increasing leadership capability and developing colleagues, the third C, remained high in 2005. We have seen the highest ever response and much improved employee opinion survey scores.

A highlight for our colleagues in the retail team was the visit of John Varley, Barclays Group CEO, and his engagement with

all levels of staff, during which he shared his expectations and vision for the Barclays group. The Eagle Awards ceremony, hosted quarterly, rewarded and recognised in excess of 80 retail colleagues for outstanding performance during the course of 2005. The 25% increase in cashier salaries demonstrated our commitment to aligning the Bank with market-related pay remuneration.

The fourth C relates to the control aspects of our business and is as important as the other Cs covered. Great detail and focus was placed on control during the financial year. The retail team embarked on much tighter controls to curb fraud and the implementation of crossed cheques was introduced to eradicate and reduce cheque fraud and to protect our customers. Retail operational efficiencies have improved with input and accuracy benchmarks reaching record highs of 99%, whilst compliance with regulatory requirements has been on target. The Lobatse cluster received a gold award for their support and commitment to community services, the fifth C. The Miles Ahead programme was the highlight of 2005, with each branch taking on the challenge to raise funds for the Re Ba Bona Ha initiative to uplift youth in sport. The HIV/Aids vision in support of CEYOHO launched by Retail in 2004, was seen through in 2005.



As part of the Miles Ahead initiative in Botswana, the crew enjoy some fun at the Jwaneng Diamond mine



Miles Ahead at Topisi and a warm welcome for the expedition from school children

The 5 Cs remain our focus in 2006 and the retail team remains committed to ensuring a balanced approach to our deliverables. Customer service will continue to be paramount and stronger reliance on control and a focused approach around our community initiatives will result in improved financial performance in 2006.

Treasury services

The year 2005 was a phenomenal year for the treasury services team, characterised by an exceptional increase of 62% in non-interest income compared to 2004.

In a bid to be even more customer focused, the team successfully held two customer seminars on money laundering, the Botswana economy and financial market risk management. The results were positive as evidenced by the increase in turnover and income.

Balance sheet management continued to be a prime focus and improved during 2005 as we managed to place some Medium Term Notes in the market to reduce our mismatches in line with Group guidelines on liquidity and interest rate risk. The Bank's liquidity has been managed in an efficient way in 2005, clearing the way for greater growth in customer assets for 2006.

Assurance

The primary objective of the assurance team is to provide assurance to senior management and the executive that

material concentrations of risk in the business have been identified and are clearly owned.

Assurance, as a country internal audit function, provides an independent appraisal of all the Bank's activities through an independent and objective assurance function.

It adds value by identifying areas that need to improve operational efficiency, risk management and internal control systems.

Assurance complies with the auditing standards defined in the Institute of Internal Auditors Charter and other guidance offered by relevant accounting and auditing bodies.

Operations and IT

Helping the retail and corporate teams to deliver on their promises to their customers has been a key deliverable for the operations function during 2005, while also seeking to radically improve our control framework in an environment where there are increasing demands for raising standards of compliance.

During 2005, we placed a much higher emphasis on customer satisfaction, with the development and implementation of our "5 Point Plan". With the active involvement of our customer service champions, we have sought to improve our service levels across all areas of operations. This includes areas such as statements, cheque book issuing, loans processing, account opening and the issue/re-issue of cards and PINs. We have made some good improvements in these areas, and there is further work taking place in 2006 to continue this. Customers will see real tangible benefits during 2006. In addition to



improving our customer service levels, we have also trained all team leaders and management in operations to drive the customer service revolution, and this will contribute further to what we expect to be major improvements.

In June 2005, we launched our new, state of the art voucher processing centre. This has dramatically improved our operational processes around how we do our inward and outward clearing each day and how we interact with the electronic clearing house. Furthermore, the new system will also deliver a number of additional benefits in areas such as statement processing and account opening. We expect these benefits to be passed on to our customers during 2006.

Our staff are our most valuable asset, and we continue to place their development at the heart of our business plans. During 2005, we were one of only four countries in Barclays Africa that participated in the International Job Swap programme. This saw one of our more junior members of staff move to Ghana on a three-month attachment, and one of our colleagues from Mauritius coming to Botswana for two months. The programme has been a major success, and this year ten candidates from the operations department in Botswana have been nominated for international job swaps. In addition, we have sent three members of staff to Zambia to support their Operational Rigour programme for two months. We have also sent two members of staff to South Africa to gain experience in the role of the central function.

To further support our staff development during 2005, 38% of staff in grades B1 – B3 participated in the local job rotation plan, thereby ensuring that we have adequate cover in key roles and also stimulating our staff to develop themselves. We will continue to enhance the skills of our staff during 2006, taking the opportunity to make maximum use of the world class facilities at the recently launched Barclays Learning Centre.

Our people

Our people are key to our success. In 2005, 84% of colleagues participated in the employee opinion survey compared with 74% in the previous year. This has provided the business with valuable insight on a number of issues impacting on welfare, productivity, perceptions of leadership and staff engagement, and Barclays' desire to be an employer of choice. We continue to observe improvement in the overall employee climate.

In-house training has focused on improving the technical capabilities of staff to empower them to serve our customers

more effectively. A competency-based curriculum that clearly identifies mandatory skills training for specific roles has been introduced. The Bank has continued to invest in staff development through the international job placement and the talent programme, exposing staff to Barclays operations globally.

The Bank has continued to focus on refining capabilities necessary to deliver on our business strategy and objectives. We previously focused on behavioural capabilities such as growing talent and capability, executing at speed, protecting and enhancing our reputation, delighting customers, building pride and passion, and driving performance. These have been broadened to include specific behavioural competencies such as leadership, vision, drive, resourcefulness and teambuilding, to strengthen our management capability.

Employee relations have matured and remained stable over the years. 2005 saw the signing of the collective bargaining agreement with the union. This is a positive step, and demonstrates the Bank's commitment to an inclusive culture, characterised by union engagement on employment benefits and policies.

The Bank's reward principles continue to support our performance management system to promote a performance driven culture. To this end, we have strived to reward our high performers competitively to enhance morale and retain our best people.

Our commitment to equality and diversity has seen an increase in the percentage of women in leadership, the launch of a wellness programme, and our contribution to the community, with 960 of our staff participating in Make a Difference Day activities across the business in 2005.

Employee wellness

The year 2005 marked great achievement in the employee wellness arena. In addition to the ongoing HIV/Aids assistance programme, through which the Bank provides free anti-retroviral drugs to its infected employees and their dependants, the Bank responded to the emerging challenges faced by its employees and launched a holistic employee wellness programme dubbed "Live Well Work Well".

The programme provides a wide range of services to address employee welfare issues. The programme provides employees with a 24-hour service, which includes consultations with professional service providers and appropriate action.

In recognising that employees do not live in isolation, the free services offered to the employees are extended to their dependants. The Bank has engaged the services of an external service provider to observe and assure confidentiality.

There has been an improvement in the anti-retroviral uptake and a simultaneous reduction in lost work days, ill health retirements and deaths.

Community

The Bank has a dual approach to effective community upliftment programmes: it encourages employee involvement in community projects and provides financial assistance to credible organisations rendering community services. The four employee schemes provide grants to employees to buy resources needed for community projects, allow employees time off to visit community projects and share their skills and expertise, match funds raised by employees to support community-based organisations and provide funds to meet due costs for the Make a Difference Day activities.

Barclays Bank continues to support the communities in which it operates through meaningful partnerships with key community partners who provide services that address some of the major national challenges. The focus is on health, specifically HIV/ Aids, poverty alleviation and enterprise development.

The Bank also participated in the Miles Ahead initiative. The expedition started in London and travelled across Europe and Africa to raise both the awareness of the Bank's corporate responsibility programme and raise funds to benefit various community programmes in all the countries where Barclays operates. Barclays Botswana raised funds through this initiative for a national sports development programme, Re Ba Bona Ha, which is administered by the Botswana National Sports Council (BNSC). The funds will be used to assist BNSC to construct a multi-disciplinary sports centre in Lobatse.

In 2005, we continued to observe high levels of employee participation in community work, with 960 employees participating in the famous Make a Difference Day activities, which benefit the underprivileged members of our community. In addition to the high levels of participation in Make a Difference Day, employees spent 10 460 hours doing community work.

The Bank's future delivery of its corporate responsibility will be centred around long-term partnerships that have great potential for sustainability.

Outlook

2005 was a year of intense activity, focused on delivering our promises to our customers, colleagues and community. We emphasised the achievement of market leading performance whilst being in control of our business at all times.

Barclays has a strong brand presence in our market and this, combined with the reach of our branch network and the extent of our customer base, puts us on a solid footing for future growth.

The introduction of an electronic trade and cash management product for our corporate customers, vehicle asset finance and other market leading initiatives in the retail segment enables us to offer our customers a wide variety of products to meet their ever changing and growing needs.

Barclays has a great future in Botswana. The Group's investment in Absa, the largest single investment by any investor in Africa, is a reflection of the confidence in the continent and brings with it the resources that will enable it to continue to be the pre-eminent bank in Africa.

Our focus on customer service will continue into 2006, concentrating on investing in the capabilities of our people and in developing the right attitudes.

Investing in our communities remains a top priority. In addition to the 7% pre-tax profit, skills and time are a significant investment my colleagues are proud to contribute.

The growth of our colleagues and their welfare is critical to our future. Investing in their skills and careers is as important as the financial performance we achieve through them.

I would like to thank the Board for the hard work and support in 2005 and look forward to equally high levels of commitment and energy in 2006.



Mr T Johnson
Managing Director



Directors' Report

for the year ended 31 December 2005

The directors have pleasure in submitting their report to shareholders together with the audited financial statements for the year ended 31 December 2005.

1. Share capital

Details of the Bank's share capital are given in Note 23 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 13 to the financial statements.

4. Directorate

The following served as directors of the Bank during the period to the date of this report:

B Marole (Non-executive)

Chairman (Appointed 31 March 2005)

P Matumo (Non-executive)

(Acting Chairperson to 31 March 2005)

T W Johnson (Executive)

Managing Director

A J Allen (Executive)**

(Appointed 6 January 2006)

D Bruynseels (Non-executive)**

R K Desai (Non-executive)

S Gibbons (Executive)**

(Appointed 6 January 2006)

M Hewitt (Non-executive)**

(Retired 18 October 2005)

L Maika (Non-executive)

(Appointed 1 April 2005)

K Sithole (Non-executive)

A Venkat (Executive)°

(Retired 20 May 2005)

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 5, Plot 39

Commerce Park

Gaborone

8. Registered office

6th Floor, Barclays House

Khama Crescent

Gaborone

9. Company registration

Registration Number 1732

** British
° Indian

Directors' Statement of Responsibility

for the year ended 31 December 2005

The directors of Barclays Bank of Botswana Limited ("the Bank") 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 Botswana Companies Act (CAP 42:01) and the Botswana Banking Act (1995).

The Bank maintains systems of internal control which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of bank 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 conduct an examination of the financial statements in conformity with International Standards on Auditing, which include 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.



B Marole
Chairman



TW Johnson
Managing Director



L Maika
Non-executive Director
Chairman of the Board Audit Committee

Corporate Governance Statement

for the year ended 31 December 2005

The Bank is committed to robust corporate governance practices and applying 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 were undertaken to improve the process.

Corporate governance is the system according to which companies are managed and controlled. As a listed company, the Bank 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 its 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 Accountants in England and Wales, the Board ensures that management identifies, measures and monitors a variety of risks through various control mechanisms. These risks and the measures related thereto are explained in the annual report.

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

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 the Bank 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 Africa and, where necessary, recommend adjustments for the Bank to keep up with market considerations
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value through sound business management



Mr Oabile Mabusa, Director, Banking Supervision, Bank of Botswana giving a presentation on combating money laundering through customer due diligence. Barclays hosted this workshop. Other topics included fraud, operational risk and policing

- Establish and embed the Barclays Africa corporate management model and behaviours, which underpin the achievement of Barclays Africa 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, five other non-executive directors (all of whom the Board considers to be independent) and three executive directors, including the Managing Director. The brief biographical details of these directors are set out elsewhere in this annual report. The Board approves the roles and responsibilities of the Chairman and Managing Director. Their 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) retire and offer 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 2005, the Board held eight meetings. The attendance record of individual directors is provided in the table below:

Blackie Marole	4/4
Petronella Matumo	7/8
Rizwan Kadir Desai	8/8
Ketane Sithole	8/8
Lawrence Maika	4/4
Thulisizwe Johnson	8/8

Dominic Bruynseels	0/8
Malcolm Hewitt	1/7
Ananth Venkat	3/3

Audit committee

The Board appoints a minimum of three members, who are Directors without any executive responsibility, to the audit committee. There are currently three non-executive Directors on the committee, one of whom is the chairperson of the committee. However in line with best practices of corporate governance, a non-executive Director other than the Chairman has been appointed to chair the committee. The audit committee has written terms of reference that have been approved by the Board. 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 regard to annual reporting on the functioning 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.

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 Africa 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 Africa
- 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
- Corporate Director
- Retail Director
- Service Delivery Director
- Human Resources Director
- Credit Risk Director

A 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 Barclays Africa Operating Committee (OPCO), the Subsidiary Board and other issues which have cross-functional implications, including:
 - A review of business change management projects agreed by Barclays Africa OPCO

- Operational risk management and audit profile, specifically including 'less than satisfactory' audits
- Crisis 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.

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



Barclays hosted the Botswana Institute of Bankers dinner in August, an annual event which brings together employees from the banking sector. The event was also used to launch the national banking week, whose theme was "Customer Education: informed, wiser and more disciplined banking." Enjoying the evening is the Governor of Bank of Botswana, Mrs Linah Mohohlo (centre), flanked by Mr and Mrs Johnson

- 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)
- Retail Director
- Corporate Director
- Treasurer
- Finance Director
- Secretariat (provided by Treasury)

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

Governance and Control Committee

Primary role

The duties and responsibilities of the committee are to:

Establish and/or operate the governance and control framework:

- Create, implement and maintain a governance and control framework for the business, which is consistent with the governance principles approved by the Barclays Africa executive committee
- Determine and approve business-level policies, ensuring consistency with Barclays Africa policies
- Review the business risk report and assess the impact of risk on achieving strategic objectives of the business
- Incorporate risk controls and/or limits in the business control structure, as defined by Barclays Africa
- Propose any required risk limit changes to the appropriate Barclays Africa risk type head, through the Barclays Africa risk director
- Consider exception and/or escalation reports

Ensure compliance with the governance and control framework:

- Review the appropriateness and effectiveness of the business control structure, and assess compliance with the Barclays Africa governance and control framework
- Incorporate into the business control structure such risk controls and/or limits appropriate to, and as defined by, Barclays Africa

- Monitor control weaknesses, based on internal assurance and Group Internal Audit (GIA) recommendations, material-control breach incidents, and remediation plans and suggest enhancements to the system of internal control, where appropriate
- Monitor compliance with relevant regulatory and statutory requirements

Review and maintain the governance and control framework:

The committee must meet at least once every quarter to consider whether controls are in place to manage the risks of the business within the allocated limits. In doing this, it reviews:

- Minutes from the latest audit committee meeting
- Business governance and control framework to ensure it is:
 - consistent with the agreed Group principles
 - fulfils, at a minimum, regulatory and statutory requirements
 - appropriate, complete and effective
 - embedded in the Bank's business activities
- Adequacy of and assesses the effectiveness of the governance and controls practices record for the business

Composition and quorum

Membership of the Governance and Control Committee comprises the following:

- Managing Director (as its Chairman)
- Finance Director
- Credit Risk Director
- Corporate Director
- Retail Director
- Service Delivery Director
- Head of Assurance

The external auditors attend the Governance and Control Committee meeting to provide independent challenges to the members of the committee.

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

Report of the Independent Auditors to the Shareholders and the Board of Directors of Barclays Bank of Botswana Limited



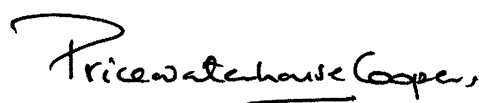
We have audited the accompanying Group and Company balance sheets of Barclays Bank of Botswana Limited and its subsidiary companies (the "Group") as of 31 December 2005 and the related statements of income, cash flows and changes in shareholders equity for the year then ended as set out on pages 24 to 68. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with the Botswana Companies Act (CAP 42:01), the Botswana Banking Act (1995) and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have examined the books, accounts and vouchers of the Bank and the Group to the extent we considered necessary and have obtained all the information and explanations which we required. We have satisfied ourselves as to the existence of the securities. We believe that our audit provides a reasonable basis for our opinion.

In our opinion

- The Bank and its subsidiaries have kept proper books of account with which the Group financial statements are in agreement; and
- The accompanying Group annual financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2005, and of the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (CAP 42:01) and the Botswana Banking Act (1995).



Certified Public Accountants
Gaborone

20 March 2006

Income Statements

for the year ended 31 December 2005

	Notes	Consolidated		Company	
		2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Interest income	5	762 276	683 975	762 276	683 975
Interest expense	6	(385 204)	(335 355)	(385 204)	(335 355)
Net interest income		377 072	348 620	377 072	348 620
Net fee and commission income	7	129 915	122 702	127 970	121 413
Net gains from foreign exchange activities		80 499	44 576	80 499	44 576
Other operating income		6 911	2 894	6 911	2 894
Total operating income		594 397	518 792	592 452	517 503
Staff expenses	8	(117 931)	(122 953)	(117 931)	(122 953)
Other operating expenses	9	(200 342)	(163 903)	(200 080)	(163 655)
Impairment gain/(loss) on loans and advances	10	2 719	(10 599)	2 719	(10 599)
Operating profit		278 843	221 337	277 160	220 296
Share of results of associate	20	(1 331)	(2 215)	(1 331)	(2 215)
Profit before income tax		277 512	219 122	275 829	218 081
Income tax expense	11	(41 704)	(33 056)	(41 283)	(32 796)
Profit for the year		235 808	186 066	234 546	185 285
Earnings per share	12	138t	109t	137t	109t



Balance Sheets

as at 31 December 2005

	Note	Consolidated		Company	
		2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Assets					
Cash	14	137 961	147 189	135 609	146 017
Balances with the Bank of Botswana	14	122 655	106 730	122 655	106 730
Balances with other banks		405 841	203 906	405 841	203 906
Bank of Botswana Certificates	15	1 670 736	842 281	1 670 736	842 281
Other assets	16	204 667	115 230	204 667	115 230
Loans and advances to customers	17	2 630 639	2 853 381	2 630 639	2 853 381
Income tax	11	-	6 926	-	7 186
Balances with related companies	18	988 581	660 840	988 581	660 840
Investments in subsidiaries	19	-	-	-	-
Investment in associate company	20	-	1 331	-	1 331
Other investments and market placements	21	17 481	143 606	17 481	143 606
Property, plant and equipment	22	90 530	98 714	90 530	98 714
Retirement benefit asset	8	62 779	59 366	62 779	59 366
Total assets		6 331 870	5 239 500	6 329 518	5 238 588
Liabilities					
Amounts due to depositors	25	4 654 130	4 093 618	4 654 130	4 093 618
Dividends payable	13	-	34 087	-	34 087
Deposits from other banks	26	122 439	200 557	122 439	200 557
Other liabilities	27	156 626	190 515	156 626	190 515
Provisions	28	33 661	21 591	33 661	21 591
Income tax	11	11 857	-	11 679	-
Deferred tax	11	24 061	23 212	24 061	23 212
Balances with related companies	18	476 988	13 497	476 988	13 497
Medium term notes	29	317 604	215 004	317 604	215 004
Floating rate notes	30	102 552	101 523	102 552	101 523
Total liabilities		5 899 918	4 893 604	5 899 740	4 893 604
Shareholders' equity					
Share capital	23	8 522	8 522	8 522	8 522
Share premium		8 586	8 586	8 586	8 586
Reserves	24	414 844	328 788	412 670	327 876
Total shareholders' equity		431 952	345 896	429 778	344 984
Total shareholders' equity and liabilities		6 331 870	5 239 500	6 329 518	5 238 588

Statements of Changes in Equity

for the year ended 31 December 2005

Consolidated

	Share capital P'000	Share premium P'000	Share capital reserve P'000	General risk reserve P'000	Investment revaluation reserve P'000	Fixed property revaluation reserve P'000	Retained earnings P'000	Total P'000
Balance at 1 January 2004 as previously reported	8 522	8 586	2 060	-	-	16 305	307 734	343 207
Prior year adjustment in respect of:								
Value Added Tax (Note 3)	-	-	-	-	-	-	(11 813)	(11 813)
IAS 39 ("Financial Instruments: Recognition and Measurement") (Note 3)	-	-	-	-	-	-	9 894	9 894
IAS 17 ("Leases") (Note 3)	-	-	-	-	-	-	(2 504)	(2 504)
Balance at 1 January 2004 – restated	8 522	8 586	2 060	-	-	16 305	303 311	338 784
Net income for the year - as restated (Note 3)	-	-	-	-	-	-	186 066	186 066
Prior year dividends paid	-	-	-	-	-	-	(74 990)	(74 990)
Dividends for the year:								
First interim dividend paid (Note 13)	-	-	-	-	-	-	(69 877)	(69 877)
Second interim dividend declared (Note 13)	-	-	-	-	-	-	(34 087)	(34 087)
Transfer from retained earnings	-	-	-	21 631	-	-	(21 631)	-
Transfer from revaluation reserve	-	-	-	-	-	(326)	326	-
Balance at 31 December 2004 – restated	8 522	8 586	2 060	21 631	-	15 979	289 118	345 896
Balance at 1 January 2005 – restated	8 522	8 586	2 060	21 631	-	15 979	289 118	345 896
Net income for the year	-	-	-	-	-	-	235 808	235 808
Prior year dividends paid	-	-	-	-	-	-	(71 582)	(71 582)
Dividends for the year:								
First interim dividend paid (2005)	-	-	-	-	-	-	(78 399)	(78 399)
Transfer from retained earnings	-	-	-	3 245	-	-	(3 245)	-
Revaluation of available for sale investments	-	-	-	-	229	-	-	229
Transfer from revaluation reserve	-	-	-	-	-	(1 586)	1 586	-
Balance at 31 December 2005	8 522	8 586	2 060	24 876	229	14 393	373 286	431 952

Company								
	Share capital P'000	Share premium P'000	Share capital reserve P'000	General risk reserve P'000	Investment revaluation reserve P'000	Fixed property revaluation reserve P'000	Retained earnings P'000	Total P'000
Balance at 1 January 2004 as previously reported	8 522	8 586	2 060	-	-	16 305	307 603	343 076
Prior year adjustments in respect of:								
Value added tax (Note 3)	-	-	-	-	-	-	(11 813)	(11 813)
IAS 39 ("Financial Instruments: Recognition and Measurement") (Note 3)	-	-	-	-	-	-	9 894	9 894
IAS 17 ("Leases") (Note 3)	-	-	-	-	-	-	(2 504)	(2 504)
Balance at 1 January 2004 - restated	8 522	8 586	2 060	-	-	16 305	303 180	338 653
Net income for the year - as restated (Note 3)	-	-	-	-	-	-	185 285	185 285
Prior year dividends paid	-	-	-	-	-	-	(74 990)	(74 990)
Dividends for the year:								
First interim dividend paid (Note 13)	-	-	-	-	-	-	(69 877)	(69 877)
Second interim dividend declared (Note 13)	-	-	-	-	-	-	(34 087)	(34 087)
Transfer from retained earnings	-	-	-	21 631	-	-	(21 631)	-
Transfer from revaluation reserve	-	-	-	-	-	(326)	326	-
Balance at 31 December 2004 - restated	8 522	8 586	2 060	21 631	-	15 979	288 206	344 984
Balance at 1 January 2005 - restated	8 522	8 586	2 060	21 631	-	15 979	288 206	344 984
Net income for the year	-	-	-	-	-	-	234 546	234 546
Prior year dividends paid	-	-	-	-	-	-	(71 582)	(71 582)
Dividends for the year:								
First interim dividend paid (2005)	-	-	-	-	-	-	(78 399)	(78 399)
Transfer from retained earnings	-	-	-	3 245	-	-	(3 245)	-
Revaluation of available for sale investments	-	-	-	-	229	-	-	229
Transfer from revaluation reserve	-	-	-	-	-	(1 586)	1 586	-
Balance at 31 December 2005	8 522	8 586	2 060	24 876	229	14 393	371 112	429 778

Cash Flow Statements

for the year ended 31 December 2005

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Cash flows from operating activities				
Interest receipts	774 085	692 100	774 085	692 100
Interest payments	(379 496)	(323 129)	(379 496)	(323 129)
Fee and commission receipts	210 414	167 278	208 469	165 989
Other income	1 621	2 894	1 621	2 894
Cash payments to employees and suppliers	(307 789)	(270 406)	(307 527)	(270 158)
Income taxes paid	(22 072)	(7 136)	(21 569)	(7 092)
Dividends paid	(184 068)	(144 867)	(184 068)	(144 867)
Net cash from operating activities	92 695	116 734	91 515	115 737
Cash flows from changes in operating assets and liabilities				
Increase / (decrease) in deposits	561 218	(316 002)	561 218	(316 002)
(Decrease) / increase in other liabilities	(21 818)	22 916	(21 818)	22 916
Decrease / (increase) in advances	228 382	(192 990)	228 382	(192 990)
(Increase) / decrease on statutory reserve with Bank of Botswana	(10 031)	9 863	(10 031)	9 863
Decrease / (increase) in balances with related companies	135 750	(180 244)	135 750	(180 244)
Decrease / (increase) in investments and market placements	125 109	(107 276)	125 109	(107 276)
(Increase) in other assets	(89 437)	(31 376)	(89 437)	(31 551)
Net cash from operating activities	929 173	(795 109)	929 173	(795 284)
Cash flows from investing activities				
Purchase of property and equipment (Note 22)	(7 976)	(26 019)	(7 976)	(26 019)
Proceeds on sale of property and equipment	5 836	258	5 836	258
Proceeds on sale of shares	2 319	-	2 319	-
Net cash from investing activities	179	(25 761)	179	(25 761)
Cash flows from financing activities				
Issue of medium term notes – net proceeds	96 843	211 013	96 843	211 013
Net cash from financing activities	96 843	211 013	96 843	211 013
Net increase / (decrease) in cash and cash equivalents	1 118 890	(493 123)	1 117 710	(494 295)
Cash and cash equivalents – at the beginning of the year	972 086	1 465 209	970 914	1 465 209
Cash and cash equivalents – at the end of the year (Note 31)	2 090 976	972 086	2 088 624	970 914



Accounting Policies

for the year ended 31 December 2005

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of standards

In 2005, the Group adopted the following IFRS, which are relevant to its operations. The comparative figures have been amended in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004)	Share-based Payment
IFRS 3 (issued 2004)	Business Combinations

The adoption of IAS 1, 8, 10, 16, 17, 21, 24, 27, 28, 32, and 33 (all revised 2003) did not result in substantial changes to the Group's accounting policies.

– IAS 1 (revised 2003) has affected the presentation and other disclosures in the financial statements.

– IAS 8, 10, 16, 17, 27, 28, 32 and 33 (all revised 2003) had no material effect on the Group's policies. The interpretation of IAS17 resulted in a prior year adjustment – refer Note 3.

– IAS 21 (revised 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.

– IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures – refer Note 37.

Adoption of standards

The adoption of IAS 39 (revised 2003) resulted in a prior year adjustment – refer Note 3.

The early adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) did not result in a change in the accounting policy for goodwill.

1.1 Basis of presentation

Barclays Bank of Botswana Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and land and buildings.

The preparation of consolidated and company financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and company financial statements, are disclosed in the respective notes to the financial statements

1.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

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

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. 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 19.

Associates

Associates are all entities over which the Bank has significant influence but 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 20.

1.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1.4 Foreign currency translation

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.

1.5 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.

1.6 Fee 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.

1.7 Financial assets

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

a) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans are recognised when cash is advanced to the borrowers. Loans and advances are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest method is recognised in the income statement.

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.

b) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of available-for-sale financial assets, are recognised on trade date – the date on which the Bank commits to purchase or sell the asset.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends from available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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.

c) Fair value through profit and loss

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

1.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

1.9 Impairment of financial assets

a) Assets carried at amortised cost

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets held by the Bank, including:
 - adverse changes in the payment status of borrowers in the Bank; or
 - national or local economic conditions that correlate with defaults on the assets in the Bank.

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.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate. The amount of the loss is recognised in the income statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical experience of loss emergence and loss rates for assets with credit risk characteristics to similar assets held by those in the Bank.

Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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. The amount of the reversal is recognised in the income statement.



b) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments 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 the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

1.10 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.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Valuations of freehold and leasehold properties are carried out based on the current open market values of the properties.

All other property and equipment and software is stated at cost or valuation less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve in shareholders' equity.

Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Each year the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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 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 to their estimated residual values over their estimated useful lives, 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	3-5 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.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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.

1.11 Lease agreements

Where the Bank is the Lessor

Agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. The present value of the lease payments, under a finance lease agreement, discounted at the rate of interest implicit in the lease, is recognised as 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 effective interest yield method.

Where the Bank is the Lessee

Leases, which merely confer the right to the use of an asset, are treated as an operating leases, with the total contractual lease payments being charged against trading profit 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.

1.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition. This includes cash and balances with the Bank of Botswana, Bank of Botswana Certificates and amounts due from other banks but excludes the Statutory Reserve held with the Bank of Botswana. Cash and cash equivalents are stated at amortised cost.

1.13 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.

1.14 Employee benefits

a) 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, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. 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.

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 expenses when they are due.

b) Share based compensation

Certain of the Bank's senior executives participate in an equity-settled, share-based compensation plan operated by Barclays PLC. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. 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, and a corresponding adjustment to equity over the remaining vesting period.

c) Other employee benefits

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.

1.15 Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 income 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.

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Additional Company Tax ("ACT") income tax credits, arising on the declaration of dividends to shareholders, are setoff against current income tax in the income statement in the period during which the related dividends are accounted for.

A deferred tax asset is recognised in the balance sheet only if there is a reasonable expectation of realisation during the period in which the related temporary differences can be utilised.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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.

1.16 Borrowings

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.

1.17 Share capital

Share capital is stated at the fair value of the consideration received.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

Dividends for the year that are declared after the balance sheet date are accounted for in the accounting period when they are declared.

1.18 Computer software development costs

All costs associated with developing computer software programmes are recognised as an expense. Costs associated with the maintenance of existing computer software programs are recognised as expenses when incurred.

1.19 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.

1.20 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.

1.21 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.

1.22 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of 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 to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given.

Other than where the fair value option is applied, subsequent to initial recognition, 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.



Risk Management

for the year ended 31 December 2005

2. Financial risk management

Introduction

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances as the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments, to take advantage of short-term market movements in equities and bonds and in currencies and interest rates.

The Board sets appropriate parameters for financial risk management, taking cognisance of Bank of Botswana requirements as well as Barclays PLC risk management strategies and policies. These parameters are aimed at managing and monitoring the Bank's exposure to liquidity, interest rate, foreign currency, credit and operational risks within the markets in which the Bank operates.

2.1 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 are managed actively by ALCO which comprises senior management, subject to overall control by and regular reporting to Barclays PLC Treasury.

ALCO is charged with ensuring 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 assets and liabilities are summarised below. The maturity profiles of assets and liabilities of other currencies are significantly matched and thus are not disclosed with the local assets and liabilities.

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 and exchange 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. We actively and closely manage this mismatch.

2.1 Liquidity risk (continued)	Up to 1 Month P'000	1-3 Months P'000	3-12 Months P'000	2-5 Years P'000	Over 5 Years P'000	Total P'000
Assets (all amounts in P'000)						
Cash	130 451	-	-	-	-	130 451
Balances with the Bank of Botswana	122 655	-	-	-	-	122 655
Balances with other banks	135 740	-	-	-	-	135 740
Bank of Botswana Certificates	1 670 639	97	-	-	-	1 670 736
Other assets	204 667	-	-	-	-	204 667
Loans and advances to customers	215 735	7 322	309 353	1 397 224	640 518	2 570 152
Related companies:						
Balances with related companies	1 115	-	295 306	-	-	296 421
Other investments and market placements	108	-	-	11 949	5 100	17 157
Property and equipment	-	-	-	-	90 530	90 530
Retirement benefit asset	-	-	-	-	62 779	62 779
Total local currency assets	2 481 110	7 419	604 659	1 409 173	798 927	5 301 288
Liabilities						
Amounts due to depositors	3 257 483	191 441	228 236	11 559	-	3 688 719
Deposits from other banks	119 326	-	-	-	-	119 326
Other liabilities	156 626	-	-	-	-	156 626
Provisions	33 661	-	-	-	-	33 661
Deferred taxation	-	-	-	-	24 061	24 061
Income tax	-	-	11 857	-	-	11 857
Balances with related companies	54 173	-	-	-	-	54 173
Medium term notes	-	-	-	317 604	-	317 604
Floating rate notes	-	-	-	-	102 552	102 552
Total local currency liabilities	3 621 269	191 441	240 093	329 163	126 613	4 508 579
Net liquidity gap	(1 140 159)	(184 022)	364 566	1 080 010	672 314	792 709
As at 31 DECEMBER 2004						
Total local currency assets	1 488 515	323 044	609 536	1 352 052	848 500	4 621 647
Total local currency liabilities	3 215 863	194 849	183 534	223 441	467 119	4 284 806
Net liquidity gap	(1 727 348)	128 195	426 002	1 128 611	381 381	336 841

2.2 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 at least monthly through ALCO.

The profile of local currency assets and liabilities, considered in terms of re-pricing, is summarised below. Throughout the year these have remained within prudent limits. The interest mismatch of other currencies is not covered below as they are significantly matched.



2.2 Interest rate risk (continued)	Up to 1 Month P'000	1-3 Months P'000	3-12 Months P'000	2-5 Years P'000	Over 5 Years P'000	Non-interest bearing	Total P'000
Assets (all amounts in P'000)							
Cash	-	-	-	-	-	130 451	130 451
Balances with the Bank of Botswana	-	-	-	-	-	122 655	122 655
Balances with other banks	135 740	-	-	-	-	-	135 740
Bank of Botswana							
Certificates	1 670 639	97	-	-	-	-	1 670 736
Other assets	-	-	-	-	-	204 667	204 667
Loans and advances to customers	2 010 098	41 513	158 061	360 172	308	-	2 570 152
Related companies:							
Balances with related companies	296 421	-	-	-	-	-	296 421
Other investments and market placements	108	-	-	11 949	-	5 100	17 157
Property and equipment	-	-	-	-	-	90 530	90 530
Retirement benefit asset	-	-	-	-	-	62 779	62 779
Total local currency assets	4 113 006	41 610	158 061	372 121	308	616 182	5 301 288
Liabilities							
Amounts due to depositors	2 806 339	191 441	228 236	11 559	-	451 144	3 688 719
Deposits from other banks	119 326	-	-	-	-	-	119 326
Other liabilities	-	-	-	-	-	156 626	156 626
Provisions	-	-	-	-	-	33 661	33 661
Income tax	-	-	-	-	-	11 857	11 857
Deferred taxation	-	-	-	-	-	24 061	24 061
Balances with related companies	54 173	-	-	-	-	-	54 173
Medium term notes	103 844	-	-	213 760	-	-	317 604
Floating rate notes	2 552	-	100 000	-	-	-	102 552
Total local currency liabilities	3 086 234	191 441	328 236	225 319	-	677 349	4 508 579
Total interest sensitivity gap	1 026 772	(149 831)	(170 175)	146 802	308	(61 167)	792 709
As at 31 DECEMBER 2004							
Total local currency assets	3 161 879	111 376	283 140	391 882	133	673 237	4 621 647
Total local currency liabilities	2 797 508	171 887	283 553	223 443	-	808 415	4 284 806
Total interest sensitivity gap	364 371	(60 511)	(413)	168 439	133	(135 178)	336 841

2.2 Interest rate risk (Continued)	Interest rates*	Interest rates*
	Low	High
Assets:		
Balances with other banks	11.15%	12%
Bank of Botswana certificates	11.13%	12.53%
Loans and advances to customers	16.00%	30.50%
Balances with related companies	1.26%	4.71%
Other investments and market placements	10.25%	10.75%
Liabilities:		
Amounts due to depositors	0%	11.07%
Deposits from other banks	10.80%	12%
Balances with related companies	3.47%	4.79%
Medium term notes	10.50%	11.50%
Floating rate notes	12.32%	14.66%

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

2.3 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.

The Bank conducts its foreign currency operations in accordance with guidelines periodically received from Bank of Botswana, its regulator. From February to the end of May 2005, intra day limit was US\$8 million with an overnight limit of US\$5 million. From June 2005, it had an intra day limit of US\$10 million and an overnight limit of US\$8 million. These limits were adhered to throughout the year.

2.4 Credit risk

The Bank's Risk Management Department is responsible for portfolio management and risk concentration issues, sector exposure, product risk and credit grading. The Bank Credit Committee 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 future 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.

2.5 Operational risk

Operational risk, inherent in all business activities, is the potential for financial and reputation loss arising from failures in internal controls, operational processes or the systems that support them. It can occur in all the Bank's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud.

The goal of operational risk management is to balance cost of control and risk within the constraints of the risk appetite of the Bank and to be consistent with the prudent management required of a large financial organisation.

It is recognised that operational risk can never be entirely eliminated. Accordingly, the Bank continues to invest in risk mitigation such as contingency planning and incident management. Where appropriate, this is supported by risk transfer mechanisms such as insurance. To reinforce the implementation of the Bank's operational risk strategy by the business lines and support functions, independent checks on operational risk issues are undertaken by the assurance function. The Bank's operational risk is monitored by the Governance and Control Committee and the Audit Committee.

2.6 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.

2.7 Geographical analysis of assets and liabilities

The Bank operates mainly in Botswana, with its main activities being corporate and retail banking and finance services. The Bank's assets, however, include assets and liabilities held across a wide geographical range as is summarised below:

		Botswana	US	UK	Europe	All other	Total
		P'000	P'000	P'000	P'000	P'000	P'000
Liabilities	2004	4 284 806	323 352	140 178	68 112	77 156	4 893 604
	2005	4 508 579	1 150 635	101 990	47 779	90 935	5 899 918
Assets	2004	4 621 647	444 207	103 365	34 911	35 370	5 239 500
	2005	5 301 601	798 131	61 691	107 847	62 600	6 331 870

2.8 Fair values of financial assets and liabilities

Due to the nature of the financial assets and liabilities that the Bank has entered into, the carrying values represent the fair value.

Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

Investment securities include only interest-bearing assets held to maturity, as assets available-for-sale are measured at fair value. Fair value for held to maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using

quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

2.9 Critical accounting estimates, and judgements in applying accounting policies

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.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least 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 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.

The historical loss experience is based on a 12 month observation period of loans in arrears moving into default, with default defined as loans in arrears greater than 90 days or loans which have been classified as non-performing. Objective evidence of impairment is assumed to be evident once a loan moves to more than one day in arrears.

The projected future cash flows of the loans which reflect objective evidence of default are based on the historical recovery experience of a representative sample of non performing loans over a three year period. The projected future cash flows are discounted at the ruling contract rate of the particular loan advance product category.

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.

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.

2.10 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 following table analyses capital resources as defined for regulatory purposes:

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Tier 1 (or core) capital	278 718	236 704	276 544	235 792
Tier 2 capital	133 881	136 990	133 881	136 990
Gross capital resources	412 599	373 694	410 425	372 782
Less: supervisory deductions and impairments to capital	-	(1 331)	-	(1 331)
Total eligible or unimpaired capital	412 599	372 363	410 425	371 451
Total weighted risk assets (banking book)	2 551 637	2 529 139	2 551 637	2 529 139
Tier 1 (or core) capital ratio (Basel Committee Guide: minimum 4%)	10.9%	9.3%	10.8%	9.3%
Risk asset ratio (Basel Committee guide: minimum 8%)	16.2%	14.7%	16.1%	14.7%
Bank of Botswana preferred minimum risk asset ratio	15.0%	15.0%	15.0%	15.0%

The comparative figure is below the Bank of Botswana preferred minimum risk asset ratio due to the impact of prior year adjustments – refer Note 3 of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2005

1. Nature of business

Barclays Bank of Botswana Limited provides retail and corporate banking services to customers in the Republic of Botswana. The Bank currently operates a network of 26 outlets countrywide. This consists of main branches, selected service outlets and prestige centres.

The Bank has a primary listing on the Botswana Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2006.

2. Business segments

The Bank is organised into three main segments:

- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and foreign currency products.
- Treasury – Offering treasury products to customers such as foreign exchange, both on a spot and forward basis. Investments in Bank of Botswana certificates and Bonds for customers are handled by Treasury. Treasury also manages the market risk of the Bank, namely liquidity, foreign exchange and interest rate risk.

As at 31 December 2005

Consolidated

	Retail banking P'000	Corporate banking P'000	Treasury P'000	Total P'000
Interest revenue – net	251 915	99 370	25 787	377 072
Other revenue	80 282	71 092	65 951	217 325
	332 197	170 462	91 738	594 397
Profit before tax	96 068	110 584	70 860	277 512
Income tax	(16 392)	(20 164)	(5 148)	(41 704)
Profit after tax	79 676	90 420	65 712	235 808
Segment assets	1 676 512	1 274 639	3 380 719	6 331 870
Segment liabilities	1 442 662	3 504 394	952 862	5 899 918
Other segment items				
Capital expenditure	-	-	7 976	7 976
Depreciation	-	-	13 725	13 725
Impairment gain – loans	1 740	979	-	2 719
Restructuring costs	-	356	3 223	3 579

Geographical segment information is not provided as all operations are located in one geographical area and are not subject to different risks and rewards.



As at 31 December 2004

Consolidated

	Restated			
	Retail banking P'000	Corporate banking P'000	Treasury P'000	Total P'000
Interest revenue - net	244 045	100 836	3 739	348 620
Other revenue	75 451	50 145	44 576	170 172
	319 496	150 981	48 315	518 792
Profit before tax	83 117	86 554	49 451	219 122
Income tax	(10 356)	(14 777)	(7 923)	(33 056)
Profit after tax	72 761	71 777	41 528	186 066
Segment assets	1 446 817	1 406 564	2 386 119	5 239 500
Segment liabilities	1 400 618	2 714 223	778 763	4 893 604
Other segment items				
Capital expenditure	-	-	26 019	26 019
Depreciation	-	-	13 071	13 071
Impairment charge – loans	6 783	3 816	-	10 599
Restructuring costs	5 622	1 885	11 457	18 964

3. Prior Year Adjustments

The Bank changed the following accounting policies during the year:

IAS 17 (Leases)

In the past, a common interpretation of IAS 17 allowed companies to recognise lease payments on a cash basis as this was considered the most appropriate representation of the time pattern of the entity's benefit obtained from the leased asset. During the year, the Bank changed its basis of accounting for operating leases to comply with the latest interpretation of IAS 17 ("Leases"). As a result, operating lease expenses are now recognised on a straight line basis over the lease term, and not as cash is paid.

The adjustment has been accounted for retrospectively in terms of IAS 8, and has had the following effect (charge / (credit)) on the financial statements:

	Profit Before Tax P'000	Tax P'000	Profit After Tax P'000
Impact on periods up to 31 December 2003	3 339	(835)	2 504
Impact on income previously reported for 31 December 2004	404	(101)	303
Impact on income reported for the current year	(191)	48	(143)

IAS 39 (Financial Instruments: Recognition and Measurement)

IAS 39 (revised 2003) requires the impairment provision against loans and advances to customers to be calculated based on the quantum of losses incurred by the year-end date. In the past, the Bank's impairment methodology took cognisance of historical loss rates, irrespective of whether such losses had actually been incurred by the year-end date. Accordingly, the Bank changed its methodology for the measurement of impairment provisions during 2005 to take into account this change in IAS 39.

The revised basis of calculating the impairment on loans and advances to customers did not have a significant impact on the 2004 impairment balance but did impact prior periods.

The adjustment has been accounted for retrospectively in terms of IAS 8, and has had the following effect (charge / (credit)) on the financial statements:

	Profit Before Tax P'000	Tax P'000	Profit After Tax P'000
Impact on periods up to 31 December 2003	(13 192)	3 298	(9 894)
Impact on income previously reported for 31 December 2004	13 192	(3 298)	9 894
Impact on income reported for the current year	-	-	-

Accounting for Value Added Tax ("VAT") on Imported Services

During previous financial periods the Bank interpreted the provisions of the VAT Act relating to imported services to indicate that no VAT was payable on such services. Accordingly, the Bank did not calculate and remit to the Botswana Unified Revenue Services VAT on all imported services. As a result the Bank did not account for this expense since the introduction of VAT in July 2002.

Based on a revised interpretation of the VAT Act, the Bank was liable for imputed VAT on such services and has made a provision for the best estimate of liabilities arising from this. This adjustment has been accounted for retrospectively in terms of IAS 8, and has had the following effect (charge / (credit)) on the financial statements:

	Profit Before Tax P'000	Tax P'000	Profit After Tax P'000
Impact on periods up to 31 December 2003	13 698	(1 885)	11 813
Impact on income previously reported for 31 December 2004	7 892	(1 288)	6 604
Impact on income reported for the current year	7 070	(1 416)	5 654

4. Currency

These financial statements are expressed in Pula, the currency of Botswana.



5. Interest income

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Loans and advances	481 615	521 344	481 615	521 344
Leases	26 935	23 843	26 935	23 843
Balances with other financial institutions	13 410	16 965	13 410	16 965
Barclaycard International (Note 37)	31 390	22 284	31 390	22 284
Short term funds and other market placements	181 602	93 195	181 602	93 195
Holding company Barclays PLC (Note 37)	27 324	6 344	27 324	6 344
Total	762 276	683 975	762 276	683 975

6. Interest expense

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Deposits and call accounts	314 026	304 803	314 026	304 803
Borrowings from other financial institutions	16 252	7 466	16 252	7 466
Related companies (Note 37)	9 284	34	9 284	34
Other interest	5 663	1 851	5 663	1 851
Medium term notes	27 299	7 421	27 299	7 421
Floating rate notes	12 680	13 780	12 680	13 780
Total	385 204	335 355	385 204	335 355

7. Net fee and commission income

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Fee and commission income earned				
- Risk related services	12 506	8 518	12 506	8 518
- Non-risk related services	119 202	116 526	117 257	115 237
- Barclaycard International	2 789	1 118	2 789	1 118
	134 497	126 162	132 552	124 873
Fee and commission expense	(4 582)	(3 460)	(4 582)	(3 460)
Total	129 915	122 702	127 970	121 413

8. Staff expenses

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Salaries and other cash emoluments	98 159	81 020	98 159	81 020
Restructuring costs	3 579	18 974	3 579	18 974
Retirement benefit (income) / costs	(3 413)	3 219	(3 413)	3 219
Other employee expenses	19 606	19 740	19 606	19 740
Total	117 931	122 953	117 931	122 953

During 2005 the Bank paid P3 579 000 (2004: 18 974 000) as early termination benefits. A total of seven members of staff (2004: 46) took the early retirement package offered by the Bank.

Share option schemes

Certain members of management participate in the Barclays Bank PLC share option scheme. The Group can grant share options to directors and employees based on performance. Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting three years from the grant date only if the Group achieves targets of profitability; 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.

Retirement benefits

During 2002 the Bank introduced a defined contribution option to its existing defined benefit pension scheme. To date, 931 of 950 existing members (98%) transferred to the defined contribution plan option. 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. The statutory actuarial valuation performed as at 31 December 2002 revealed a surplus over its liabilities. Accordingly, the Bank was entitled to a further two year contribution holiday for both the defined benefit and defined contribution options, commencing from January 2004, assuming that the payroll remains broadly constant in real terms. Details of the pension 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 by independent actuaries using the projected unit credit method and are as follows:



	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Present value of funded obligations				
- Defined contribution accounts	143 757	122 002	143 757	122 002
- Defined benefit accounts	70 809	71 144	70 809	71 144
Fair value of plan assets	214 566	193 146	214 566	193 146
Present value of unfunded obligations	101 539	57 373	101 539	57 373
Unrecognised actuarial (gains) / losses	(38 760)	1 993	(38 760)	1 993
Asset on the balance sheet	62 779	59 366	62 779	59 366

The pension plan assets include the Bank's ordinary shares with a fair value of P12 030 000 (2004: P9 196 312)

The pension plan assets include an investment in Barclays House (Pty) Limited with a carrying value of P2 411 444 (2004: P2 411 444)

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
The amounts recognised in the income statement for the year are as follows:				
Current service cost				
- Defined contribution	5 808	4 478	5 808	4 478
- Defined benefit	256	1 814	256	1 814
Interest costs	21 392	27 983	21 392	27 983
Expected return on plan assets	(30 869)	(33 223)	(30 869)	(33 223)
Curtailement loss	-	433	-	433
Net credit for the year included in staff costs	(3 413)	1 485	(3 413)	1 485
Contributions paid – defined contribution	-	1 734	-	1 734
Total included in staff costs	(3 413)	3 219	(3 413)	3 219
Movement in the asset recognised on the balance sheet	(3 413)	3 219	(3 413)	3 219

The principal actuarial assumptions used were as follows:

Discount rate	11.5%	11.5%	11.5%	11.5%
Expected rate of return on plan assets	12.5%	12.5%	12.5%	12.5%
Future salary increases	10.5%	10.5%	10.5%	10.5%
Future pension increases	7%	7%	7%	7%

9. Other operating expenses

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Operating:				
Advertising	2 736	3 661	2 736	3 661
Cash in transit expenses	6 143	4 612	6 143	4 612
Depreciation (Note 22)				
- Property	5 273	3 275	5 273	3 275
- Computers and equipment	6 306	7 825	6 306	7 825
- Motor vehicles	210	471	210	471
- Furniture and fittings	1 936	1 500	1 936	1 500
Equipment costs – operating lease rentals	2 973	4 468	2 973	4 468
Equipment costs – other	6 762	7 910	6 762	7 910
Legal and professional fees	4 016	3 286	4 016	3 286
Property costs – operating lease rentals	7 062	6 244	7 062	6 244
Property costs – other	5 899	7 191	5 899	7 191
Other costs – recharged by Barclays PLC	70 111	53 820	70 111	53 820
Other costs – recharged by associate company	1 687	1 880	1 687	1 880
Other costs – recharged by Barclaycard Int.	5 363	4 260	5 363	4 260
Other costs – general	70 249	50 690	69 987	50 442
Administrative:				
Auditors' remuneration:				
- Audit fees				
- Current year	1 467	980	1 467	980
- Prior year under-provision	690	276	690	276
- Other services	122	40	122	40
Directors' fees – non-executive	161	115	161	115
Directors' remuneration – management services	1 176	1 399	1 176	1 399
Total	200 342	163 903	200 080	163 655

**10. Impairment (gain) / loss on loans and advances**

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Identified impairment	6 450	27 768	6 450	27 768
Prior year adjustment (Note 3)	-	13 192	-	13 192
Unidentified impairment	(5 561)	(17 941)	(5 560)	(17 941)
Releases and recoveries of debts previously provided for	(3 608)	(12 420)	(3 609)	(12 420)
Total (credit) / charge for the year	(2 719)	10 599	(2 719)	10 599
Identified impairment				
Balance at the beginning of the year	29 514	55 549	29 514	55 549
New and increased provisions	13 863	26 864	13 863	26 864
Releases during the year	(3 608)	(13 489)	(3 608)	(13 489)
Write-offs during the year	(3 805)	(39 410)	(3 805)	(39 410)
Balance at the end of the year	35 964	29 514	35 964	29 514
Unidentified impairment				
Balance at the beginning of the year	7 369	25 310	7 369	25 310
Transfers during the year	(5 561)	(17 941)	(5 561)	(17 941)
Balance at the end of the year	1 808	7 369	1 808	7 369
Total provision for impairment losses on loans and advances (Note 17)	37 772	36 883	37 772	36 883

11. Income tax

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Current tax				
Tax charge for the year				
Company tax at 15%	40 359	41 307	40 106	41 150
Additional company tax at 10%	26 906	27 537	26 738	27 434
	67 265	68 844	66 844	68 584
Prior year adjustment (Note 3)	-	(4 688)	-	(4 688)
Deferred tax release	(310)	(527)	(310)	(527)
	66 955	63 629	66 534	63 369
Under / (over) provision prior years – income tax	195	(3 730)	195	(3 730)
(Over) provision prior years – deferred tax	(2 951)	-	(2 951)	-
	64 199	59 899	63 778	59 639
Withholding tax on dividends	(22 495)	(26 843)	(22 495)	(26 843)
Tax per income statement	41 704	33 056	41 283	32 796
Tax reconciliation				
Tax at the current rate (25%) on income for the year (2004: 25%)	69 378	67 304	68 957	67 729
Expenses not deductible for income tax	1 569	1 656	1 569	971
Income not subject to tax	(3 992)	(643)	(3 992)	(643)
Prior periods under / over provisions	(2 756)	(8 418)	(2 756)	(8 418)
	64 199	59 899	63 778	59 639
Withholding tax on dividends	(22 495)	(26 843)	(22 495)	(26 843)
Tax for the year per income statement	41 704	33 056	41 283	32 796
Deferred tax				
Opening balance	23 212	28 427	23 212	28 427
Prior year adjustment (Note 3)	4 110	(4 688)	4 110	(4 688)
(Over) / under provision in prior years	(2 951)	-	(2 951)	-
(Release) / charge for the year	(310)	(527)	(310)	(527)
Closing balance	24 061	23 212	24 061	23 212



	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Analysis of deferred tax (asset) / liability				
Accelerated tax depreciation – fixed assets	(5 420)	(2 219)	(5 420)	(2 219)
Accelerated tax depreciation – leased assets	13 403	11 270	13 403	11 270
Revaluation of properties	5 254	5 353	5 254	5 353
Retirement benefit asset	15 561	14 841	15 561	14 841
Loan impairments	(4 875)	(4 875)	(4 875)	(4 875)
Other temporary differences	138	(1 158)	138	(1 158)
	24 061	23 212	24 061	23 212

Additional Company Taxation (ACT)

There is approximately P4.4 million (2004: P694 000) of ACT available for offset against future withholding tax deductible on the payment of dividends.

Tax on Capital Gains

The approximate capital loss available for tax purposes for set-off in the next year is P11m (2004: Pnil) against any taxable capital gains arising.

12. Earnings per share

Basic and fully diluted earnings per share of 138t (2004: 109t) is calculated using the weighted average number of shares in issue during the period which was 170 432 250 (2004: 170 432 250) (Note 23).

	Consolidated		Company	
	2005	2004 Restated	2005	2004 Restated
Profit attributable to equity holders of the Company (P'000)	235 808	186 066	234 546	185 285
Weighted average number of ordinary shares in issue (thousands)	170 432	170 432	170 432	170 432
Basic and fully diluted earnings per share (expressed in thebe per share)	138t	109t	137t	109t

Impact of prior year adjustment on earnings per share:

	Consolidated	Company
	2004 Restated	2004 Restated
Earnings per share as previously reported	119t	119t
Impact of prior year adjustment (Note 3)	(10t)	(10t)
Restated earnings per share	109t	109t

13. Dividends

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
First interim dividend paid				
46 (net 39) thebe per share on 170 432 250 shares	78 399	69 877	78 399	69 877
Botswana withholding tax (2004: 41 thebe)	(11 760)	(10 482)	(11 760)	(10 482)
	66 639	59 395	66 639	59 395
Second interim dividend declared				
Nil thebe per share on 170 432 250 shares	-	34 087	-	34 087
Botswana withholding tax (2004: 20 thebe)	-	(5 113)	-	(5 113)
	-	28 974	-	28 974
Final dividend proposed				
67 (net 57) thebe per share on 170 432 250 shares	114 190	71 582	114 190	71 582
Botswana withholding tax (2004: 42 thebe)	(17 128)	(10 737)	(17 128)	(10 737)
	97 062	60 845	97 062	60 845
Total gross	192 589	175 546	192 589	175 546
Total net	163 701	149 214	163 701	149 214

During the year ended 31 December 2005, a first dividend of 46 thebe per ordinary share (2004: 41 thebe) was declared and paid. In addition, a final dividend of 67 thebe per ordinary share (2004: 42 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 2005.

14. Cash and balances with the Bank of Botswana

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Cash				
- Pula	130 451	136 879	127 407	135 707
- Foreign currency	7 510	10 310	8 202	10 310
	137 961	147 189	135 609	146 017
Balances with the Bank of Botswana				
- Statutory reserve	120 955	110 924	120 955	110 924
- Current account	1 700	(4 194)	1 700	(4 194)
	122 655	106 730	122 655	106 730

The statutory reserve with the Bank of Botswana is calculated at 3.25% 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.

The statutory reserve requirement was changed to 5% after the year end date.



15. Bank of Botswana Certificates

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Maturing within three months	1 667 913	825 742	1 667 913	825 742
Accrued interest	2 823	16 539	2 823	16 539
	1 670 736	842 281	1 670 736	842 281

16. Other assets

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Accruals and prepayments	16 373	9 218	16 373	9 218
Clearing accounts	50 149	28 807	50 149	28 807
Forward exchange contracts	12 290	-	12 290	-
Deferred income – guarantees	734	1 829	734	1 829
Sundry receivables	125 121	75 376	125 121	75 376
	204 667	115 230	204 667	115 230

As at 31 December 2005	Contract/notional amount P'000	Consolidated and Company Fair values	
		Assets P'000	Liabilities P'000
Forward exchange contracts			
Foreign exchange contracts			
Currency forwards	516 323	12 290	-

As at 31 December 2004	Contract/notional amount P'000	Consolidated and Company Fair values	
		Assets P'000	Liabilities P'000
Forward exchange contracts			
Foreign exchange contracts			
Currency forwards	2 625	-	-

17. Loans and advances to customers

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Loans and advances	2 668 411	2 890 264	2 668 411	2 890 264
Total provisions for impairment losses on loans and advances (Note 10)	(37 772)	(36 883)	(37 772)	(36 883)
Total	2 630 639	2 853 381	2 630 639	2 853 381
Maturity analysis				
Maturing within one year	404 750	689 712	404 750	689 712
Maturing after one year within five years	1 623 143	1 352 052	1 623 143	1 352 052
Maturing after five years	640 518	848 500	640 518	848 500
	2 668 411	2 890 264	2 668 411	2 890 264

Sector analysis of loans and advances

	Consolidated				Company			
	2005 P'000	%	2004 P'000	%	2005 P'000	%	2004 P'000	%
Private individuals	1 697 790	64	1 400 951	48	1 697 790	64	1 400 951	48
Mining companies	43 176	2	24 447	1	43 176	2	24 447	1
Parastatals	8 613	0	110 400	4	8 613	0	110 400	4
Business	918 832	34	1 354 466	47	918 832	34	1 354 466	47
	2 668 411	100	2 890 264	100	2 668 411	100	2 890 264	100
Less: Impairment provisions	(37 772)		(36 883)		(37 772)		(36 883)	
Total	2 630 639		2 853 381		2 630 639		2 853 381	

Loans with variable rates are P1 787 835 (2004: P1 936 477) and fixed rates are P880 576 (2004: P953 787).



Category analysis of loans and advances

	Consolidated				Company			
	2005 P'000	%	2004 P'000	%	2005 P'000	%	2004 P'000	%
Overdrafts	273 031	10	207 087	7	273 031	10	207 087	7
Mortgages	302 470	11	367 182	12	302 470	11	367 182	12
Term loans	1 206 128	45	1 398 804	49	1 206 128	45	1 398 804	49
Scheme loans	713 154	27	710 039	25	713 154	27	710 039	25
Lease instalments	173 628	7	207 152	7	173 628	7	207 152	7
	2 668 411	100	2 890 264	100	2 668 411	100	2 890 264	100
Less: impairment provisions	(37 772)		(36 883)		(37 772)		(36 883)	
Total	2 630 639		2 853 381		2 630 639		2 853 381	

Loans and advances to customers include finance lease receivables

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Gross investment in finance leases, receivable:				
No later than 1 year	20 790	24 804	20 790	24 804
Later than 1 year and no later than 5 years	188 145	224 472	188 145	224 472
Later than 5 years	4 741	5 656	4 741	5 656
Unearned future finance income on finance leases	(40 048)	(47 780)	(40 048)	(47 780)
Net investment in finance leases	173 628	207 152	173 628	207 152
The net investment in finance leases may be analysed as follows:				
Not later than 1 year	20 488	24 444	20 488	24 444
Later than 1 year and no later than 5 years	150 424	179 468	150 424	179 468
Later than 5 years	2 716	3 240	2 716	3 240
	173 628	207 152	173 628	207 152

17. Loans and advances to customers (continued)

Analysis of non-performing advances – Consolidated and Company

2005	Credit risk P'000	Security held (at present value) P'000	Impairment provision P'000
By sector			
Private individuals	43 553	14 381	29 172
Business	17 121	10 329	6 792
At 31 December 2005	60 674	24 710	35 964

2004	Credit risk P'000	Security held (at present value) P'000	Impairment provision P'000
By sector			
Private individuals	33 841	5 847	27 994
Business	2 745	1 225	1 520
At 31 December 2004	36 586	7 072	29 514

There are no significant terms and conditions in place regarding the security held.

The value of the security held is based on future expected cash flows, discounted at the contractual interest rate.

18. Balances with related companies

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Amounts due from:				
Holding company - Barclays PLC	692 024	461 875	692 024	461 875
Barclaycard International (a fellow subsidiary)	296 421	198 915	296 421	198 915
Other Barclays PLC group companies	136	50	136	50
Total	988 581	660 840	988 581	660 840
Amounts due to:				
Holding company - Barclays PLC	476 177	12 069	476 177	12 069
Other Barclays PLC group companies	811	1 428	811	1 428
Total	476 988	13 497	476 988	13 497

**19. Subsidiaries**

The Bank has the following subsidiaries:

	Nature of Business	Ownership
Barclays Insurance Services (Pty) Limited	Insurance Agency	100%
Barclays Botswana Nominees (Pty) Limited	Custodial Services	100%

All subsidiaries are incorporated in Botswana.

20. Investment in associate company

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Cost	3 546	3 546	3 546	3 546
Share of results of associate (before and after tax)	(2 075)	(2 075)	(2 075)	(2 075)
Impairment provision	(1 471)	(140)	(1 471)	(140)
	-	1 331	-	1 331

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

Name 2005	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
	P'000	P'000	P'000	P'000	
Year ended 31 December 2005	187	145	854	43	33.3
Year ended 31 December 2004	678	349	2 914	(2 075)	33.3

The associate's ability to transfer funds to the Bank is restricted, due to exchange control regulations in Zimbabwe. Foreign currency remittals require approval by the Reserve Bank of Zimbabwe.

Recognition of the results of the associate as at 31 December 2005, were discontinued both for the period and cumulatively, due to the investment being written off in 2005.

21. Other investments and market placements

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Barclays House (Proprietary) Limited (unquoted)	4 995	5 320	4 995	5 320
Botswana Telecommunications Corporation (BTC) Bond	9 484	9 145	9 484	9 145
Botswana Government Bond	2 897	118 945	2 897	118 945
Debentures in schools and other organisations	105	117	105	117
Debt Capital Participation Fund (DCPF) Bond	-	10 079	-	10 079
Total	17 481	143 606	17 481	143 606

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Securities available-for-sale				
Debt securities – at fair value:				
– unlisted	12 486	138 286	12 486	138 286
Equity securities – at fair value:				
– unlisted	4 995	5 320	4 995	5 320
Total securities available-for-sale	17 481	143 606	17 481	143 606

The bank has not reclassified any financial asset measured at amortised cost rather than fair value during the year (2004: nil)

The movement in investment securities may be summarised as follows:

	Consolidated and Company P'000
At 1 January 2004	38 385
Additions	112 171
Disposals (sale and redemption)	(6 950)
At 1 January 2005	143 606
Fair value adjustment	229
Disposals (sale and redemption)	(126 354)
At 31 December 2005	17 481

The BTC Bond bears variable interest currently @ 13.75% per annum and matures on 30 November 2008.

The Botswana Government Bond (BW002) bears fixed interest @ 10.25% and matures on 1 March 2008.

The Botswana Government Bond (BW001) bears fixed interest @ 10.75% and matured on 1 June 2005.

The DPCF Bond bears variable interest @ 10.34% per annum and was sold during the year.



The investment in Barclays House (Pty) Ltd is stated at cost, as the shares are not actively traded. The cost approximates the fair value of the investment. Barclays House (Pty) Ltd is a property company.

22. Property, plant and equipment

Consolidated and Company

	Leasehold property P'000	Freehold property P'000	Rented property improvements P'000	Motor vehicles P'000	Computers & equipment P'000	Furniture & fittings P'000	Total P'000
Year ended 31 December 2004							
Opening net book amount	16 367	31 293	9 844	1 138	22 734	4 503	85 879
Additions	3 332	7 173	6 881	-	7 107	1 526	26 019
Disposals	(57)	-	-	(56)	-	-	(113)
Depreciation	(516)	(982)	(1 777)	(471)	(7 825)	(1 500)	(13 071)
Reclassification	-	-	-	-	(1 145)	1 145	-
Closing net book amount	19 126	37 484	14 948	611	20 871	5 674	98 714
At 31 December 2004							
Cost or valuation	24 314	44 584	25 169	3 249	80 878	11 164	189 358
Accumulated depreciation	(5 188)	(7 100)	(10 221)	(2 638)	(60 007)	(5 490)	(90 644)
Net book amount	19 126	37 484	14 948	611	20 871	5 674	98 714
Year ended 31 December 2005							
Opening net book amount	19 126	37 484	14 948	611	20 871	5 674	98 714
Additions	-	3 755	-	-	2 228	1 993	7 976
Disposals	-	(2 357)	-	(78)	-	-	(2 435)
Depreciation	(1 277)	(1 792)	(2 204)	(210)	(6 306)	(1 936)	(13 725)
Closing net book amount	17 849	37 090	12 744	323	16 793	5 731	90 530
At 31 December 2005							
Cost or valuation	24 314	45 982	25 169	3 171	83 106	13 157	194 899
Accumulated depreciation	(6 465)	(8 892)	(12 425)	(2 848)	(66 313)	(7 426)	(104 369)
Net book amount	17 849	37 090	12 744	323	16 793	5 731	90 530

During November 2004 all properties were revalued by an independent firm of professional valuers, on the basis of open market value for existing use.

Three freehold buildings were sold during the year. The balance consists of five residential properties and four commercial properties. Leasehold buildings consist of eight residential and 13 commercial properties. The residential leases are for 99 years and commercial leases are 50 years.

All properties are used by the Bank in its operations.

23. Share capital

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Authorised				
400 000 000 ordinary shares of 5t each	20 000	20 000	20 000	20 000
Issued and fully paid				
170 432 250 ordinary shares of 5t each	8 522	8 522	8 522	8 522

Barclays PLC continued to be the majority shareholder in the Bank, holding 74.86% of the total issued share capital (2004: 74.86%)

24. Reserves

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

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

The investment revaluation reserve represents the revaluation surplus of available for sale investments.

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

Undistributed profits are retained in the revenue reserve.

All reserves are shown net of deferred tax where applicable.



25. Amounts due to depositors

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Interest bearing deposits	4 202 690	3 533 385	4 202 690	3 533 385
Non-interest bearing deposits	451 440	560 233	451 440	560 233
Total	4 654 130	4 093 618	4 654 130	4 093 618
Maturity analysis				
On demand	4 197 038	3 551 522	4 197 038	3 551 522
Maturing within one year	445 479	532 415	445 479	532 415
Maturing after one year but within five years	11 559	9 681	11 559	9 681
Maturing after five years	54	-	54	-
Total	4 654 130	4 093 618	4 654 130	4 093 618

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Category analysis of deposits				
Current accounts				
- Pula	510 653	654 220	510 653	654 220
- Foreign exchange	805 255	395 256	805 255	395 256
Savings accounts				
- Pula	599 042	533 315	599 042	533 315
- Foreign exchange	-	-	-	-
Term deposits				
- Pula	2 579 024	2 343 058	2 579 024	2 343 058
- Foreign exchange	160 156	167 769	160 156	167 769
Total	4 654 130	4 093 618	4 654 130	4 093 618

	Consolidated				Company			
	2005 P'000	%	2004 P'000	%	2005 P'000	%	2004 P'000	%
Sector analysis of deposits								
Private individuals	1 441 528	31	1 413 089	35	1 441 528	31	1 413 089	35
Other financial institutions	41 996	1	-	-	41 996	1	-	-
Parastatals	71 527	2	380 148	9	71 527	2	380 148	9
Business	3 046 191	65	1 902 125	46	3 046 191	65	1 902 125	46
Local Government	17 847	0	371 617	9	17 847	0	371 617	9
Central Government	35 041	1	26 639	1	35 041	1	26 639	1
Total	4 654 130	100	4 093 618	100	4 654 130	100	4 093 618	100

Deposits with variable rates are P3 350 974 (2004: P2 947 405) and fixed rates are P1 303 156 (2004: 1 146 213).

26. Deposits from other banks

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Unsecured and payable on demand	122 439	200 557	122 439	200 557

27. Other liabilities

	Consolidated		Company	
	2005 P'000	2004 P'000 Restated	2005 P'000	2004 P'000 Restated
Creditors and accruals	31 926	20 502	31 926	20 502
Deferred income - Guarantees	734	1 829	734	1 829
Other payables	120 413	164 441	120 413	164 441
Deferred liabilities	3 553	3 743	3 553	3 743
Total	156 626	190 515	156 626	190 515

28. Provisions

Movements on the Group and Company's provisions in the year were as follows:

	Leave pay	Vat – imported services	Total
	P'000	P'000	P'000
At 1 January 2004	-	13 698	13 698
Additions	-	7 893	7 893
Utilised	-	-	-
At 1 January 2005	-	21 591	21 591
Additions	5 000	7 070	12 070
Utilised	-	-	-
At 31 December 2005	5 000	28 661	33 661

Leave pay

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

VAT – imported services

The Bank imports certain management related services from its parent company in the United Kingdom, and from the Regional Head Office in South Africa. The Bank has obtained legal advice and has contacted the Botswana Unified Revenue Service directly to discuss the matter. Management has taken a conservative approach in accruing for potential liabilities. See also Notes 3 and 32 to the Financial Statements.



29. Medium term notes

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Medium term notes	317 604	215 004	317 604	215 004

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 Limited, may from time to time issue up to P500 million of notes for such periods and on such terms as may be agreed between the issuer and investors. To date, the Bank has issued P313 760 000 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.

Issuance date	Amount P'000	Interest Rate %	Redemption date
26 May 2004	63 750	10.50	26 May 2009
28 September 2004	100 000	11.25	28 September 2008
13 October 2004	50 010	11.10	13 October 2009
10 August 2005	100 000	11.00	10 August 2010
	313 760		

30. Floating rate notes

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Floating rate notes	102 552	101 523	102 552	101 523

The Bank privately placed floating rate notes amounting to P100 million (authorised amount P150 million) 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 subordinated to unsubordinated, 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.

31. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise:

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Cash (Note 14)	137 961	147 189	135 609	146 017
Current account with the Bank of Botswana (Note 14)	1 700	(4 194)	1 700	(4 194)
Balances with other banks	405 841	203 906	405 841	203 906
Bank of Botswana Certificates (Note 15)	1 667 913	825 742	1 667 913	825 742
Deposits from other banks (Note 26)	(122 439)	(200 557)	(122 439)	(200 557)
	2 090 976	972 086	2 088 624	970 914

32. Contingent liabilities

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Undrawn commitments to customers	466 312	174 932	466 312	174 932
Letters of credit	57 971	71 583	57 971	71 583
Performance and bid bonds	209 841	210 979	209 841	210 979
VAT on imported services and lease arrangements	23 000	-	23 000	-
Total	757 124	457 494	757 124	457 494

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.

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.

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.

VAT on imported services and lease arrangements

The bank has obtained professional advice with respect to certain VAT matters and has taken a conservative approach when providing for known liabilities in the annual financial statements. A further exposure of P23 million exists although the Bank is being proactive in attempting to resolve these issues with the Botswana Unified Revenue Service ("BURS").

**33. Shares held for investors**

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Shares held for institutional investors by the Custodial Services Department, Barclays Botswana Nominees (Pty) Limited	1 575 106	4 784 707	1 575 106	4 784 707

34. Certificates held for customers

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Bank of Botswana Certificates held on behalf of customers	3 456 460	2 555 617	3 456 460	2 555 617
Government Bonds held on behalf of customers	537 740	683 092	537 740	683 092

35. Capital commitments

Approved and contracted for: P nil (2004: P5.8 million)

Approved but not yet contracted for: P4.8 million (2004: Nil)

36. Operating lease commitments

The Bank, from time to time, leases various premises and motor vehicles for its operations and staff. The lease terms range between one to three years and are summarised below:

	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
The operating lease commitments of the Bank are analysed as:				
Up to one year	9 031	7 912	9 031	7 912
Between two and five years	28 805	28 805	28 805	28 805
Over 5 years	677	677	677	677
Total future cashflows	38 513	37 394	38 513	37 394
Straight lining already accrued in the balance sheet (Note 27)	(3 553)	(3 743)	(3 553)	(3 743)
Future expenses	34 960	33 651	34 960	33 651

37. Related-party transactions

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 volumes of related party transactions, outstanding balances at the year end (refer Note 18), and relating expense and income for the year are as follows:

37. Related-party transactions (continued)	Consolidated		Company	
	2005 P'000	2004 P'000	2005 P'000	2004 P'000
Interest paid to Barclays PLC	9 284	34	9 284	34
Interest received from Barclays PLC	27 324	6 344	27 324	6 344
Interest received from Barclaycard	31 390	22 284	31 390	22 284
Fees and commissions received from Barclaycard	2 789	1 118	2 789	1 118
Recharges Barclays PLC	70 111	53 820	70 111	53 820
Recharges BCP (Pvt) Ltd	1 687	1 880	1 687	1 880
Recharges Barclaycard International	5 363	4 260	5 363	4 260

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 comprise 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.

Transactions with directors and members of key management are set out below:

	non-Executive Directors	Executive Directors	Key Management Personnel
	P'000	P'000	P'000
2005			
Lending – balance at 31 December 2005	348	9	-
Deposits – balance at 31 December 2005	978	-	18
Lending policy	Commercial rates	Staff rates	Staff rates
Remuneration – year ended 31 December 2005	161	1 613	3 354
2004			
Lending – balance at 31 December 2004	13	27	-
Deposits – balance at 31 December 2004	978	-	13
Lending policy	Commercial rates	Staff rates	Staff rates
Remuneration – year ended 31 December 2004	115	1 399	2 940

Directors' remuneration

A listing of the members of the Board of Directors is shown on page 4 of the Annual Report.

38. Post balance sheet events

Other than the facts and developments in these financial statements, there have been no material changes in the affairs or financial position of the Bank between the year end and the date of approval of these financial statements.

Shareholders Information

for the year ended 31 December 2005



Major shareholders at year end (number of shares)	2005	%	2004	%
Barclays PLC	127 588 760	74.86	127 588 760	74.86
Stanbic Nominees Botswana (Pty) Ltd Re: BIFM	13 149 034	7.72	14 069 951	8.25
BBB (Pty) Ltd Re: IAM 030/14	5 046 560	2.96	5 326 260	3.13
Barclays Botswana Nominees (Pty) Ltd Re: FAM BPOPF	4 617 841	2.71	4 191 276	2.46
Motor Vehicle Accident Fund	3 521 690	2.07	3 521 690	2.07
BBN (Pty) Ltd Re:AG 211/002	821 076	0.48	-	-
Barclays Botswana Nominees (Pty) Ltd Re: FAM DPF	821 000	0.48	1 507 457	0.88
BBB (Pty) Ltd Re: IAM 203/001	807 777	0.47	728 777	0.43
Stanbic Nominees Botswana (Pty) Ltd Re:BPOPF	762 893	0.45	-	-
BBB (Pty) Ltd Re: IAM 030/12	441 129	0.26	-	-
BBB (Pty) Ltd Re: SSB 001/77	485 185	0.28	-	-
Others	12 369 305	7.26	13 498 079	7.92
Total	170 432 250		170 432 250	



Miles Ahead in Savuti

Value Added Statement

for the year ended 31 December 2005

	Consolidated	
	2005 P'000	2004 P'000 Restated
Value created		
Income from services	972 690	851 253
Cost of services	(385 204)	(335 355)
Value created by operations	587 486	515 898
Non-operating income	6 911	2 894
Operating expenditure excluding staff costs and depreciation	(183 898)	(161 431)
	410 499	357 361
Value distributed		
Employees - salaries and benefits	117 931	122 953
Shareholders - dividends	149 981	178 954
Government - taxation	41 704	33 056
	309 616	334 963
Value retained		
Retained income	87 158	9 327
Depreciation	13 725	13 071
	100 883	22 398
Total value distributed and retained	410 499	357 361



Miles Ahead visits the Bonang Jehovah Centre for orphans and vulnerable children

Proxy Form

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

or failing him/ her, THE CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the TWENTIETH ANNUAL GENERAL MEETING of the company to be held at the Gaborone Sun Conference room on Friday, 02 June 2006 at 5:00 pm.

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, Gaborone) no later than 48 hours before the meeting.



Barclays Bank of Botswana Limited

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Gaborone

Botswana

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Botswana

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