Annual Report 2010

Bank Gaborone
Growing together.

Our Vision

To be Botswana's bank of choice.

Core Purpose

To make banking a rewarding experience for all stakeholders.

Slogan / Pay-off Line

Growing together. Re gola mmogo.

Brand Positioning

The bank that builds and nurtures long-lasting, rewarding and mutually beneficial relationships with clients and stakeholders.

Brand Essence

Building mutually beneficial relationships with clients and stakeholders.

Brand Character

Bank Gaborone is honest, responsible and friendly and values loyalty and long-term relationships.

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OUR VALUES

Passion
Being excited and enthusiastic about what we do.

Excellence
Exceeding all expectations in everything we do.

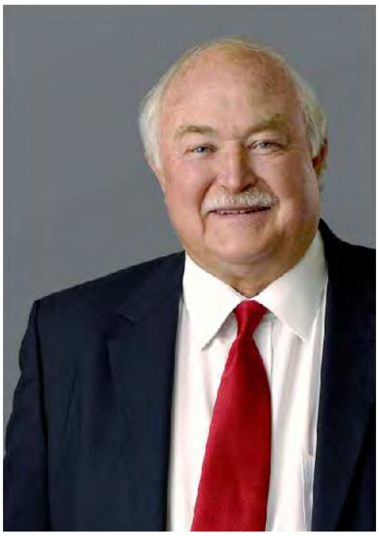
Teamwork
Working together effectively as a team to add value to all stakeholders of Bank Gaborone.

Integrity
Being honest, sincere and ethical in all we do.

Learning
Continuously improving our skills, knowledge and abilities.

BOARD OF DIRECTORS

The Board of Directors of Bank Gaborone is responsible for oversight and governance of the Bank.



Koos Brandt
Chairman

Johan Swanepoel
Vice-chairman

André Barnard
Managing Director

Koos Brandt – *Chairman*

Mr Koos Brandt was appointed Chairman of the Board of Directors for Bank Gaborone in December 2004. His other directorships in Botswana include: Chairman of the Board HR and Audit Committees for Bank Gaborone, and Capricorn Investment Holdings (Botswana) (Pty) Ltd. Mr Brandt, a founding member of Bank Windhoek Limited in Namibia, the sister company of Bank Gaborone, was appointed Chairman of the Board of Directors of Bank Windhoek Limited in April 1982 and to the Board of Directors of Capricorn Investment Holdings Limited (CIH), the Namibian shareholder, in September 1996. He studied law at the University of Stellenbosch and practised as a commercial lawyer for over 30 years with Weder, Kruger and Hartmann Legal Practitioners.

Johan Swanepoel – *Vice-chairman*

Mr Johan Swanepoel was appointed as a Non-executive Director for Bank Gaborone in December 2004. His other directorships in Botswana include: Capricorn Investment Holdings (Botswana) (Pty) Ltd, and Ellwood Insurance Brokers (Pty) Ltd, known as Penrich Insurance Brokers. Mr Swanepoel was appointed Managing Director of Bank Windhoek Limited, the sister company of Bank Gaborone, in July 1999 after which he took up the position of Group Managing Director of the Capricorn Investment Holdings Group in 2005. Prior to his appointment at Bank Windhoek Limited, he was employed with Coopers & Lybrand (now PricewaterhouseCoopers Namibia) from 1980, and was elected Managing Partner of the firm in 1994. He holds a BCom (Accounting) and a BCom (Hons) degree from the Rand Afrikaans University (RAU) and qualified as a Chartered Accountant CA (SA) and CA (Nam).

André Barnard – *Managing Director*

Mr André Barnard was appointed as Managing Director for Bank Gaborone in July 2006, on secondment from the Namibian shareholder, Capricorn Investment Holdings Limited (CIH). His other directorships in Botswana include: Penrich Employee Benefits (Pty) Ltd, Peo Micro (Pty) Ltd, and Ellwood Insurance Brokers (Pty) Ltd. Prior to his appointment with Bank Gaborone, Mr Barnard was employed as Senior Executive Officer for Bank Windhoek Limited from April 1996 to June 2006, and he has been in the banking and financial services industry for over 34 years. He holds a BCom degree from the University of South Africa and various banking diplomas.

Peter Collins – *Non-executive Director*

Mr Peter Collins was appointed as a Non-executive Director for Bank Gaborone in March 2008. Mr Collins was admitted to the South African Supreme Court as an attorney in February 1971 after which he relocated to Botswana, becoming an attorney for the Botswana High Court in October 1980. He actively practised law until 1999, elevating to the bench as High Court judge until the end of 2004. He then left the bench to set up his own private legal practice, specialising in corporate law and specialist legal opinion to fellow attorneys seeking advice on commercial and civil matters. He studied law at the University of Cape Town.

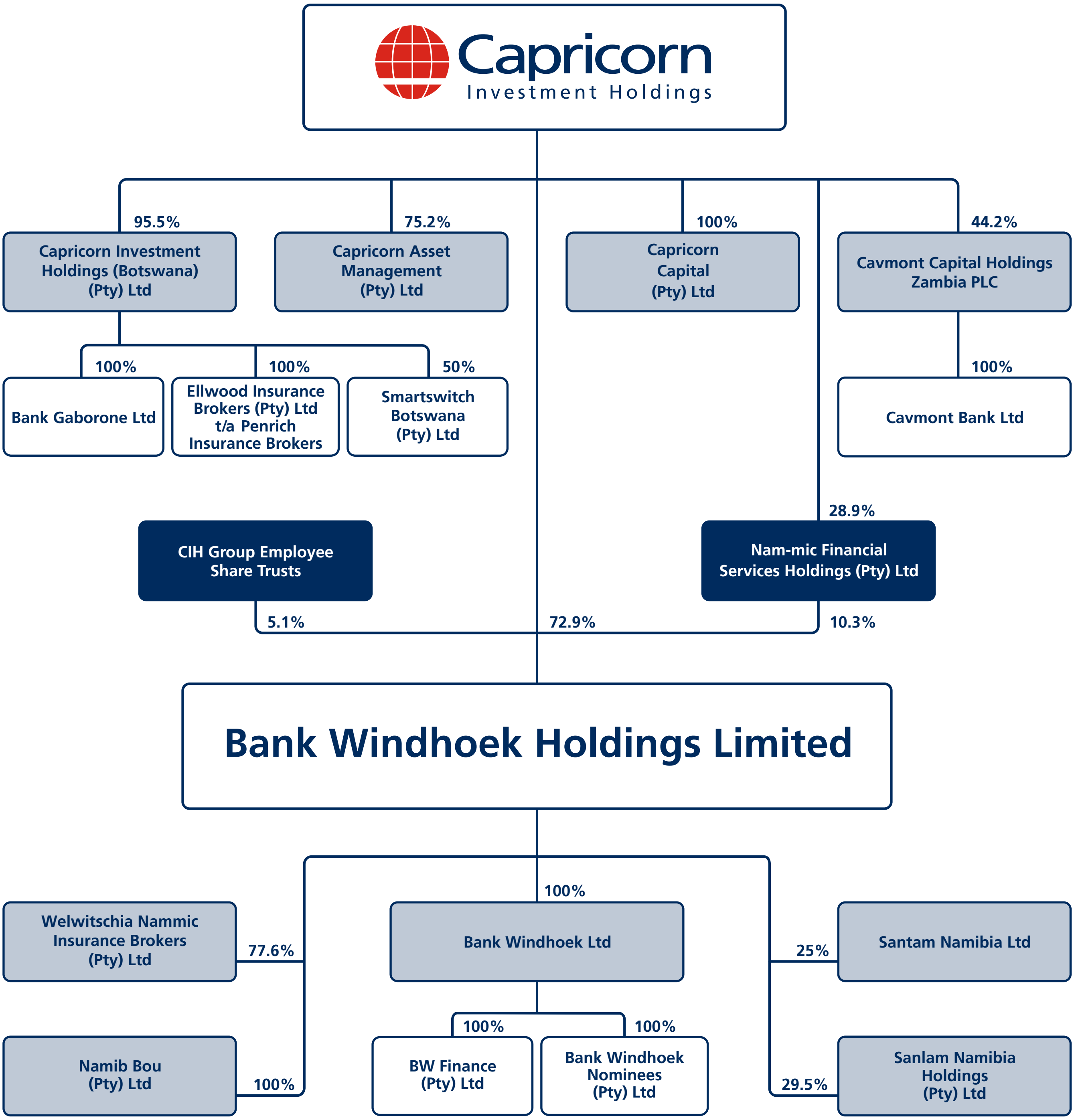
Peter Collins
Non-executive Director

Koot van Vuuren – *Non-executive Director*
In Memoriam: 27 February 2010

Mr Jacobus Lucas Jansen van Vuuren was appointed as a Non-executive Director for Bank Gaborone in December 2004 and served as the first Managing Director of Bank Gaborone from August 2005 to June 2006. His other directorships in Botswana included: Capricorn Investment Holdings (Botswana) (Pty) Ltd, Ellwood Insurance Brokers (Pty) Ltd, known as Penrich Insurance Brokers, and Peo Micro (Pty) Ltd. Mr van Vuuren was appointed as Managing Director of Bank Windhoek, the sister company of Bank Gaborone, in April 1996, a position he held until 30 June 1999. He remained a Non-executive Director of Bank Windhoek and Bank Windhoek Holdings until his passing. His working career spanned more than 60 years in the banking sector in South Africa, Namibia, Malawi and Botswana.

Koot van Vuuren
Non-executive Director

GROUP STRUCTURE



CIH GROUP OF COMPANIES

Capricorn Investment Holdings Ltd (CIH)

Capricorn Investment Holdings Limited (CIH) was established in 1996 as a regional financial services group. The Group has interests in banking, insurance, capital and money markets, asset management and micro finance, with a diversified business portfolio in Namibia, Botswana and Zambia.

Capricorn Investment Holdings (Botswana) (Pty) Limited is the Group's investment holding company in Botswana and was established on 5 March 2002. The company has a controlling interest in Bank Gaborone Limited.

Bank Gaborone Ltd

Bank Gaborone Limited is a wholly owned subsidiary of Capricorn Investment Holdings (Botswana) (Pty) Limited (CIH Botswana), in which Capricorn Investment Holdings (Namibia) (Pty) Limited (CIH Namibia) holds 95,5% interest. The Bank opened its doors in September 2006, offering a suite of competitive products and services to its clients, while refining its strategy and developing its brand identity. The goal is to create a bank that Botswana citizens can call their own.

Capricorn Asset Management (Pty) Ltd (CAM)

Capricorn Asset Management (Pty) Ltd is a vehicle for domestic market trading services, including money and capital market products.

Cavmont Bank Ltd

Cavmont Bank Limited is a medium-sized commercial bank in Zambia and is owned by Cavmont Capital Holdings Zambia PLC (CCHZ), in which CIH holds 44.2% shares. Cavmont has 13 branches located in Lusaka, Chingola, Ndola, Kitwe, Mbala, Mpulungu, Solwezi, Chipata, Kasma and Mansa. The Bank offers individuals and corporates a variety of affordable products and services. Its mission is to be a people's bank, offering personalised service with quick turnaround times.

Bank Windhoek Ltd

Bank Windhoek Limited, the largest bank and the flagship brand within CIH, offers a wide range of financial services and products, including personal, corporate, electronic and international banking services.

Welwitschia Nammic Insurance Brokers (Pty) Ltd

Welwitschia Nammic Insurance Brokers (Pty) Limited is one of the largest short-term insurance brokers in Namibia. The company sells different types of corporate, commercial, SME, marine, aviation and personal short-term insurance.

Sanlam Namibia Holdings

Sanlam Namibia Holdings is a financial services group focusing on life insurance, savings and investment products. Their products include risk insurance, savings and investment, as well as retirement provision. Sanlam Namibia further offers group scheme products for SMEs, corporate bodies, unions and other organisations.

Santam Namibia Ltd

Santam Namibia Limited is the largest short-term insurance company in Namibia, offering insurance products for personal, corporate, commercial and agricultural needs, as well as specialised insurance for particular requirements.

Namib Bou (Pty) Ltd

Namib Bou (Pty) Limited acts as the social entrepreneurship arm in the area of urban development for the CIH Group. The company facilitates the development of affordable housing by working with local authorities and financial institutions (banks) for the lower and middle income groups.

CIH BOTSWANA

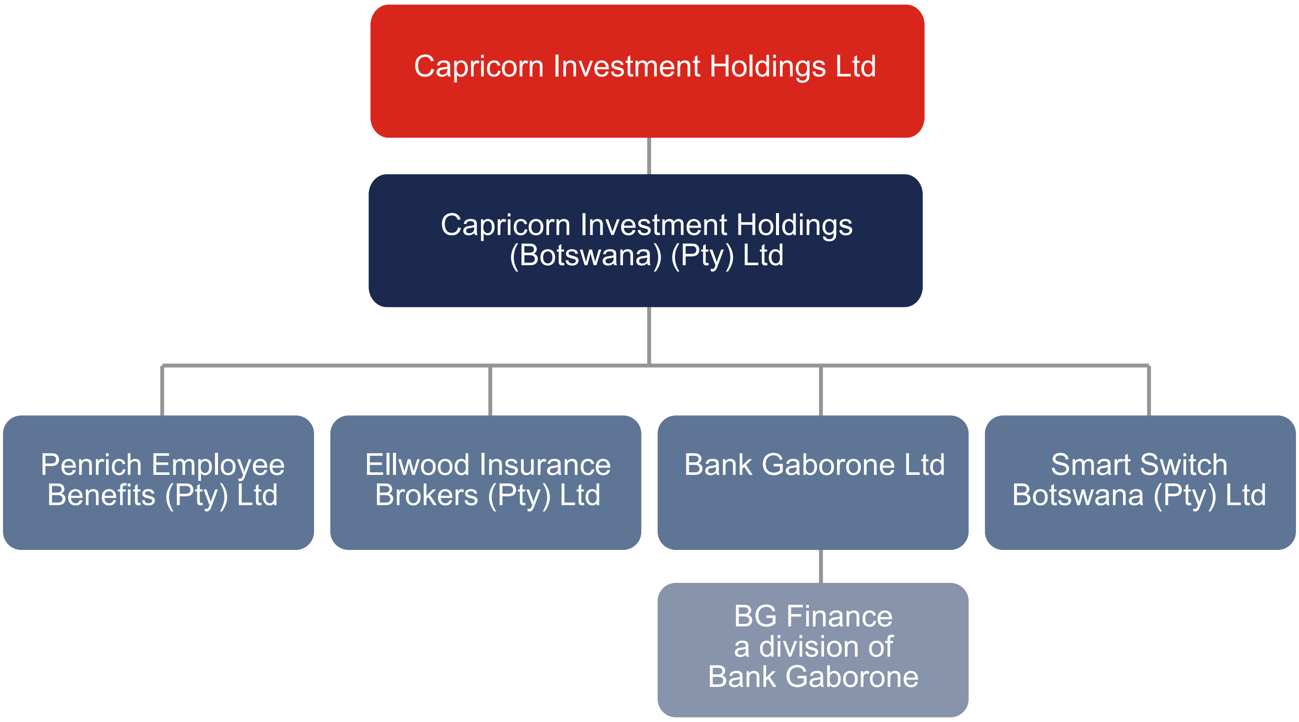
Capricorn Investment Holdings Limited (CIH), one of the leading financial services groups and main shareholder of Bank Windhoek Limited in Namibia, took a strategic decision in 2002 to expand its banking operations beyond the boundaries of Namibia into the SADC region.

Following an in-depth assessment of the socio-economic environment, business climate and risk profile of various SADC member countries, the Board of CIH in Namibia took the view that Botswana was the most appropriate country in which to commence the Group's cross-border expansion programme.

CIH, through BOG Reserves Botswana Limited, approached the Bank of Botswana for a banking licence in December 2004. The application was approved in May 2005.

After complying with all the conditions and stringent requirements of the Bank of Botswana, Bank Gaborone Limited (previously BOG Reserves Botswana Limited, registration number CO.2004/8812) was issued with a full commercial banking licence (BA/95/010) on 1 February 2006 and has since September 2006 been conducting full retail banking operations.

CIH Botswana is a Botswana-registered company with a diversified financial services portfolio, which fulfills the role of a Botswana holding company for its Namibian parent company.

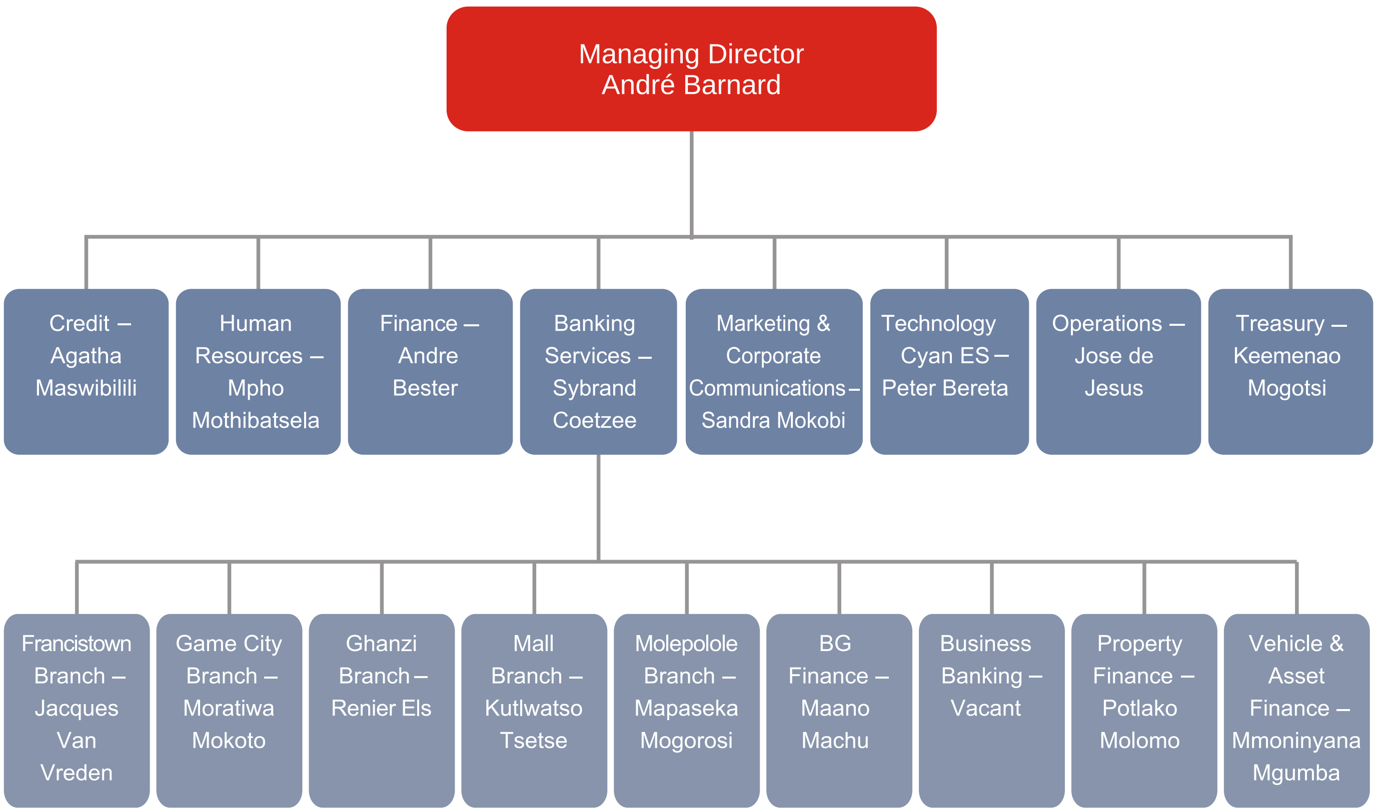


Ellwood Insurance Brokers (Pty) Ltd, trading as Penrich Insurance Brokers, provides a wide range of credit, life, funeral and other insurance, as well as other related products to the market.

ORGANISATIONAL STRUCTURE

By employing the right people and developing them to achieve their full potential, the Bank aims to provide highly efficient, friendly and effective service to its customers.

The majority of key positions are filled by Botswana citizens, who have been drawn from the best talent in the banking industry in the country. The management structure is as follows:



EXECUTIVE MANAGEMENT TEAM

Standing from left to right:

Sybrand Coetzee – *Banking Services*

André Barnard – *Managing Director*

Sandra Mokobi – *Marketing & Corporate Communications*

Andre Bester – *Finance*

Jose de Jesus – *Operations*

Seated from left to right:

Mpho Mothibatsela – *Human Resources*

Agatha Maswibilili – *Credit*

Keemenao Mogotsi – *Treasury*

MANAGING DIRECTOR'S REPORT

André Barnard
Managing Director

This year, Bank Gaborone celebrated its 4th year in Botswana since it opened its doors to the banking public. Guided by our slogan 'Growing together', the Bank has established meaningful relationships with individuals and businesses. The provision of good services, complemented by products and services that meet our customers' needs, enabled us to exceed our budgeted profit during the 2009/2010 financial year.

We confirmed our commitment to provide affordable and accessible banking services to all of Botswana through our network expansion. We opened a new branch in Ghanzi, bringing the total number of branches to five. In addition, through our nine BG Finance micro finance branches, we are well positioned to reach more of Botswana with our products and services. Our growing ATM network continues to provide our customers with convenience and easy access to the funds entrusted to Bank Gaborone, especially in areas where we do not have branches.

The launch of our e-pula Internet Banking product was a major milestone for us this year as it enabled us to provide our customers with convenient banking anytime, anywhere.

Another key milestone was the establishment of our Customer Contact Centre which provides our customers with a platform for dealing with us in an efficient way. Our commitment towards educating consumers about financial matters continued through our radio programme, Let's Talk Money.

Our products and services offering continues to be reviewed as market conditions change, but more importantly, to ensure that we continue to offer both existing and potential customers financial solutions that are always relevant to their needs. With the gradual introduction of new products and services and the refinement of existing ones, we have been able to steadily build our customer base. We believe that today and in the future, the quality of our service and our approachability will differentiate us from our competitors.

We thank all our stakeholders, especially our customers, for making 2010 a successful year for our young bank.

André Barnard
Managing Director

GROWING TOGETHER …

'RE GOLA MMOGO' and the vision 'to be Botswana's Bank of choice', drive the Bank to serve individuals and businesses seeking exceptional service delivery and a competitive range of products and services.
'We are driven by our clients.'

BANKING SERVICES MANAGEMENT TEAM

Standing from left to right: Gloria Hikumwah, Sybrand Coetzee, Samson Mapulanga, Potlako Molomo, Maano Machu, Nicky Kgomotso, Jacques van Vreden, Thapelo Kepaletswe, Kutlwatso Tsetse, Renier Els
Seated from left to right: Portia Rannyena, Maria Seboni, Moratiwa Mokoto

Sybrand Coetzee
Senior Manager – Banking Services

BRANCHES

Gloria Hikumwah
Acting Branch Manager

Kutlwatso Tsetse
Mall Branch Manager

Renier Els
Ghanzi Branch Manager

Jacques van Vreden
Francistown Branch Manager

Moratiwa Mokoto
Game City Branch Manager

Mmapaseka Mogorosi
Officer in Charge – Molepolole Branch

SPECIALIST FINANCE

Maano Machu
National Sales Manager – BG Finance

Potlako Molomo
Manager – Property Finance

Mmoninyana Mgumba
Manager – Vehicle and Asset Finance

BUSINESS BANKING

Samson Mapulanga
Business Relationship Manager – Business Banking

Maria Seboni
Business Relationship Manager – Business Banking

Portia Rannyena
National Sales Manager – Retail Banking

Thapelo Kepaletswe
E-Banking Supervisor

Nicky Kgomotso
Relationship Executive – Selekt

BANKING SERVICES

Sybrand Coetzee
Senior Manager – Banking Services

Over the past year the Bank has had a great response from the public. To date the number of accounts opened has proven that Botswana still need and will support commercial banks that offer excellent service and products that meet their needs. This can be seen in the growth of the total assets as reflected in the financials as at 30 June 2010.

The Retail branch network has grown to five branches: two in Gaborone (Mall & Game City), one in Molepolole, one in Francistown and one in Ghanzi. The focus for both Retail and Business Banking was the provision of good service. Its goal is to ensure that customers have a good experience in their interaction with the Bank. Most of the branches performed well, adding positively to the profitability of the Bank.

Another area of focus for this year was to promote savings mainly through the Ipeele and SureSave savings accounts.

IPEELE SAVINGS ACCOUNT

The Ipeele savings account performed well with the number of accounts more than doubling from the previous year.

The free funeral cover attached to the account filled a major gap in the banking products available in the market.

SURESAVE ACCOUNT

The SureSave account was introduced to close the gap between a fixed account and Ipeele. SureSave is a twelve-month investment product that allows customers to save at good interest rates fixed for the period. SureSave is still new and being introduced into the market. It is a sound product that will assist to create a savings culture amongst the Botswana and add value to clients.

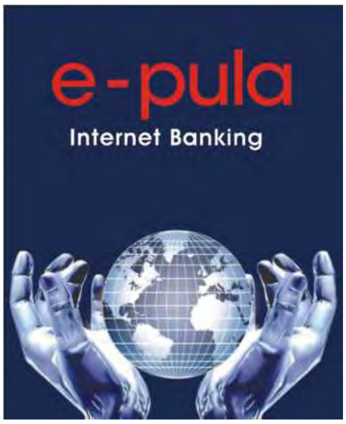
PROPERTY FINANCE & VEHICLE AND ASSET

Despite the slow economic recovery, the Property Finance and Vehicle and Asset Finance departments performed well.

Own the wheels that suite your lifestyle

The focus remained on responsible lending where the Bank only approved loans for clients with the capacity to repay the loans.

ELECTRONIC BANKING



e-pula Internet Banking

Banking became more accessible to customers through the introduction of the e-pula Internet Banking. This marked a turning point for Bank Gaborone which now offers customers an additional channel through which to do their banking.

A number of clients have signed up for e-pula and have given positive feedback on the product. More services will continually be added to e-pula to make the customers' banking experience easier and more pleasurable.

ATM NETWORK

The ATM network expanded over the year with the introduction of the standalone merchant ATMs. This is another channel that provides clients with access to their finances. There are currently 14 ATMs across Botswana, comprising branch ATMs and merchant ATMs. Merchants will continually be identified in other towns where the Bank can install ATMs and provide clients with access to their finances, especially where there are no branches.

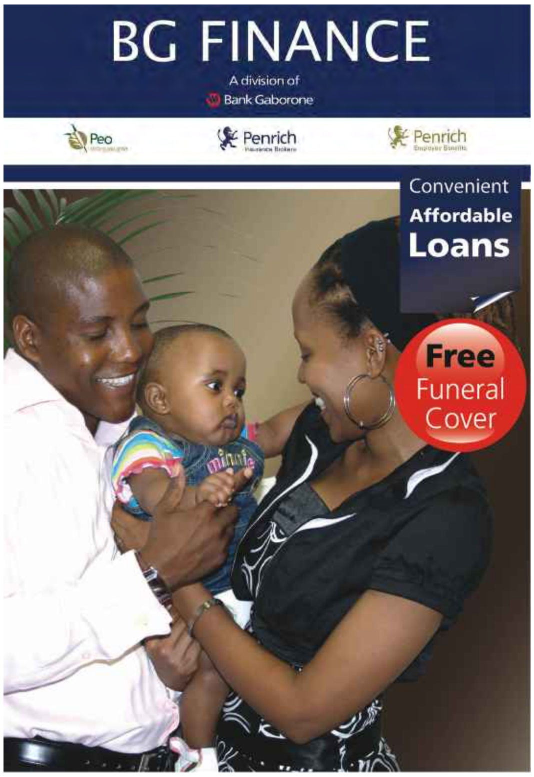

BG FINANCE
A division of
Bank Gaborone
Penrich
BG FINANCE

BG FINANCE (MICRO FINANCE)

BG Finance is a division of Bank Gaborone that offers unsecured lending to formally employed customers through a salary deduction agreement. BG Finance largely services government employees but also provides loans to parastals and companies.

During the financial year the BG Finance offering had to be reviewed in response to stiff competition in the market. The maximum loan amount was increased, free funeral cover introduced and immediate loan top-ups offered. These improvements resulted in a positive response from the market. The BG Finance customer base increased significantly as a result. However, strict controls were maintained to ensure that borrowers are able to repay their loans and do not overextend themselves in terms of their disposable income.

BG Finance has nine branches in major towns across the country. These branches extend the Bank's reach to customers.



OPERATIONS SUPPORT

Jose de Jesus
Senior Manager – Operations Support

The 2009/2010 financial year saw the establishment of the Operations Support Department of Bank Gaborone with effect from 1 March 2010 when Mr Jose de Jesus took up the post of Senior Manager Operations Support.

The objective of the Department is to lend operational support to other departments in the Bank with the aim of achieving improved operational efficiency which will ultimately culminate in better service delivery to the Bank's clientele and improved returns to the shareholders.

The Operations Support Department comprises a number of business units including the:

- Central Processing Centre Unit
- Cash Centre Unit
- Central Account Administration Unit
- Projects Unit which includes:
  - Special Projects
  - Systems Support
  - Processes
  - Office Administration

Despite the relatively short time since the establishment of the Department, several milestones were reached before the financial year-end which will lay the foundation for meeting the objectives of the Department in the coming financial year. Amongst the highlights for the year, the Department assisted the Bank with the following:

- Opening the Bank Gaborone Branch Agency in Molepolole
- Finalising the construction of the Bank Gaborone branch in Gantsi
- Refurbishing the BG Finance branches throughout the country
- Expanding of the ATM network
- Restructuring the Bank's insurance portfolio
- Introducing a new product range for BG Finance
- Launching the e-pula Internet Banking application

The coming year will focus on cementing the various project foundations laid during the 2009/2010 financial year. Focus will be on improving processes especially with regard to turnaround times and collections, expanding the Bank's footprint throughout Botswana and living up to our values of Passion, Excellence, Teamwork, Integrity and Learning.

HUMAN RESOURCES

Mpho Mothibatsela
Manager – Human Resource

The Bank has continued to focus on attracting and developing competent human resources to ensure that delivery of efficient service in all banking operations is not compromised as the business grows. This has seen staff numbers grow from 160 in July 2009 to 210 as at June 2010.

RECRUITMENT AND SELECTION

A performance management process, using a balanced scorecard and performance contracts as tools for setting objectives and measuring achievement, has been put in place to help embed a performance culture that timeously identifies talent and potential, supports learning and development, and rewards excellence. During the period, 11 employees were promoted to higher positions of responsibility.

Being a fairly new entrant in the market however, the Bank continues to face tough competition in recruiting specialist skills, where the pool of resources is not only limited, but also highly mobile.

As an employee retention initiative during the period, employees were offered an opportunity to buy Group Shares at a discounted price. Though not in great numbers, some employees responded positively to the opportunity and bought shares.

INDUSTRIAL RELATIONS

The Bank has enjoyed a peaceful industrial relations climate that is guided by its core values (Passion, Excellence, Teamwork, Integrity and Learning).

EMPLOYEE BENEFITS

In the interest of employee wellness, the pension and medical aid memberships are obligatory. Both the Bank and the employee contribute towards membership, at rates that are reviewed from time to time to ensure competitiveness and sustainability.

LEARNING, TRAINING AND DEVELOPMENT

A learning and development function has been established to enable the Bank to gain control in the implementation of basic and generic interventions such as in credit evaluation, securities documentation and administration, telling, customer service, and telephone etiquette.

In the next financial year, Botswana Training Authority (BOTA) accreditation of the training facility, learning programmes and the training facilitators is envisioned, which means the Bank will be able to claim back training costs against the training levy.

The Bank has also introduced a structured one-year training programme to allow a broad appreciation of banking operations to those employees who join the Bank without any work experience. The first intake of 10 employees will be completing their training in September 2010, and will be assigned to some of the vacant positions, from which their progression will be based on performance.

The Human Resources Department will continue to look internally for demonstrated ability and externally for expertise in order to identify individuals who are willing to grow with Bank Gaborone.

MARKETING AND CORPORATE COMMUNICATION SERVICES

Sandra Mokobi
Manager – Marketing and Corporate Communication Services

Building Bank Gaborone's brand was achieved by engaging in a number of different activities during 2010.

The Marketing and Corporate Communication Services Department is responsible for Brand Marketing, Corporate Communication, Social Investment and Business Intelligence.

In order to improve service to clients, the Bank introduced the Customer Contact Centre. The facility provides customers with a channel through which they can make enquiries or lodge queries using an efficient and effective tracking system. The Department spent most of its resources during the year supporting businesses in their efforts to achieve financial targets. This was evidenced especially by the Ipeele savings account and BG Finance campaigns.

Product development and marketing were key focus areas for the Department and resulted in the introduction of new products and services including the SureSave account. The fruits of the other product development work will be realised in the coming financial year.

Brand and product awareness was created through the Bank's participation in the Botswana Confederation of Commerce Industry and Manpower (BOCCIM) Fair, the Ghanzi show and advertisements in local newspapers, magazines and via radio.

The Bank introduced the Let's Talk Money radio programme as a way of educating consumers on topical bank-related issues, products and services. Internal branding and product knowledge was achieved through the product knowledge quizzes that took place monthly.

The Bank Gaborone website was kept fresh and updated, providing customers with information on the Bank's offerings.

As part of its social responsibility, the Bank donated funds to a variety of charity organisations.

FINANCIAL STATEMENTS
For the year ended 30 June 2010

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The directors herewith submit their report with the annual financial statements of the Bank for the year ended 30 June 2010.

1. General review

Bank Gaborone Limited conducts business as a registered bank and provides comprehensive banking services to its clients in Botswana. Although Bank Gaborone is an autonomous Botswana company, it also provides international banking services through direct liaison with financial centres and institutions worldwide. Bank Gaborone is registered in Botswana under registration number 8812/2004. The registered office of the Bank is Plot 50371, Fairgrounds Office Park, Gaborone. The principle office address where business is conducted is at Plot 5129, Queens Road, The Mall, Gaborone.

2. Financial results and dividends

Profit after tax was P5 761 000 (2009: P2 428 000). Full details of the financial results of the Bank are set out on pages 30 to 74.

3. Stated capital

No shares were issued during the year.

4. Holding company and ultimate holding company

The Bank is a subsidiary of Capricorn Investment Holdings (Botswana) (Pty) Ltd; a company registered in Botswana. The ultimate holding company is Capricorn Investment Holdings Limited registered in Namibia.

5. Directors and company secretary

The following persons were directors of the Bank during the financial year:

Non-executive

J C Brandt	*Chairman*
J J Swanepoel	*Vice-chairman*
P C G Collins	
J L J van Vuuren	*Deceased 27 February 2010*

Executive

André Barnard	*Managing Director*

Andre Bester was secretary of the Bank during the year under review. The business and postal addresses of the company secretary are:

Bank Gaborone	Private Bag 00325
Queens Street	Gaborone
Gaborone	Botswana

6. Post-balance sheet

No matters which are material requiring adjustment to the financial statements, have occurred between the balance sheet date and the date of approval of the financial statements.

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the Bank at the end of the financial year and the net income and cash flows for the year and other information contained in this report.

To enable the directors to meet these responsibilities:

- the board and management set standards and management implement systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;

- the Bank's internal audit function, which operates unimpeded and independently from operational management and has unrestricted access to the Board Audit and Risk Committee, appraises, evaluates and, when necessary, recommends improvements in the systems of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and

- the Bank's Audit and Risk Committee, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal controls and procedures has occurred during the year under review.

The Bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The financial statements, presented on pages 28 to 74, have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Companies Act, 2003 and the Banking Act, 1995.

The directors have no reason to believe that the Bank as a whole will not be a going concern in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on that basis.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditor's report is presented on page 27.

The financial statements were authorised and approved for issue by the board of directors on 7 September 2010 and are signed on their behalf:

PCG Collins
Director

A Barnard
Managing Director

Bank Gaborone Limited is committed to the principles of openness, integrity and accountability and the directors recognise the need to conduct the business of the Bank with integrity and in accordance with generally accepted corporate practices.

1. Board of directors

The Bank's board consists of executive and non-executive directors. The board is balanced so that no individual can dominate decision-making. The board meets regularly and retains full executive control over the Bank. The board operates in terms of a formal written charter. The board monitors its management, ensuring that material matters are subject to board approval. The board reserves to itself a range of key decisions to ensure that it retains proper direction and control of the Bank. The executive management attends board meetings by invitation.

The roles of the chairperson and managing director do not vest in the same person. The chairperson and managing director of the Bank provide leadership and guidance to the board, encourage proper deliberation of all matters requiring the board's attention and obtain optimum input from the other directors. New appointments to the board are submitted to the board as a whole for approval prior to appointment.

Non-executive directors

The majority of board members are non-executive directors, three of which are independent. Non-executive directors bring with them diversity of experience, insight, independent judgement on issues of strategy, performance, resources and standards of conduct. Refer to the notes to the financial statements for details of directors' emoluments. Non-executive directors have no service contracts with the Bank and are appointed for specific terms. Recommendation of members for re-appointment is not automatic, but considered individually, based on their contribution.

Executive directors

Being involved with the day-to-day business activities of the Bank, the managing director is responsible for ensuring that decisions, strategies and views of the board are implemented.

The board of directors has adopted a Board Charter that details responsibilities of the director and committees.

Company secretary

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed. All directors are entitled to seek independent professional advice about the affairs of the Bank.

2. Board Audit and Risk Committee

A Board Audit and Risk Committee, whose chairman is a non-executive director, was established to oversee the activities of Bank Gaborone Ltd. Both the internal and external auditors have unrestricted access to the Committee, which ensures that their independence is in no way impaired.

3. Board Human Resources Committee

The purpose of the Board Human Resources Committee is to ensure that the organisation is appropriately staffed in terms of skills levels and ethnic diversity and to meet the challenges of the future; programmes related to this are ratified by the Committee. The Committee also ensures that management and staff are remunerated appropriately and that the remuneration scales, including incentive and share schemes, as well as conditions of employment of these subsidiaries, are market-related.

4. Board Nominations and Remuneration Committee

The Board Nominations and Remuneration Committee is responsible for the evaluation of new board appointees and ensures that board members remain competent to fulfil their duties. The Committee furthermore considers and recommends to the board appropriate remuneration for non-executive and executive directors as well as executive management.

5. Board Credit and Lending Committees

The Board Credit and Lending Committees of Bank Gaborone Ltd monitor the granting and management of credit, especially with regard to large exposures. Refer to note 4.1 of the financial statements for further details.

6. Internal control system

The Bank maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposition. These are designed to provide reasonable assurance to management and the board of directors regarding the preparation of reliable published financial statements and the safeguarding of the Bank's assets.

The systems include a documented organisational structure and division of responsibility; established policies and procedures which are communicated throughout the Bank; and the proper training and development of its people. Internal auditors monitor the operation of the internal control systems and report findings and recommendations to management and the board of directors.

Corrective action is taken to address control deficiencies and other opportunities for improving the systems as they are identified. The board of directors, operating through the Board Audit and Risk Committee, provides oversight of the financial reporting process.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank assesses its internal control systems on a continuous basis in relation to effective internal control over financial reporting. Based on its assessment, the Bank believes that, as at 30 June, its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, were adequate.

7. Risk management

A coordinated risk management framework is in existence for the Bank, which is comprised of policies and procedures, control structures and the measurement of risk, as well as the compliance with regulations laid down by the authorities. The Bank's ultimate holding company, Capricorn Investment Holdings Limited, employs a Risk Unit which is tasked with enterprise-wide risk management, including risk management of the Bank.

7.1 Financial risk management

Financial risk management is dealt with in the financial statements in note 4.

7.2 Asset and liability management

Focused asset and liability management plays an ever important role in the financial risk management and profit enhancement programmes of the Bank. The asset and liability management team of Bank Gaborone uses a multi-dimensional model to assist in the formulation of recommendations to the Bank's asset and liability committee ('ALCO'). ALCO, which comprises members of the executive management team as well as specialists from the Treasury Department, meets on a monthly basis to review strategies, make decisions and exploit market opportunities.

7.3 Operational risk

Operational risks are non-speculative by nature and include losses through fraud, theft, corruption or any other occurrences. The Bank guards against these risks through, amongst others, sound systems and strong internal control procedures, intervention of an active Audit and Risk Committee and a Human Resources Committee which determines staff policy and remuneration levels. In addition, insurance policies cover the Bank's assets as well as liabilities against fraud and error.

8. Internal audit

Internal auditors monitor the operation of the internal control systems and report findings and recommendations to management and the board of directors. Corrective action is taken to address control deficiencies and other opportunities for improving the systems as they are identified. The board of directors, operating through its Audit and Risk Committee, provides oversight of the financial reporting process. The internal audit function is outsourced to the ultimate holding company's internal audit function.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK GABORONE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Bank Gaborone Limited, set out on pages 28 to 74 which comprise the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Bank Gaborone Limited as at 30 June 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

13 October 2010
GABORONE CERTIFIED PUBLIC ACCOUNTANTS

Senior Partner: B D Rhine. Partners: R Binedell, P R De Silva, N B Soni | Associates: A S Edirisinghe, M Lalithkumar, S Sinha, S K K Wijesena.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 P'000	2009 P'000
Interest and similar income	6	149,478	147,763
Interest expense and similar charges	6	(80,114)	(86,145)
Net interest income		69,364	61,618
Fee and commission income	7	12,039	7,249
Net trading income	8	2,298	3,341
Other operating income	9	1,200	565
Impairment losses on loans and advances	12	(5,775)	(13,891)
Administrative expenses	10	(37,975)	(32,898)
Other operating expenses	11	(33,447)	(22,932)
Profit before income tax		7,704	3,052
Income tax expense	13	(1,943)	(624)
Profit for the year		5,761	2,428
Other comprehensive income		-	-
Total comprehensive income for the year		5,761	2,428

	Notes	2010 P'000	2009 P'000
Assets			
Cash and balances with Central Bank	14	66,152	43,226
Financial assets designated at fair value through profit and loss	15	377,446	220,220
Loans and advances to banks	16	45,561	33,384
Loans and advances to customers	17	942,526	703,244
Other assets	18	39,511	24,816
Current tax asset		-	62
Property, plant and equipment	19	15,970	13,805
Intangible assets	20	6,751	7,446
Total assets		1,493,917	1,046,203
Liabilities			
Deposits from banks	21	17,954	-
Deposits from customers	22	1,286,236	899,595
Other liabilities	23	23,942	37,046
Current tax liability		187	-
Deferred tax liability	24	1,324	1,049
Debt security in issue	25	50,000	-
Total liabilities		1,379,643	937,690
Equity			
Stated capital	26	103,406	103,406
Distributable reserves		10,868	5,107
Total shareholders equity		114,274	108,513
Total equity and liabilities		1,493,917	1,046,203

	Notes	Stated capital P'000	Retained earnings P'000	Total equity P'000
Balance at 1 July 2008		64,715	2,679	67,394
Profit for the year		-	2,428	2,428
Transactions with owners				
Shares issued during the year	26	38,691	-	38,691
Balance at 30 June 2009		103,406	5,107	108,513
For the year ended 30 June 2010				
Balance at 1 July 2009		103,406	5,107	108,513
Profit for the year		-	5,761	5,761
Balance at 30 June 2010		103,406	10,868	114,274

	Notes	2010 P'000	2009 P'000
Cash flows from operating activities			
Interest and discount receipts		149,478	147,763
Interest payments		(80,114)	(86,145)
Commission, fees and other income receipts		15,536	11,155
Cash payments to employees and suppliers		(66,928)	(52,792)
Cash generated by operations	29	17,972	19,981
Income tax (paid) / refund	30	(1,420)	37
Cash inflow from operating activities before changes in operating assets and liabilities		16,552	20,018
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(245,057)	(280,581)
Net (increase) / decrease in other assets		(14,695)	110
Net increase in amounts due to customers		386,607	372,178
Net (decrease) / increase in other liabilities		(13,104)	5,890
Net increase / (decrease) in amounts due to other banks		17,954	(3,872)
Net cash generated from operating activities		148,257	113,743
Cash flows from investing activities			
Additions to property, plant and equipment	19	(4,865)	(6,187)
Additions to intangible assets	20	(1,063)	(5,447)
Proceeds on asset disposal		-	34
Net cash utilised in investing activities		(5,928)	(11,600)
Cash flows from financing activities			
Proceeds from issue of debt security	25	50,000	-
Issue of shares	26	-	38,691
Net cash generated from financing activities		50,000	38,691
Net increase in cash and cash equivalents		192,329	140,834
Cash and cash equivalents at beginning of year		296,830	155,996
Cash and cash equivalents at end of year	31	489,159	296,830

1. Reporting entity

Bank Gaborone Limited is a company domiciled in Botswana. The address of the Bank's registered office is Plot 50371, Fairgrounds Office Park, Gaborone. The principal office address where business is conducted is at Plot 5129, Queens Road, The Mall, Gaborone. The Bank conducts business as a registered commercial bank and provides comprehensive banking services to its clients.

The financial statements have been approved for issue by the board on 7 September 2010.

2. Basis of preparation

Bank Gaborone Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued that are effective at the time of preparing these statements. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment 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 financial statements, are disclosed in note 5.

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

The following new standards, amendments and interpretations to existing standards are mandatory for the Bank's accounting periods beginning on or after 1 January 2009. These have been adopted by the Bank during the year.

- IFRS 7, Financial Instruments – Disclosures (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.
- IAS 36, (Amendment), Impairment of Assets: Disclosure of estimates used to determine recoverable amount (effective from 1 January 2009).
- IAS 1, (Revised 2007), Presentation of financial statements (effective from 1 January 2009).
- IAS 10, Events after the reporting period: Dividends declared after the end of the reporting period (effective from 1 July 2009).

(b) New and amended standards applicable to the current period but not applicable to the Bank

Management assessed the relevance of the following new standards, amendments and interpretations with respect to the Bank's operations and concluded that they are not relevant to the Bank.

- IAS 23, (Revised March 2007), Borrowing Cost (effective from 1 January 2009). The amendment is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
- IFRS 8, Operating Segments (effective from 1 January 2009).
- IFRS 2, (Amendment), Share-based Payment: Vesting conditions and cancellations (effective from 1 January 2009).
- IAS 27, (Amendment), Consolidated and separate measurement of subsidiary held for sale in separate financial statements (effective from 1 January 2009).
- IFRIC 15, Agreement for the construction of real estate (effective from 1 January 2009).
- IAS 32, (Amendment), Financial Instruments – Presentation and IAS 1 (Amendment), Presentation of financial statements – puttable financial instruments and obligation arising on liquidation (effective from 1 January 2009).
- IFRS 1, (Amendment), First time adoption of international financial reporting standards and IAS 27, (Amendment), Consolidated and separate financial statements: Cost of an investment in a subsidiary, jointly controlled entity or associate (effective from 1 January 2009).
- IFRS 5, (Amendment), Non-current assets held for sale and discontinued operations: Plan to sell the controlling interest in a subsidiary (effective from 1 January 2009).
- IAS 1, (Amendment), Presentation of Financial Statements: Current/non-current classification of derivatives (effective from 1 January 2009).
- IAS 19, (Amendment), Employee Benefits: Curtailments and negative past service cost, plan administration costs and replacement of term

'fall due' (effective from 1 January 2009).

- IAS 20, (Amendment), Accounting for Government Grants and disclosure of government assistance: Government loans with a below-market rate of interest (effective from 1 January 2009).
- IAS 28, (Amendment), Investment in Associates: Required disclosures when investments in associates are accounted for at fair value through profit or loss and Impairment of investment in associate (effective from 1 January 2009).
- IFRS 3, (Revised), Business Combinations (effective from 1 July 2009).
- IAS 27, (Revised), Consolidated and Separate Financial Statements (effective from 1 July 2009).
- IFRS 1, (Amendment), First-time Adoption of International Financial Reporting Standards – Revised (effective from 1 July 2009).
- IAS 16, (Amendment), Property, plant and equipment: Recoverable amount and sale of assets held for rental (effective from 1 January 2009).
- IFRIC 17, Distribution of non cash assets to owners (effective from 1 July 2009).
- IFRIC 18, Transfer of assets from customers (effective from 1 July 2009).
- IAS 31, (Amendment), Interests in joint ventures: Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss (effective from 1 January 2009).
- IAS 38, (Amendment), Intangible assets: Advertising and promotional activities and Units of production method of amortisation (effective from 1 January 2009).
- IAS 29, (Amendment), Financial reporting in hyperinflationary economies: Description of measurement basis in financial statements (effective from 1 January 2009).
- IAS 39, (Amendment), Financial Instruments: Reclassification of derivatives into or out of the classification of at fair value through profit or loss, Designating and hedging at segment level (effective from 1 January 2009).
- IAS 40, (Amendment), Investment property: Property under construction or development for future use as an investment property (effective from 1 January 2009).
- IAS 41, (Amendment), Agriculture: Discount rate for fair value calculations, Additional biological transformation (effective from 1 January 2009).
- IFRS 3, Business Combinations; and consequential amendment to IAS 28 Investments in Associates (effective from 1 July 2009).
- IAS 18, Revenue: Cost of originating a loan (effective from 1 July 2009).
- IAS 34, Interim Financial Reporting: Earning per share disclosures in interim financial reports (effective from 1 July 2009).

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

The following new standards, amendments and interpretations to existing standards are mandatory for the Bank's accounting periods beginning on or after 1 July 2009. These have not been early adopted by the Bank.

New standards, amendments and interpretations which are relevant to the Bank's operations

- IFRS 9, Financial Instruments: Classification and measurement of financial assets (1 January 2013).

Management is currently assessing the impact of the application of these new standards, amendments and interpretations on the Bank's financial statements in the period of initial application. At this time, the adoption of these standards and interpretations is only expected to have an impact on the classification and disclosure of items in the Bank's financial statements.

New standards, amendments and interpretations which are not relevant to the Bank's operations

- IAS 24, (Amendment), Related party disclosures: Partial relief from requirement for government related entities to disclose details of transactions with the government and related entities (1 January 2011).
- IFRS 2, (Amendment), Group cash-settled share-based payment transactions (effective from 1 January 2010).
- IAS 32, (Amendment), Classification of rights issues (effective from 1 February 2010).
- IFRS 1, (Amendment), Limited exemption from comparative (1 July 2010).
- IFRS 7, (Amendment), disclosures for first-time adopters (1 July 2010).
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective from 1 July 2010).
- IFRIC 14, (Amendment), Pre-payment of a minimum funding requirement (effective from 1 January 2011).

3. Summary of significant accounting policies

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

3.1 Foreign currency translation

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The 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 statement of comprehensive income under trading income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

3.2 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

3.3 Net interest income

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest 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 (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

Interest income and expense is recognised as part of operating cash flows in the statement of cash flows.

3.4 Net fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Service fees are recognised based on the applicable service contracts.

3.5 Net trading income

The Bank includes profits, losses and fair value adjustments on trading financial instruments as well as financial instruments designated at fair value in trading income as it is earned.

3.6 Revenue recognition

Refer to notes 3.3, 3.4 and 3.5 for revenue recognition in respect of interest income, fees and commission and trading income.

3.7 Financial assets

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

(a) Financial assets at fair value through profit or loss

This category has two subcategories: 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. Bank of Botswana Certificates, government stock and derivatives are designated in this category.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related financial assets were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- financial instruments, such as debt securities held, containing one or more embedded derivative significantly modifying the cash flows, are designated at fair value through profit and loss.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

(b) Loans and receivables

Loans and receivables 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 or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the statement of comprehensive income.

Loans and advances are classified in this category.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. There were no financial assets classified as held-to-maturity at the balance sheet date.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the income statement.

(d) 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.

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 should be recognised in profit or loss. Dividends on 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 (and for unlisted securities), 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. Investments in equity instruments that do not have a quoted market and whose fair value cannot be reliably measured, is measured at cost. There were no financial assets classified as available-for-sale at the balance sheet date.

(e) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

3.8 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.

3.9 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

3.10 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 are incurred if, and only if, there is objective evidence of impairment as a result of one or more event that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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:

(i) Significant financial difficulty of the issuer or obligor
(ii) A breach of contract, such as a default or delinquency in interest or principal payments
(iii) The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial

difficulty, a concession that the lender would not otherwise consider
(iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation
(v) The disappearance of an active market for that financial asset because of financial difficulties or
(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in 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 or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). 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 loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Assets carried at fair value

The Bank assesses at each date of the statement of financial position 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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 statement of comprehensive income.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if the new terms are not met.

3.11 Intangible assets

Computer software

Costs associated with developing or maintaining computer software programs are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives as follows:

Operating software	3 years
Application software	5 years

3.12 Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Motor vehicles	5 years
Furniture and fittings	8,3 years
Office equipment	6,67 years
Computer equipment	3–5 years
Plant	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

3.13 Property in possession

Property in possession is included at the lower of cost or net realisable value, and is derecognised when the asset is sold to a third party.

3.14 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversals of the impairment at each reporting date.

3.15 Financial liabilities

The Bank recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The Bank classifies its financial liabilities in the following categories: at amortised cost and financial liabilities at fair value through profit or loss.

(a) At amortised cost

The liability is recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, it is 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 liability using the effective interest method.

Also classified in this category are deposits, the Bank's debts in securities and other liabilities.

(b) Financial liabilities at fair value through profit and loss

Financial liabilities are designated at fair value through profit and loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Financial liabilities at fair value through profit or loss are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of the 'financial liabilities at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

3.16 Leases

(a) Operating leases – in the books of the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of comprehensive income 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.

(b) Finance leases – in the books of the lessor

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

3.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks; treasury bills and other eligible bills; placements with other banks; and short-term government securities.

3.18 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; when it is more likely than not that an outflow of resources will be required to settle the obligation; and when the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as an interest expense.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

3.19 Financial guarantee contracts

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 a debt instruments. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. 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 on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history or past losses, supplemented by the judgement of management.

Any increase in the liability relating to financial guarantees is taken to the income statement under operating expenses.

3.20 Post-employment benefits

The Bank operates a defined contribution plan. The plan is funded through payments to a trustee-administered fund. 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 contributions are recognised as an employee benefit expense 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.

The Bank provides no other post-retirement benefits to their retirees.

3.21 Deferred and current 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 financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment and tax losses carried forward. Deferred income tax is determined using tax rates (and laws) 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. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, 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.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. 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.

3.22 Stated capital

Stated capital consists solely of ordinary share capital. Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.23 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by its shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

3.24 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 costs; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate yield method.

4. Financial risk management

Assuming financial risks are inherent within any business environment. Managing these risks continues to play a pivotal role within the Bank to ensure that an appropriate balance is reached between risks and returns.

The board of directors is ultimately responsible to ensure that the Bank is not exposed to risks which may have a negative impact on its financial performance, which may ultimately have an adverse effect on the continued operations of the Bank. Compliance with a set of comprehensive risk management policies is an integral part of the Bank's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks. In addition, the following subcommittees have been formed to assist the board of directors to manage risks:

Asset and Liability Committee (ALCO)

The Bank trades in financial instruments where it takes positions in traded instruments to take advantage of short-term market movements in bonds, currency and interest rates. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities. Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Board Credit Committee (BCC) and Board Lending Committee (BLC)

One of the Bank's primary activities is lending to retail and commercial borrowers. The Bank accepts deposits from customers at both fixed and floating rates and for various periods, seeking to earn above-average interest margins by investing these funds in high-quality assets. The BCC and BLC are tasked to ensure this objective is achieved by ensuring credit exposures remain within a specified range of credit standing. Such exposures involve not just on-balance sheet loans and advances but also exposures to guarantees and other commitments, such as letters of credit entered into by the Bank.

The board of directors, through its Board Audit and Risk Committee (BARC), also places reliance on the function of internal audit to detect whether business units complies with the risk management policies and report non-compliance thereof.

The Bank is exposed to the following significant risks:

4.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from loans and advances to customers, loans and advances to banks and cash deposits with banks and financial institutions. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk, together with large exposures, are monitored by the Board Credit and Lending Committees.

4.1.1 Risk limit control and mitigation policies

Financial assets subject to credit risk

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

	Cash and balances with Central Bank (P'000)	Financial assets designated at fair value through profit or loss (P'000)	Loans and advances to banks (P'000)	Loans and advances to customers (P'000)	Other assets (P'000)	Total (P'000)
As at 30 June 2010						
Neither past due nor impaired	66,152	377,446	45,561	892,699	39,511	1,421,369
Past due but not impaired	-	-	-	57,656	-	57,656
Impaired	-	-	-	14,511	-	14,511
Total	66,152	377,446	45,561	964,866	39,511	1,493,536
Impairment allowance	-	-	-	(22,340)	-	(22,340)
Total carrying value	66,152	377,446	45,561	942,526	39,511	1,471,197
At 30 June 2009						
Neither past due nor impaired	43,226	220,220	33,384	698,864	24,816	1,020,510
Past due but not impaired	-	-	-	4,550	-	4,550
Impaired	-	-	-	17,360	-	17,360
Total	43,226	220,220	33,384	720,774	24,816	1,042,420
Impairment allowance	-	-	-	(17,540)	-	(17,540)
Total carrying value	43,226	220,220	33,384	703,234	24,816	1,024,880

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a monthly basis and are subject to an annual or more frequent review.

The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, except for a portion of personal lending where no such facilities can be obtained.

Placements with banks, including loans and advances to banks, are only done with major banks with high credit standings.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- mortgages over residential properties;
- charges over business assets such as premises, inventory and accounts receivable; and / or
- charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured. To minimise the credit loss, the Bank will also seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments should a customer not be able to meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2010 P'000	2009 P'000
Cash and balances with Central Bank	66,152	43,226
Financial assets designated at fair value through profit and loss	377,446	220,220
Loans and advances to banks	45,561	33,384
Loans and advances to customers	964,866	720,784
Other assets	39,511	24,816
	1,493,536	1,042,430
Credit risk exposure relating to off-balance sheet items are as follows:		
Guarantees	79,154	45,166
Loan commitments and other credit related liabilities	16,197	8,588
At end of year	95,351	53,754

The above table represents a worse case scenario of credit risk exposure to the Bank at 30 June 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

The most significant exposures are derived from loans and advances to banks and customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on:

- mortgage loans being backed by collateral;
- impairment provision being maintained at below 3% of total advances; and
- the Bank having sustained stringent selection processes upon granting loans and advances.

4.1.3 Impairment and provisioning policies

The Bank employs various techniques to determine the specific and portfolio impairment of its financial assets.

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 60 days. These assets, together with other financial assets, are impaired according to the portfolio impairment policy as per note 3.10.

Also, in terms of policy note 3.10, loans and advances not specifically impaired are collectively assessed. As the loans and advances to customers are ungraded, a general impairment is recognised for these loans and advances. The principle is based on recognising losses which are incurred but not yet reported. The primary driver of the calculation is the probability of default within the various products and is based on the historical performance of the loans and advances.

4.1.4 Loans and advances

Loans and advances are summarised as follows:

	2010		2009	
	Loans and advances to customers P'000	Loans and advances to banks P'000	Loans and advances to customers P'000	Loans and advances to banks P'000
Neither past due nor impaired	892,699	45,561	698,864	33,384
Past due but not impaired	57,656	-	4,550	-
Individually impaired	14,511	-	17,370	-
Gross	964,866	45,561	720,784	33,384
Less: allowance for impairment	(22,340)	-	(17,540)	-
Loans and advances after impairment	942,526	45,561	703,244	33,384

(a) Loans and advances neither past due nor impaired

	Article finance P'000	Commercial loans P'000	Instalment finance P'000	Mortgage loans P'000	Total P'000
As at 30 June 2010	184,446	176,209	259,805	272,239	892,699
As at 30 June 2009	140,521	248,128	93,066	217,149	698,864

Credit quality of financial assets neither past due nor impaired

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

	2010 P'000	2009 P'000
Loans granted within the last 12 months, with no history of default	493,170	338,961
Loans granted within the last 12 months, with minor history of default	4,070	44,211
Loans granted prior to the last 12 months, with no history of default	335,822	216,250
Loans granted prior to the last 12 months, with minor history of default	59,637	99,442
	892,699	698,864

(b) Loans and advances past due but not impaired

Loans and advances less than 60 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired, were as follows:

	Article finance P'000	Commercial loans P'000	Instalment finance P'000	Mortgage loans P'000	Total P'000
30 June 2010					
Past due up to 30 days	8,791	15,157	3,173	23,550	50,671
Past due 30–60 days	2,209	2,629	202	1,945	6,985
Past due 60 days	-	-	-	-	-
Total	11,000	17,786	3,375	25,495	57,656
Fair value of collateral	7,000	18,000	-	23,000	48,000
30 June 2009					
Past due up to 30 days	578	164	21	107	870
Past due 30–60 days	553	45	2	150	750
Past due 60 days	2,160	134	117	519	2,930
Total	3,291	343	140	776	4,550
Fair value of collateral	1,974	343	-	776	3,093

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, is as follows:

	Article finance P'000	Instalment finance P'000	Other P'000	Mortgage loans P'000	Total P'000
30 June 2010					
Past due 60–90	328	10	395	-	733
Past due 91–180 days	3,709	95	359	-	4,163
Past due 180 days	2,431	2,937	4,247	-	9,615
Total	6,468	3,042	5,001	-	14,511
Fair value of collateral	4,588	1,509	-	-	6,097

(c) Loans and advances individually impaired (continued)

	Article finance P'000	Instalment finance P'000	Other P'000	Mortgage loans P'000	Total P'000
30 June 2009					
Past due 60–90 days	1,049	40	228	-	1,317
Past due 91–180 days	11,265	-	467	-	11,732
Past due 180 days	1,433	1,179	214	-	2,826
Total	13,747	1,219	909	-	15,875
Fair value of collateral	6,029	75	347	-	6,451

Collateral consists of property, plant and equipment, as well as acceptable financial instruments. At year-end, the Bank had collateral of P6 097 639 in repossession.

Further information of the impairment allowance for loans and advances to customers is provided in note 17.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. At 30 June 2010, the carrying amount of loans and advances that have been renegotiated and classified as neither past due nor impaired, was as follows:

	2010 Carrying amount P'000	2009 Carrying amount P'000
Loans and advances to customers	2,674	1,875

4.1.5 Credit risk concentration by industry

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties:

	Cash and balances with Central Bank P'000	Financial assets designated at fair value through profit and loss P'000	Loans and advances to banks P'000	Loans and advances to customers P'000	Other assets P'000	Total P'000
As at 30 June 2010						
Agriculture	-	-	-	37,825	-	37,825
Mining	-	-	-	29,369	-	29,369
Manufacturing	-	-	-	26,202	-	26,202
Building and construction	-	-	-	60,187	-	60,187
Electricity, gas and water	-	-	-	1,620	-	1,620
Trade and accommodation	-	-	-	89,459	-	89,459
Transport and communication	-	-	-	17,442	-	17,442
Finance and insurance	-	-	45,561	327	-	45,888
Real estate and business services	-	-	-	370,013	-	370,013
Government	66,152	377,446	-	15,659	-	459,256
Individuals	-	-	-	294,424	-	294,424
Other	-	-	-	-	39,511	39,511
	66,152	377,446	45,561	942,527	39,511	1,471,197
As at 30 June 2009						
Agriculture	-	-	-	30,531	-	30,531
Mining	-	-	-	23,451	-	23,451
Manufacturing	-	-	-	27,323	-	27,323
Building and construction	-	-	-	44,282	-	44,282
Electricity, gas and water	-	-	-	3,693	-	3,693
Trade and accommodation	-	-	-	57,066	-	57,066
Transport and communication	-	-	-	6,541	-	6,541
Finance and insurance	-	-	33,384	926	-	34,310
Real estate and business services	-	-	-	229,715	-	229,715
Government	43,226	220,220	-	19,630	-	283,076
Individuals	-	-	-	260,076	-	260,076
Other	-	-	-	-	24,816	24,816
	43,226	220,220	33,384	703,234	24,816	1,024,880

4.2 Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. It is the Bank's policy not to enter into long-term, unhedged, fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO Policy.

4.2.1 Market risk measurement techniques

The Bank employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the Bank's trading portfolio and the effect of such changes on the interest margin.

Other measurement techniques include comprehensive analysis of maturities, both from the advance and funding perspective.

4.2.2 Foreign exchange 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 board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 30 June. Included in the table are the Bank's financial instruments at the carrying amounts, categorised by currency.

Concentration of foreign denominated currency risk – on- and off-balance sheet financial instruments (all amounts in P'000)

	US$	€	£	Other	Total
As at 30 June 2010					
Assets					
Loans and advances to customers	-	-	-	17,673	17,673
Loans and advances to banks	34,335	1,824	143	9,259	45,561
Total financial assets	34,335	1,824	143	26,932	63,234
Liabilities					
Deposits from banks	-	-	-	9,026	9,026
Deposits from customers	38,662	615	149	1,647	41,073
Total financial liabilities	38,662	615	149	10,673	50,099
Net on-balance sheet financial position	(4,327)	1,209	(6)	16,259	13,135
Credit commitments	-	-	-	-	-
As at 30 June 2009					
Total financial assets	3,139	1,109	27	2,182	6,457
Total financial liabilities	(4,147)	(613)	(33)	(1,558)	(6,351)
Net on-balance sheet financial position	(1,008)	496	(6)	624	106
Credit commitments	-	-	-	-	-

4.2.2 Foreign exchange risk (continued)

The following sensitivity analysis is monitored on the following major currencies of non-equity instruments, had a 3.5% increase arisen on the various currencies.

		Effect on net profit 2010	2009
Currency			
US Dollar / Botswana Pula	**P'000**	(151)	(35)
As a percentage of total Shareholders equity		-0.13%	-0.03%
British Pound / Botswana Pula	**P'000**	-	-
As a percentage of total shareholders' equity		0.00%	0.00%
Euro / Botswana Pula	**P'000**	42	17
As a percentage of total shareholders' equity		0.04%	0.02%
Others / Botswana Pula	**P'000**	569	22
As a percentage of total shareholders' equity		0.50%	0.02%

4.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 repricing that may be undertaken, which is monitored daily.

The table on page 52 summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Bank's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'non-interest bearing'. Expected repricing and maturity dates do not differ significantly from the contract dates.

4.2.3 Interest rate risk (continued)

	Up to 1 month P'000	1–3 months P'000	3–12 months P'000	1–5 years P'000	Over 5 years P'000	Non-interest sensitive P'000	Total P'000
Cash and balances with Central Bank	66,152	-	-	-	-	-	66,152
Financial assets at fair value through profit or loss	179,595	197,851	-	-	-	-	377,446
Loans and advances to banks	45,561	-	-	-	-	-	45,561
Loans and advances to customers	138,929	733	17,281	373,195	434,728	-	964,866
Other assets	-	-	-	-	-	39,511	39,511
Total assets	430,237	198,584	17,281	373,195	434,728	39,511	1,493,536
Liabilities							
Debts security in issue	-	-	-	-	50,000	-	50,000
Deposits from banks	17,954	-	-	-	-	-	17,954
Deposits from customers	854,706	352,796	65,404	13,330	-	-	1,286,236
Other liabilities	-	-	-	-	-	23,942	23,942
Total liabilities	872,660	352,796	65,404	13,330	50,000	23,942	1,378,132
Interest sensitivity gap	(442,423)	(154,212)	(48,123)	359,865	384,728	15,569	115,404
Cumulative interest sensitivity gap	(442,423)	(596,635)	(644,758)	(284,893)	99,835	115,404	-
As at 30 June 2009							
Interest sensitivity gap	(170,000)	(265,843)	(40,882)	307,649	287,096	(12,230)	105,790
Cumulative interest sensitivity gap	(170,000)	(435,843)	(476,725)	(169,076)	118,020	105,790	-

4.2.3 Interest rate risk (continued)

The following sensitivity analysis is monitored monthly and is based on a 100 basis point interest rate change:

	2010	2009
Sensitivity of net interest income		
Effect on net interest arising from a shift in yield curves of		
+ 100 basis points (P'000)	1,276	1,251
As a percentage of total shareholders' equity	1%	1%
Effect on net interest arising from a shift in yield curves of		
– 100 basis points (P'000)	(1,276)	(1,251)
As a percentage of total shareholders' equity	-1%	-1%

The interest rate sensitivities set out in the table above are illustrative only and are based on simplified scenarios.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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 margin and other 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 board 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.

4.3 Liquidity risk (continued)

This risk is managed proactively by monitoring the maturity profile of the current balance sheet as well as the expected future structure. ALCO is responsible for monitoring this risk and managing potential mismatches in accordance with best banking practices, including funding requirements.

	Up to 1 month P'000	1–3 months P'000	3–12 months P'000	1–5 years P'000	Over 5 years P'000	Total P'000
Liquidity risk analysis						
As at 30 June 2010						
Assets						
Cash and balances with Central Bank	66,152	-	-	-	-	66,152
Financial assets at fair value through profit or loss	179,870	200,000	-	-	-	379,870
Loans and advances to banks	45,561	-	-	-	-	45,561
Loans and advances to customers	169,410	55,424	229,776	682,755	607,204	1,744,569
Other assets	39,511	-	187	-	22,721	62,419
Total assets (contractual maturity dates)	500,504	255,424	229,963	682,755	629,925	2,298,571
Liabilities						
Deposits from banks	17,954	-	-	-	-	17,954
Debt security in issue	358	1,812	12,911	53,165	-	68,246
Deposits from customers	856,071	357,127	67,614	15,120	-	1,295,932
Other liabilities	23,942	-	-	1,324	-	25,266
Total liabilities (contractual maturity dates)	898,325	358,939	80,525	69,609	-	1,407,398
Liquidity sensitivity gap	(397,821)	(103,515)	149,438	613,146	629,925	891,172
Cumulative liquidity sensitivity gap	(397,821)	(501,336)	(351,898)	261,247	891,172	-
As at 30 June 2009						
Liquidity sensitivity gap	(164,733)	(245,712)	65,402	280,174	190,922	126,053
Cumulative liquidity sensitivity gap	(164,733)	(410,445)	(345,043)	(64,869)	126,053	-

4.3 Liquidity risk (continued)

Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 28) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (note 28) are also included below, based on the earliest contractual maturity date.

(c) Operating lease commitments

Where a bank is the lessee, the future minimum lease payments under non-cancellable operating leases (note 28) are summarised in the table below.

(d) Capital commitments
Capital commitments for the acquisition of buildings and equipment (note 28) are summarised in the table below.

The table below analyses the Bank's exposure to off-balance sheet items according to their expected settlement date.

	No later than 1 year	1–5 years	Over 5 years	Total
At 30 June 2010				
Loan commitments	16,197	-	-	16,197
Financial guarantees and other financial facilities	79,154	-	-	79,154
Operating leases	8,278	33,681	16,122	58,081
Capital commitments	9,069	-	-	9,069
	112,698	33,681	16,122	162,501
At 30 June 2009				
Loan commitments	8,588	-	-	8,588
Financial guarantees and other financial facilities	45,166	-	-	45,166
Operating leases	373	4,827	52,331	57,531
Capital commitments	3,015	-	-	3,015
	57,142	4,827	52,331	114,300

4.4 Fair values of financial assets and liabilities

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Bank is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
Financial assets				
Cash and balances with Central Bank	66,152	43,226	66,152	43,226
Financial assets at fair value through profit or loss	377,446	220,220	377,446	220,220
Loans and advances to banks	45,561	33,384	45,561	33,384
Loans and advances to customers	942,526	703,244	942,526	703,244
Other assets	39,511	24,816	39,511	24,816
	1,471,196	1,024,890	1,471,196	1,024,890
Financial liabilities				
Deposits from banks	17,954	-	17,954	-
Deposits from customers	1,286,236	899,595	1,286,236	899,595
Debts security in issue	50,000	-	50,000	-
Other liabilities	23,942	37,046	23,942	37,046
	1,378,132	936,641	1,378,132	936,641
Off-balance sheet financial instruments				
Guarantees, acceptances and other financial facilities	79,154	45,166	79,154	45,166
Loan commitments	16,197	8,588	16,197	8,588
	95,351	53,754	95,351	53,754

4.4 Fair values of financial assets and liabilities (continued)

(a) Financial assets designated at fair value through profit or loss

Financial assets at fair value through profit or loss are designated by management at inception and comprise of government debt securities. These investments are carried at cost, which approximates their fair value, due to their short-term nature. All financial assets designated at fair value through profit or loss are classified as level 2 investments. Level 2 investments are defined as those where the fair value is determined through inputs, other than quoted prices in active markets (level 1), that are observable for the asset, either directly or indirectly.

(b) Loans and advanced to banks

Loans and advances to banks include inter-bank placements. The fair value of overnight deposits is their carrying amount.

(c) Loans and advances to customers

The nominal value less impairment provision is assumed to approximate the fair value.

(d) 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.

(e) Other receivables and payables

The nominal value less impairment provision of other receivables and payables are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

(f) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

4.5 Categories of financial assets and liabilities

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

	Notes	Fair value through profit and loss (P'000)	Loans and advances (P'000)	Amortised cost (P'000)	Total carrying amount (P'000)	Fair value (P'000)
Financial assets						
Financial assets designated at fair value						
through profit and loss	(b)	377,446	-	-	377,446	377,446
Loans and advances						
– Loans and advances to banks	(c)	-	45,561	-	45,561	45,561
– Loans and advances to customers	(c)	-	942,526	-	942,526	942,526
– Other assets		-	39,511	-	39,511	39,511
Cash and balances with central banks	(a)	-	66,152	-	66,152	66,152
		377,446	1,093,750	-	1,471,196	1,471,196

4.5 Categories of financial assets and liabilities (continued)

	Notes	Other financial liabilities at amortised cost (P'000)	Total carrying amount (P'000)	Fair value (P'000)
Financial liabilities				
Deposits from banks	(c)	17,954	17,954	17,954
Deposits from customers	(d)	1,286,236	1,286,236	1,286,236
Debt security in issue	(e)	50,000	50,000	50,000
Other liabilities		23,942	23,942	23,942
		1,378,132	1,378,132	1,378,132

	Notes	Fair value through profit and loss (P'000)	Loans and advances (P'000)	Amortised cost (P'000)	Total carrying amount (P'000)	Fair value (P'000)
At 30 June 2009						
Financial assets						
Financial assets designated at fair value						
through profit and loss	(b)	220,220	-	-	220,220	220,220
Loans and advances						
– Loans and advances to banks	(c)	-	33,384	-	33,384	33,384
– Loans and advances to customers	(c)	-	703,244	-	703,244	703,244
– Other assets		-	24,816	-	24,816	24,816
Cash and balances with central banks	(a)	-	43,226	-	43,226	43,226
		220,220	804,670	-	1,024,890	1,024,890

	Notes	Other financial liabilities at amortised cost (P'000)	Total carrying amount (P'000)	Fair value (P'000)
Financial liabilities				
Deposits from banks	(c)	-	-	-
Deposits from customers	(d)	899,595	899,595	899,595
Debt security in issue	(e)	-	-	-
Other liabilities		37,046	37,046	37,046
		936,641	936,641	936,641

4.5 Categories of financial assets and liabilities (continued)

Notes

(a) Fair value approximates carrying value due to the minimal credit losses and short-term nature of the financial assets and liabilities.

(b) Financial instruments at fair value are either priced with reference to a quoted market price for that instrument or by using a valuation model.

(c) The fair value for loans and advances, as well as other lending, is estimated using discounted cash flows, applying either market rates where practical or, where the counterparty is a bank, rates currently offered by other financial institutions for placings with similar characteristics. In certain cases the fair value approximates carrying value because the instruments are short-term in nature or reprice frequently.

(d) Fair values of deposit liabilities payable on demand (interest free, interest-bearing and savings deposits) approximate to their carrying value. The fair value of all other deposits and other borrowings (including repurchase agreements and cash collateral on securities lent) is estimated using discounted cash flows, applying either market rates, where practicable, or rates currently offered by the Bank for deposits of similar remaining maturities.

(e) Fair values of short-term debt securities in issue are approximately equal to their carrying amount. Fair values of other debt securities in issue are based on quoted prices where available. Where quoted prices are not available, fair values are estimated using other valuation techniques.

4.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are to:

– comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
– safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
– maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques for supervisory purposes to ensure that the ratio does not fall below the required minimum. The required information is submitted to the Bank of Botswana on a monthly basis.

The Bank of Botswana requires each bank or banking group to hold the minimum level of the regulatory capital of P5 million, as well as to maintain the following capital adequacy ratios:

– Tier 1 and Tier 2 capital to risk weighted assets at a minimum of 15%, referred to as capital adequacy ratio.
– Tier 2 capital to Tier 1 capital limited at a ratio of 50% in the determination of capital adequacy.

The Bank's regulatory capital is divided into two tiers:
– Tier 1 capital: stated capital and distributable reserves.
– Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arsing on the fair valuation of equity instruments held as available-for-sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

4.5 Categories of financial assets and liabilities (continued)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 30 June 2010 and 30 June 2009. During those two years the Bank complied with all of the externally imposed capital requirements it is subject to.

	2010 P'000	2009 P'000
Tier 1 capital		
Stated capital	103,406	103,406
Retained earnings	10,868	5,107
Total qualifying Tier 1 capital	114,274	108,513
Tier 2 capital		
Debt security in issue	50,000	-
Collective impairment allowance (refer note 17)	12,037	9,035
Total qualifying Tier 2 capital	62,037	9,035
Total regulatory capital	176,311	117,548
Capital management		
Risk-weighted assets:		
On-balance sheet	923,382	700,196
Off-balance sheet	39,577	22,583
Total risk-weighted assets	962,959	722,779
The Bank uses Return on Equity (ROE) and Return on Assets (ROA) as its key investment performance ratios.		
Return on Equity	5.04%	2.24%
Return on Assets	0.39%	0.23%
Capital adequacy ratio	18.3%	16.3%

5. 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.

(a) Impairment losses

The Bank reviews its loans and advances portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with 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.

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

		Existing impairment provision	Impact on changes in roll rates		Impact on changes in recovery experience	
At 30 June 2010						
			+0.3%	**-0.3%**	**+5%**	**-5%**
Specific impairment	**P'000**	8,675	45	(45)	(471)	471
Portfolio impairment	**P'000**	13,665	1,382	(1,382)	(1,467)	1,467
		22,340	1,427	(1,427)	(1,938)	1,938
At 30 June 2009						
			+0.3%	**-0.3%**	**+5%**	**-5%**
Specific impairment	**P'000**	6,239	93	(93)	(848)	848
Portfolio impairment	**P'000**	11,301	3,208	(3,208)	-	-
		17,540	3,301	(3,301)	(848)	848

(b) Property, plant and equipment

The Bank follows the guidance of IAS16 (revised) and determines the residual values and useful lives of assets at each statement of financial position date. This determination requires significant judgement. In making this judgement, management evaluates amongst other factors, the purpose for which the respective assets are acquired. Market conditions at the statement of financial position date and the practice adopted by similar organisations.

		2010 P'000	2009 P'000
6.	**Net interest income**		
	Interest and similar income		
	Cash and short-term funds	25,259	22,348
	Loans and advances	124,219	125,415
		149,478	147,763
	Interest expense and similar charges		
	Banks and customers	76,214	86,145
	Other borrowed funds	3,900	-
		80,114	86,145
7.	**Net fee income**		
	Fee and commission income		
	Credit-related and other fees	8,042	5,121
	Commissions	3,997	2,128
		12,039	7,249
8.	**Net trading income**		
	Net translation gains of trading assets	2,298	3,341
9.	**Other operating income**		
	Other operating income includes:		
	Management fees received (note 32)	1,200	392
	Rental recoveries	-	173
		1,200	565
10.	**Administrative expenses**		
	Staff costs		
	Wages and salaries	28,744	25,847
	Staff training and transfer cost	878	444
	Pension costs – defined contribution plans	1,547	1,097
	Other remuneration costs	3,798	3,020
		34,967	30,408
	Other administrative expenses included:		
	Auditor's remuneration		
	– Audit fees	883	1,001
	– Fees for other services	40	60
	Directors' emoluments		
	– Services as directors	444	110
	Consulting fees paid – related parties (note 32)	1,641	1,319
		37,975	32,898

	2010 P'000	2009 P'000
10. Administrative expenses (continued)		
Number of employees	201	156
11. Other operating expenses		
Expenses by nature:		
Professional services	866	591
Advertising and marketing	2,949	2,529
Depreciation (notes 19 and 20)	4,493	3,038
Repairs and maintenance	2,616	196
Operating lease rentals – immovable property	7,411	7,110
Micro lending expenses	853	548
Courier charges	559	289
Commissions paid	1,812	533
Office expenses	823	710
Security expenses	725	539
Stationery	986	855
Software expenses	1,530	587
Telephone and fax	1,786	1,719
Travel and entertainment	1,552	1,519
Water and electricity	802	423
Other expenses	3,684	1,746
	33,447	22,932
12. Impairment losses		
Increase in specific impairment	2,521	7,545
Increase in portfolio impairment	2,364	6,346
Bad debts written off	890	-
	5,775	13,891
13. Income tax expenses		
Current tax @ 15%	1,001	67
Advanced company tax @ 10%	667	45
Deferred tax (note 24)	275	512
	1,943	624

	2010 P'000	2009 P'000
13. Income tax expenses (continued)		
The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	7,704	3,052
Tax at the applicable rate of 25 % (2009: 25%)	1,926	763
Expenses disallowed for tax purposes	10	762
Tax allowed adjustments	7	(901)
Income tax expense	1,943	624

Further information regarding deferred tax is presented in note 25.

The Bank has ACT amounting to P933 426 (2009: P265 879) to offset against the withholding tax (WHT) arising on any further dividends.

The availability of ACT for set-off against future WHT expires as follows :

Tax year	2010	2009
2011	933	

	2010	2009
14. Cash and balances with Central Bank		
Cash in hand	5,304	3,828
Balances with Central Bank	60,848	39,398
	66,152	43,226

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash-in-hand and balances with Central Bank and mandatory reserve deposits are non-interest-bearing.

	2010	2009
15. Financial assets designated at fair value through profit and loss		
Bank of Botswana Certificates	377,446	220,220

Bank of Botswana Certificates are securities issued by the Bank of Botswana for a term of two weeks, three months or one year. These securities are carried at fair value.

	2010 P'000	2009 P'000
15. Financial assets designated at fair value through profit and loss (continued)		

Bank of Botswana Certificates with a nominal value of P67 000 000 (2009: P42 000 000) are pledged as securities to the Bank of Botswana.

An effective interest rate of 7.1% p.a (2009: 10.35% p.a) is applicable on Bank of Botswana Certificates.

16. Loans and advances to banks

	2010 P'000	2009 P'000
Loans and advances to other banks	45,561	33,384

The effective interest rate on loans and advances to other banks is 7.96% p.a for 2010 (2009: 7.95% p.a)

17. Loans and advances to customers

	2010 P'000	2009 P'000
Overdrafts	138,211	109,924
Commercial loans	195,582	140,953
Mortgages	308,169	217,925
Article finance	197,622	156,241
BG Finance	125,282	95,741
Gross loans and advances	964,866	720,784
Less: impairment		
Specific impairment	(8,675)	(6,239)
Portfolio impairment	(13,665)	(11,301)
	942,526	703,244

The effective interest rate for the portfolio is 11.3% (2009: 16.2%).
Movement in the impairment provision for the Bank is as follows:

	Specific impairment P'000	Portfolio impairment P'000
Balance at 30 June 2008	5,971	4,955
Provision for loan impairment	7,545	6,346
Amounts written off during the year as uncollectible	(7,277)	-
Balance at 30 June 2009	6,239	11,301
Provision for loan impairment	2,521	2,364
Amounts written off during the year as uncollectible	(85)	-
Balance at 30 June 2010	8,675	13,665

17. Loans and advances to customers (continued)

The aggregate amount of non-performing loans on which interest was not being accrued amounted to P20 040 607 at 30 June 2010 (2009: P13 203 000). Accumulated unrecognised interest related to such loans amounted to P3 435 209 (2009: P2 138 886).

Maturity analysis of loans and advances to customers was as follows:

	2010 P'000	2010 %	2009 P'000	2009 %
Repayable within 1 month	138,929	14.4	127,611	17.7
Repayable after 1 month but within 3 months	733	0.1	28,640	4.0
Repayable after 3 months but within 12 months	17,281	1.8	112,706	15.6
Repayable after 12 months	807,923	83.7	451,827	62.7
	964,866	100.0	720,784	100.0

The loans and advances to customers include instalment finance receivables which may be analysed as follows:

	2010 P'000	2009 P'000
Repayable within 1 year	85,407	66,260
Repayable after 1 year but within 5 years	112,208	89,966
Repayable after 5 years	7	15
Net investment in instalment finances	197,622	156,241

18. Other assets

	2010 P'000	2009 P'000
Accounts receivable and prepayments	2,430	8,493
Intercompany balances (note 32)	468	3,785
Clearing accounts	36,613	12,538
	39,511	24,816

19. Property, plant and equipment

	Capital work in progress P'000	Plant P'000	Computer and other equipment P'000	Motor vehicles P'000	Furniture and fittings P'000	Total P'000
Year ended – 30 June 2010						
Cost						
Cost at 1 July 2009	1,581	85	3,971	243	11,846	17,726
Additions	-	107	1,896	47	2,815	4,865
Disposals	-	-	(7)	-	-	(7)
30 June 2010	1,581	192	5,860	290	14,661	22,584
Depreciation						
Depreciation at 1 July 2009	-	7	1,494	119	2,259	3,879
Charge for the period	-	21	1,014	55	1,645	2,735
Disposals	-	-	-	-	-	-
30 June 2010	-	28	2,508	174	3,904	6,614
Net book value	1,581	164	3,352	116	10,757	15,970
Year ended – 30 June 2009						
Cost						
Cost at 1 July 2008	-	-	2,910	284	8,344	11,538
Additions	1,581	85	1,061	-	3,460	6,187
Disposals	-	-	-	(41)	-	(41)
30 June 2009	1,581	85	3,971	243	11,804	17,684
Depreciation						
Depreciation at 1 July 2008	-	-	792	71	1,012	1,875
Charge for the period	-	7	702	56	1,247	2,012
Disposals	-	-	-	(8)	-	(8)
30 June 2009	-	7	1,494	119	2,259	3,879
Net book value	1,581	78	2,477	124	9,545	13,805

20. Intangible assets

	Software development in progress P'000	Computer software P'000	Total P'000
Year ended – 30 June 2010			
Cost			
Cost at 1 July 2009	4,058	5,419	9,477
Additions	-	5,121	5,121
Transfer	(4,058)	-	(4,058)
30 June 2010	-	10,540	10,540
Amortisation and impairment			
At 1 July 2009	-	2,031	2,031
Charge for the period	-	1,758	1,758
30 June 2010	-	3,789	3,789
Net book value	-	6,751	6,751
Year ended – 30 June 2009			
Cost			
Cost at 1 July 2008	-	4,030	4,030
Additions	4,058	1,389	5,447
30 June 2009	4,058	5,419	9,477
Amortisation and impairment			
At 1 July 2008	-	1,005	1,005
Charge for the period	-	1,026	1,026
30 June 2009	-	2,031	2,031
Net book value	4,058	3,388	7,446

Computer software includes capitalised software acquisition and development costs that meet the definition of an intangible asset.

	2010 P'000	2009 P'000
21. Deposits from banks		
Balances with other banks	17,954	-
22. Deposits from customers		
Current accounts	96,951	42,595
Savings accounts	19,643	9,056
Other deposits (on call and fixed terms)	1,169,642	847,944
	1,286,236	899,595
Deposits pledged as security for facilities provided		
Call deposits	2,009	42
Fixed deposits	13,775	791
Foreign deposits	-	204
Notice deposits	-	-
	15,784	1,037

The effective interest rate for the portfolio is 6.5% (2009: 9.5%).

Economic sector risk concentrations within the customer deposit portfolio of the Bank were as follows:

	2010		2009	
	P'000	%	P'000	%
Financial institutions	322,231	25.0	148,164	16.5
Companies	299,781	23.3	280,351	31.1
Individuals	62,585	4.9	26,980	3.0
Others	601,639	46.8	444,100	49.4
	1,286,236	100.0	899,595	100.0

Maturity analysis within the customer current, savings, deposit account portfolio for the Bank was as follows:

	2010 P'000	2010 %	2009 P'000	2009 %
Withdrawable on demand	714,551	55.6	415,502	46.2
Maturing within 1 month	140,155	10.9	97,066	10.8
Maturing after 1 month but within 12 months	418,200	32.5	386,094	42.9
Maturing after 12 months	13,330	1.0	933	0.1
	1,286,236	100.0	899,595	100.0

	2010 P'000	2009 P'000
23. Other liabilities		
Creditors	12,905	12,841
Intercompany balances (note 32)	770	64
Clearing accounts	8,842	6,776
Sundry creditors	142	595
Internal accounts	1,283	16,770
	23,942	37,046

24. Deferred tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 25% (2009: 25%).

The movement on the deferred income tax account is as follows:

	2010 P'000	2009 P'000
Balance as at 1 July	1,049	537
Income statement charge	275	512
Balance as at 30 June	1,324	1,049

Deferred income tax liability is attributable to the following item:

	2010 P'000	2009 P'000
Accelerated tax depreciation and amortisation	1,324	1,049

25. Debt security in issue

	2010 P'000	2009 P'000
Balance at beginning of year	-	-
Issued during the year	50,000	-
At end of year	50,000	-

The debt security from BIFM Capital Fund 2 (Pty) Ltd bears interest at a variable rate equivalent to the three month Bank of Botswana Certificate plus 1% and matures on 31 August 2019. Interest is paid quarterly in arrears. The debt is guaranteed by the Bank's ultimate parent company, Capricorn Investment Holdings Limited.

	2010 P'000	2009 P'000
26. Stated capital		
At 1 July	103,406	64,715
Shares issued	-	38,691
At 30 June	103,406	103,406

Stated capital at year-end comprises P103 406 000 (2009: P103 406 000) ordinary shares.

The directors are authorised annually at the annual general meeting to issue any unissued share capital.

27. Retirement benefit obligations

27.1 Medical aid scheme

Bank Gaborone Limited has no liability in respect of post-retirement medical aid contributions.

27.2 Pension schemes

All full-time permanent employees are members of the Alexander Forbes Retirement Fund, a defined contribution plan, which has been registered in Botswana in accordance with the requirements of the Pension and Provident Funds Act. The fund is governed by the Pension and Provident Funds Act 1987.

Bank Gaborone Limited currently contributes 10% of basic salary to the fund whilst the members contribute 7%.

28. Contingent assets, liabilities and commitments

	2010 P'000	2009 P'000
Capital commitments		
Property, plant and equipment	6,921	2,092
Software and licences	2,148	923
	9,069	3,015
Operating lease commitments		
Office premises		
– Not later than 1 year	8,278	373
– Later than 1 year and not later than 5 years	33,681	4,827
– Later than 5 years	16,122	52,331
	58,081	57,531

Funds to meet these commitments will be provided from own resources.

	2010 P'000	2009 P'000
28. Contingent assets, liabilities and commitments (continued)		
Letters of credit and liabilities under guarantees (note 4.1.2)	95,351	53,754
29. Cash generated by operations		
Profit before income tax	7,704	3,052
Adjusted for non-cash items:		
– Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4,493	3,038
– Provision for impairment losses	5,775	13,891
	17,972	19,981
30. Income tax paid		
Income tax paid is reconciled to the amounts disclosed in the income statement as follows:		
Amounts receivable as at 1 July	(62)	(212)
Current tax charge	1,669	113
Amounts receivable / (unpaid) as at 30 June	(187)	62
	1,420	(37)
31. Cash and cash equivalents		
For the purpose of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:		
Cash and balances with Central Bank (note 14)	66,152	43,226
Loans and advances to banks (note 16)	45,561	33,384
Treasury bills and government stocks (note 15)	377,446	220,220
	489,159	296,830

32. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Capricorn Investment Holdings (Botswana) (Pty) Ltd, incorporated in Botswana, which owns 100% of the Bank's stated share capital. The ultimate parent company is Capricorn Investment Holdings Limited, incorporated in Namibia, which owns 95.50% of Capricorn Investment Holdings (Botswana) (Pty) Ltd's stated share capital.

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. These transactions were carried out on commercial terms and conditions at market rates. Consequently no disclosure is made on the information in respect of these transactions with and balances arising from the ordinary course of business with related companies, directors and employees.

Monthly consulting fees were paid for secretarial and managerial services rendered by Capricorn Investment Holdings Limited.

The volumes of related party transactions, outstanding balances at year-end, and relating expense and income for the year are as follows:

	2010 P'000	2009 P'000
32.1 Payments made to related parties (note 10)		
Capricorn Investment Holdings Limited: Consulting fees	296	652
Bank Windhoek Limited: Consulting fees	652	341
Cyan ES (Pty) Ltd: Consulting fees and projects	693	326

These fees include capitalised costs incurred on various technology-related projects.

	2010 P'000	2009 P'000
32. 2 Services rendered to related parties		
Ellwood Insurance Brokers (Pty) Ltd (note 9)	1,200	392

	2010 P'000	2009 P'000
32. Related party transactions (continued)		
32.3 Payable to related parties arising from services rendered		
Bank Windhoek Limited	113	-
Cyan ES (Pty) Ltd	124	-
Capricorn Investment Holdings Limited	95	-
Penrich Employee Benefits (Pty) Ltd (note 23)	438	22
Ellwood Insurance Brokers (Pty) Ltd (note 23)	-	42

These loans bear no interest and are repayable within sixty days.

	2010 P'000	2009 P'000
32.4 Receivable from related parties arising from services rendered		
Bank Windhoek Limited	-	3,664
Capricorn Investment Holdings (Botswana) (Pty) Ltd (note 18)	129	58
Peo Micro (Pty) Ltd (note 18)	85	-
Ellwood Insurance Brokers (Pty) Ltd (note 18)	254	63

These loans bear no interest and are repayable within sixty days.

	2010 P'000	2009 P'000
32.5 Compensation paid to key management personnel		
Salaries and other short-term benefits	6,500	6,316

Bank Windhoek is a fellow subsidiary of the Bank, registered in Namibia. Cyan ES, a technology services provider, was until 29 June 2010 a fellow subsidiary registered in South Africa. Transactions with these parties have been carried at normal commercial terms and conditions. No provision for impairment has been made in respect of receivables from related parties during the year.