2011

ANNUAL REPORT

Five Years
Of Growing Together

Bank Gaborone
Growing together.


BG FINANCE
Bank Gaborone

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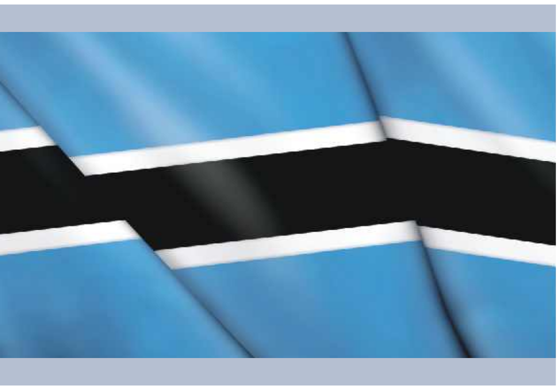
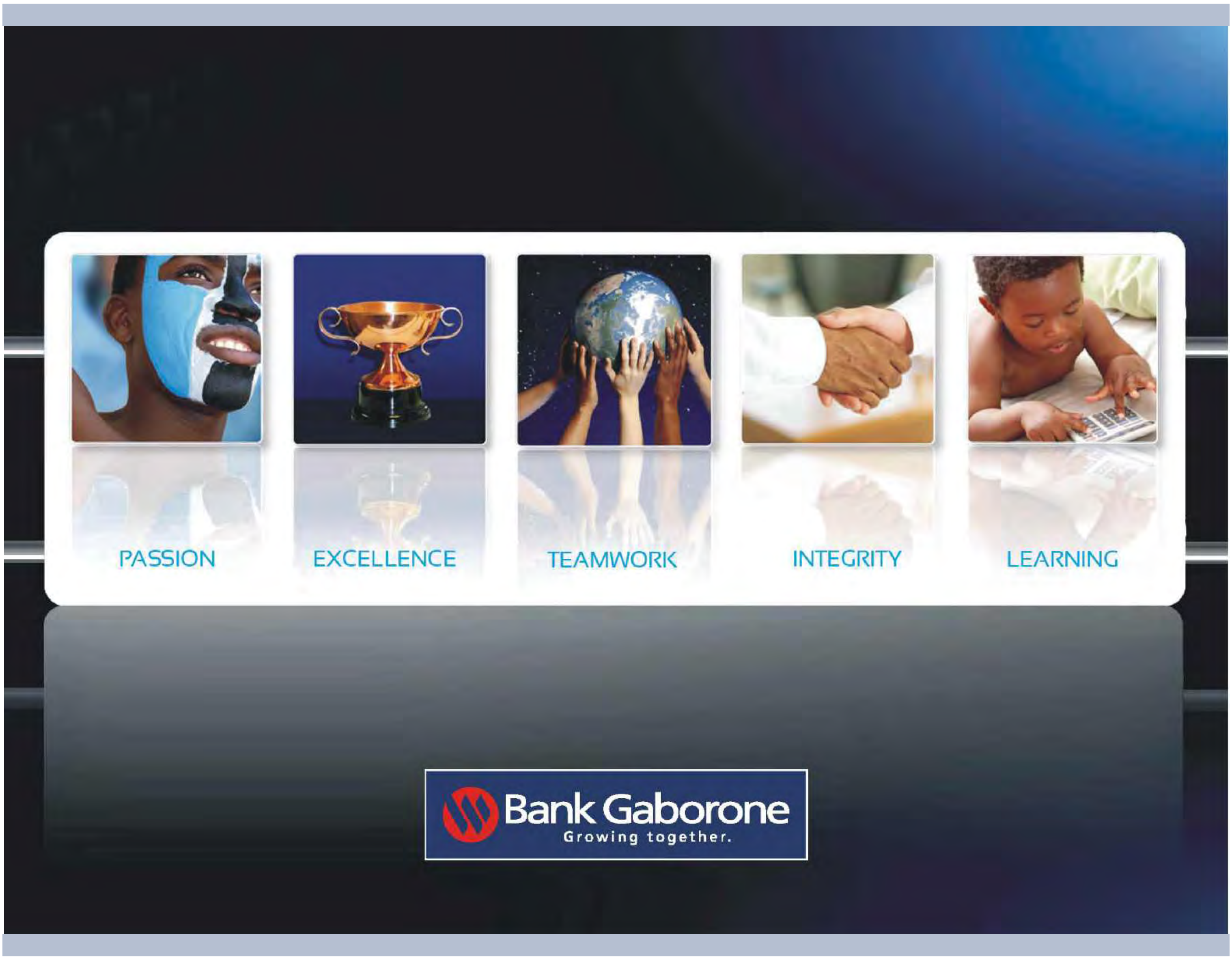


Five Years
Of Growing Together


PASSION
EXCELLENCE
TEAMWORK
INTEGRITY
LEARNING
Bank Gaborone
Growing together.

Vision and Values of the Bank

Passion

Being excited and enthusiastic about what we do.

Excellence

Exceeding all expectations and excelling in everything we do.

Teamwork

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

Integrity

Being honest, sincere and ethical in all we do.

Learning

Continuously improving our skills, knowledge and abilities.

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 and 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.

Board of Directors

Koos Brandt – *Chairman*	Johan Swanepoel – *Vice-chairman*	André Barnard – *Managing Director*
– Appointed Chairman of the Board of Directors for Bank Gaborone in December 2004.	– Appointed as a Non-executive Director for Bank Gaborone in December 2004.	– Appointed as Managing Director for Bank Gaborone in July 2006.

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

Peter Collins – Non-executive Director

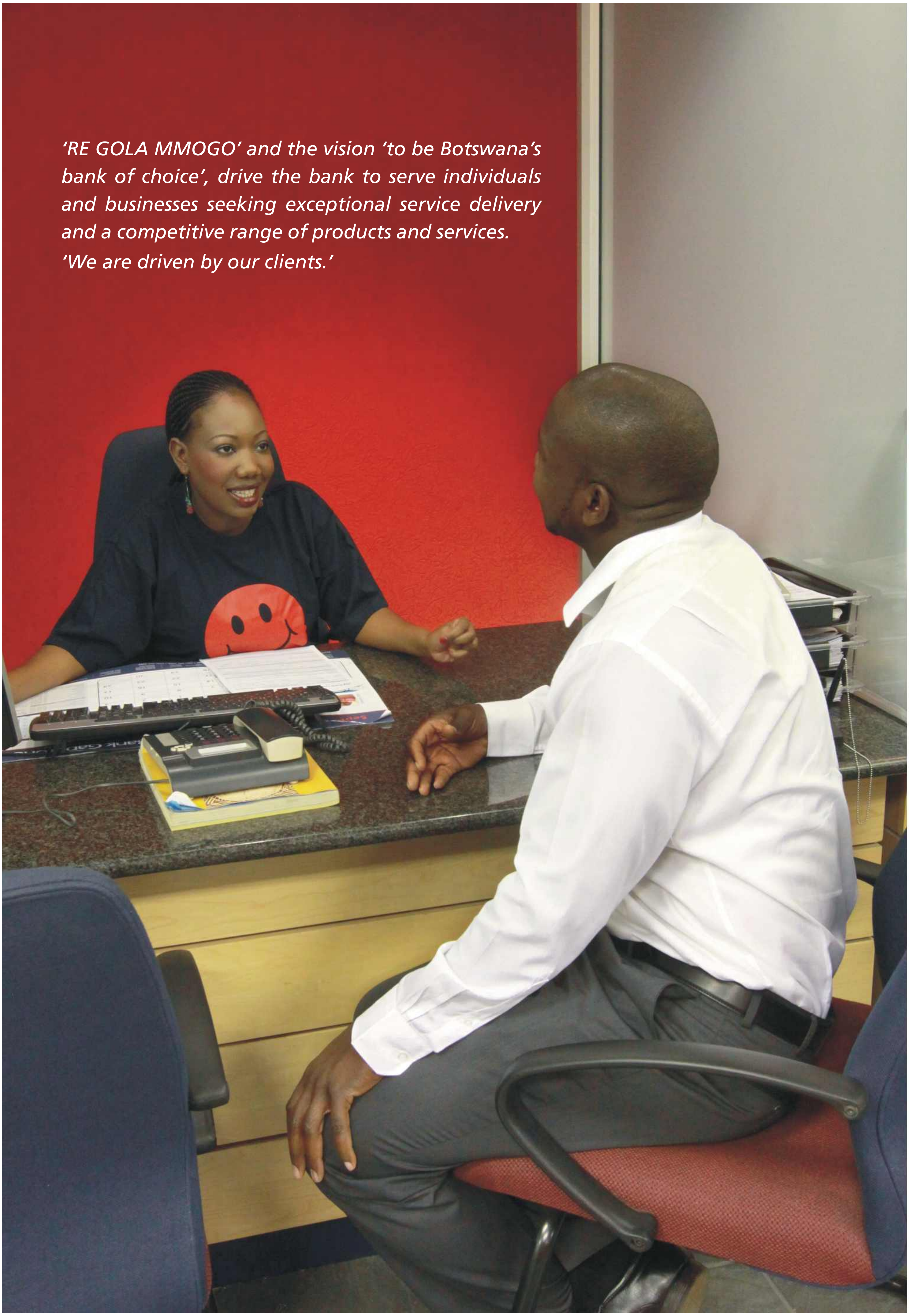
- *Appointed as a Non-executive Director for Bank Gaborone in March 2009.*

Patrick Balopi – Non-executive Director

- *Appointed as a Non-executive Director for Bank Gaborone in October 2010.*

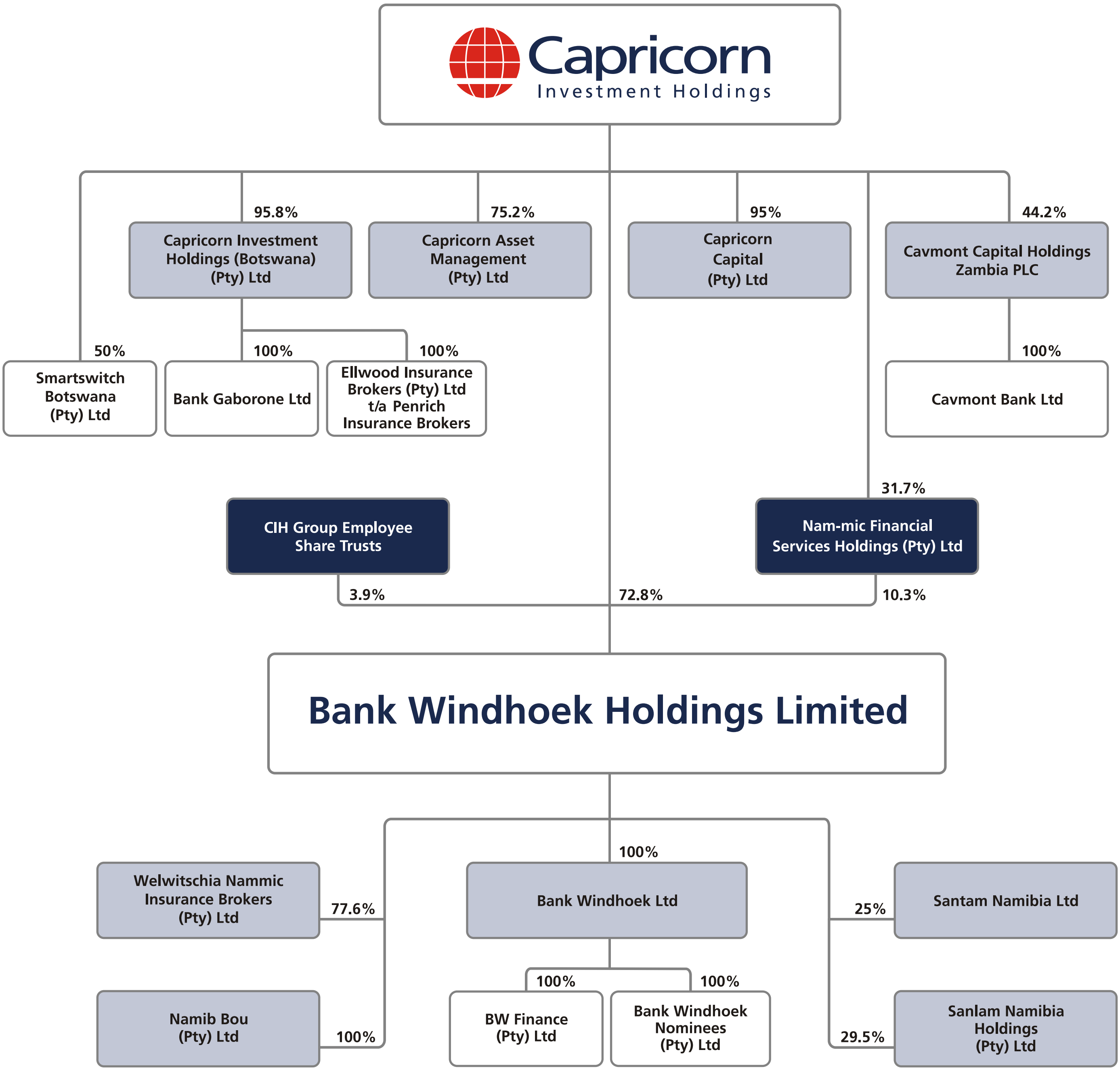
'RE GOLA MMOGO' and the vision 'to be Botswana's bank of choice', drive the bank to serve individuals and businesses seeking exceptional service delivery and a competitive range of products and services.

'We are driven by our clients.'



Group Structure

as at 30 June 2011



Bank Gaborone Game City Branch

CIH Botswana

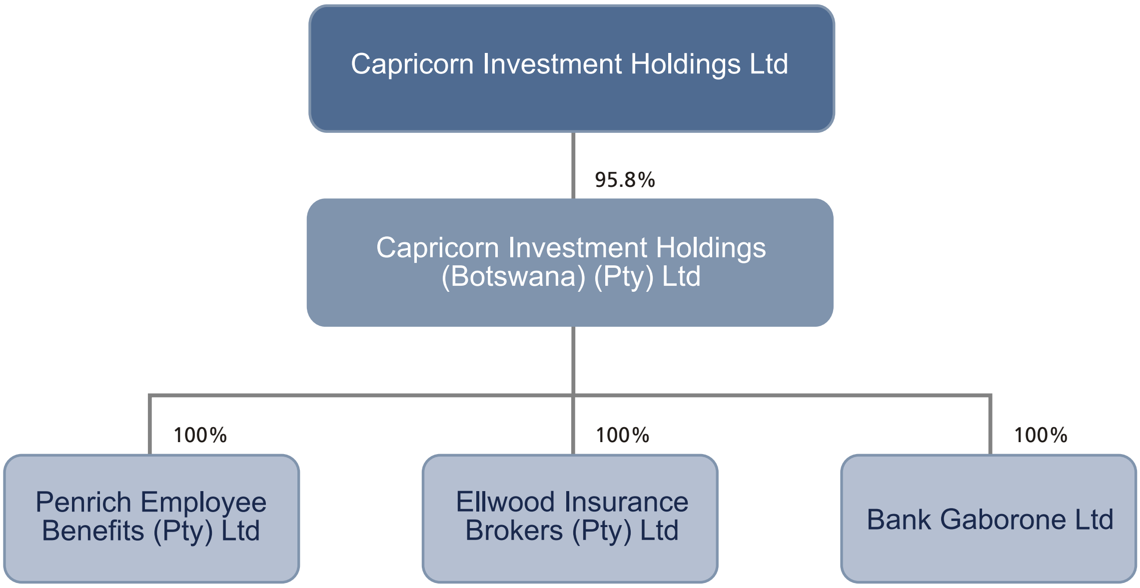
Capricorn Investment Holdings Limited (CIH), one of the leading financial services groups and main shareholder of Bank Windhoek Limited in Namibia, took a strategic decision in 2002 to expand its banking operations beyond the boundaries of Namibia into the SADC region.

Following an in-depth assessment of the socioeconomic 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.

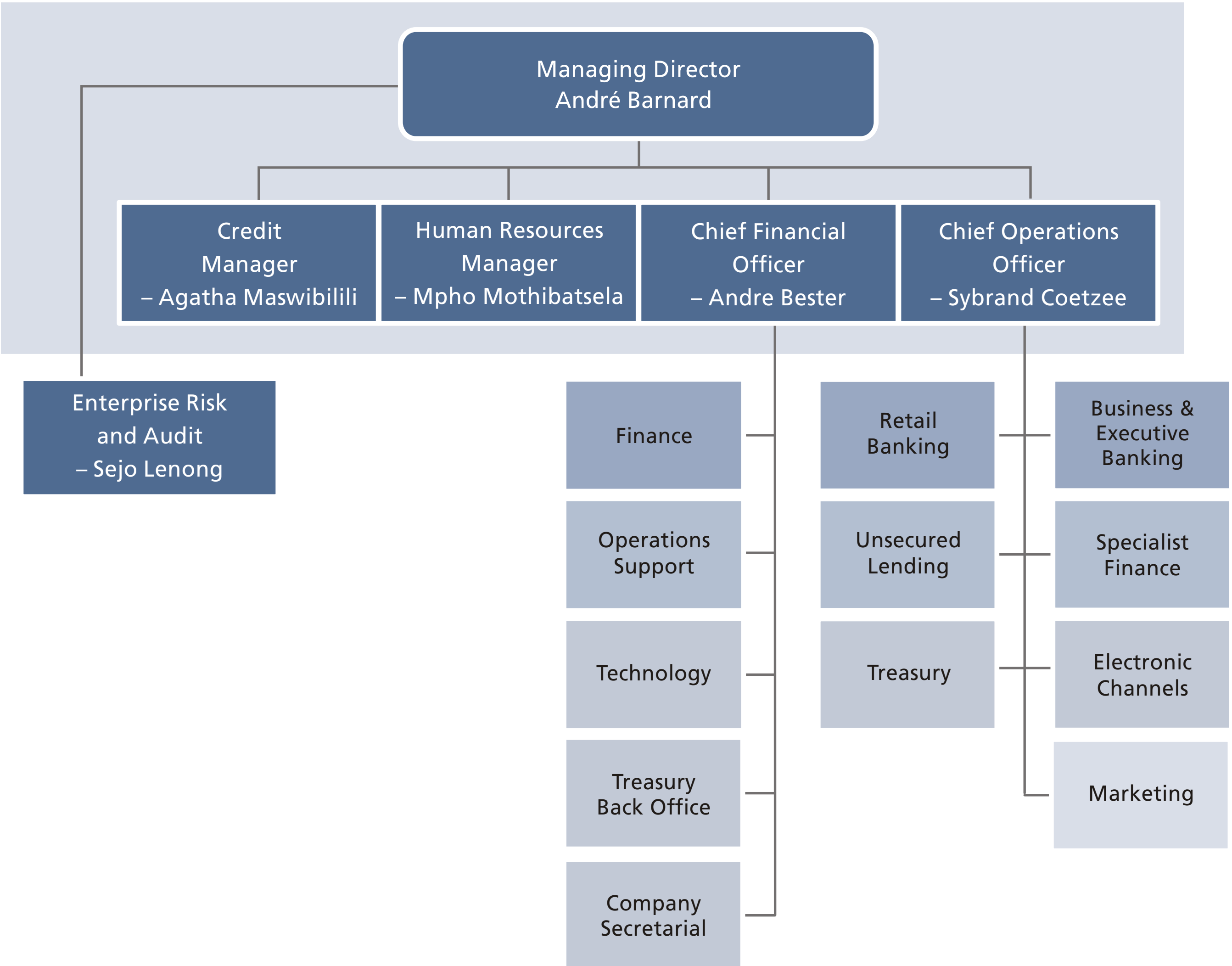
CIH Botswana is a Botswana-registered company with a diversified financial services portfolio, which fulfills the role of a Botswana holding company for its Namibian parent company.



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

Executive Management Structure



Executive Management Team

Seated from left to right: Agatha Maswibilili, Mpho Mothibatsela, André Barnard
Standing from left to right: Andre Bester, Sybrand Coetzee

Managing Director's Report

André Barnard
Managing Director

2011 marks the five-year milestone for Bank Gaborone in Botswana. The bank has grown from strength to strength. In June 2007 we recorded a profit after tax of P155 000 and we have achieved a profit after tax of P9.3 million as at June 2011. Our success was however not without challenges. Being a new player in the market, we had to compete with well-established banks with loyal customers. Establishing a greenfield operation was a major challenge; we had to establish facilities and equipment before we could start making a profit. The other big challenge we faced was synchronising the group expectations with the expectations of the Botswana market. Whilst CIH had an established culture, some adaptation was required to ensure that we were operating within the expectations, norms and culture of Botswana. We believe that we have managed this process well, evidenced by our increasing database and compliance with statutory requirements. The success of the bank is owed to all its stakeholders, namely clients, staff, shareholders, the Board of Directors and regulatory bodies in the country, especially the Bank of Botswana.

The main focus during all the years has been – and will continue to be – on our clients who we believe to be key stakeholders. Providing our clients with great service at all our touch points received particular attention during this financial year. Client satisfaction was enhanced by implementing interventions identified in client satisfaction and staff service surveys.

As part of bringing banking closer to our clients, we have increased our network with an additional branch in Ghanzi and the expansion of our ATM network to 15. We signed up more customers onto E-pula Internet Banking as the platform stabilised and customers gained confidence in the system, enabling them to enjoy 24 hour convenience. Our network expansion extended to our microfinance division, BG Finance, where we now have 10 offices. We introduced new products and services and revamped others to fulfil the ever-changing needs and requirements of our clients.

To enhance efficiency, we have upgraded a number of our systems and improved certain processes. Efficiency was also enhanced through managing talent. Staff training and development were areas of priority, as was attracting and retaining good staff. Cost saving mechanisms and the optimisation of resources were also key focus areas.

The bank made donations to a number of worthy causes. This was in line with giving back to the communities we operate in, thereby enhancing their economic wellbeing. In the year ahead, we will continue focusing on client service to enhance satisfaction. We will also continue embracing technology and introduce mobile banking. We will use technology to reach the unbanked and provide them with an affordable banking option. We will embark on a journey to 'get back to basics' which entails getting the simple things right the first time. We believe that we have the right calibre of staff, and through their dedication and teamwork, we will grow the bank to the next level.

André Barnard
Managing Director

1. *Bank Gaborone Head Office*
2. *First Head Office Capricorn House*
3-4. *Early days of Construction – Bank Gaborone*

1

2

3

4

Banking Operations Overview

Sybrand Coetzee (Chief Operation Officer)

The 2010 / 2011 financial year was a very successful year for Banking Operations with a growth of 64% in loans and advances and 44% in investments and deposits.

A Retail Branch network of five branches was maintained in order to focus on the growth in profitability of the retail network. Strong focus was placed on growth in the number of clients with an emphasis on growing the savings book.

Business and Executive Banking saw the appointment of Mrs Elize Utting as Head of Business and Executive Banking. The division has shown very satisfactory growth through the provision of customer-centred service and tailor-made banking solutions to high net worth individual clients and medium enterprises.

Branch Managers

From left to right: Renier Els (Ghanzi), Jacques van Vreden (Francistown), Nicky Kgomotso (Game City – Acting Branch Manager), Moratiwa Mokoto (Mall Branch Manager)

Microfinance

From left to right: Portia Rannyena (Manager Sales, Retail Banking), Maano Machu (Manager – National Sales, Unsecured Lending), Potlako Molomo (Specialist Finance Manager)

Specialist Finance

The Specialist Finance Unit (comprising VAF and mortgage loans) managed a satisfactory performance in a challenging and highly competitive market environment with a growth of 30% in advances.

BG Finance

BG Finance, a division focusing on unsecured lending, increased its footprint to 10 branches with the opening of a new branch in Kasane. Due to stiff competition and client demand, the maximum loan amount was increased to P150 000 and costing was adjusted in order to provide a highly competitive product. A new Loan Account Management (LAM) system has been introduced in order to improve turnaround times and increase efficiency.

Schemes Department

Bank Gaborone officially introduced the Schemes Department in 2009, which has grown quite significantly in terms of value and number. Currently three people are handling this portfolio and it is being headed by the Manager Sales: Retail Banking. The department gets support from the retail and specialist finance branches, where individual clients apply for their facilities, depending on the product they are interested in.


Bank Gaborone
e-pula
Internet Banking
Have access to your

Electronic Banking

Thapelo Kepaletswe (Electronic Banking Supervisor)

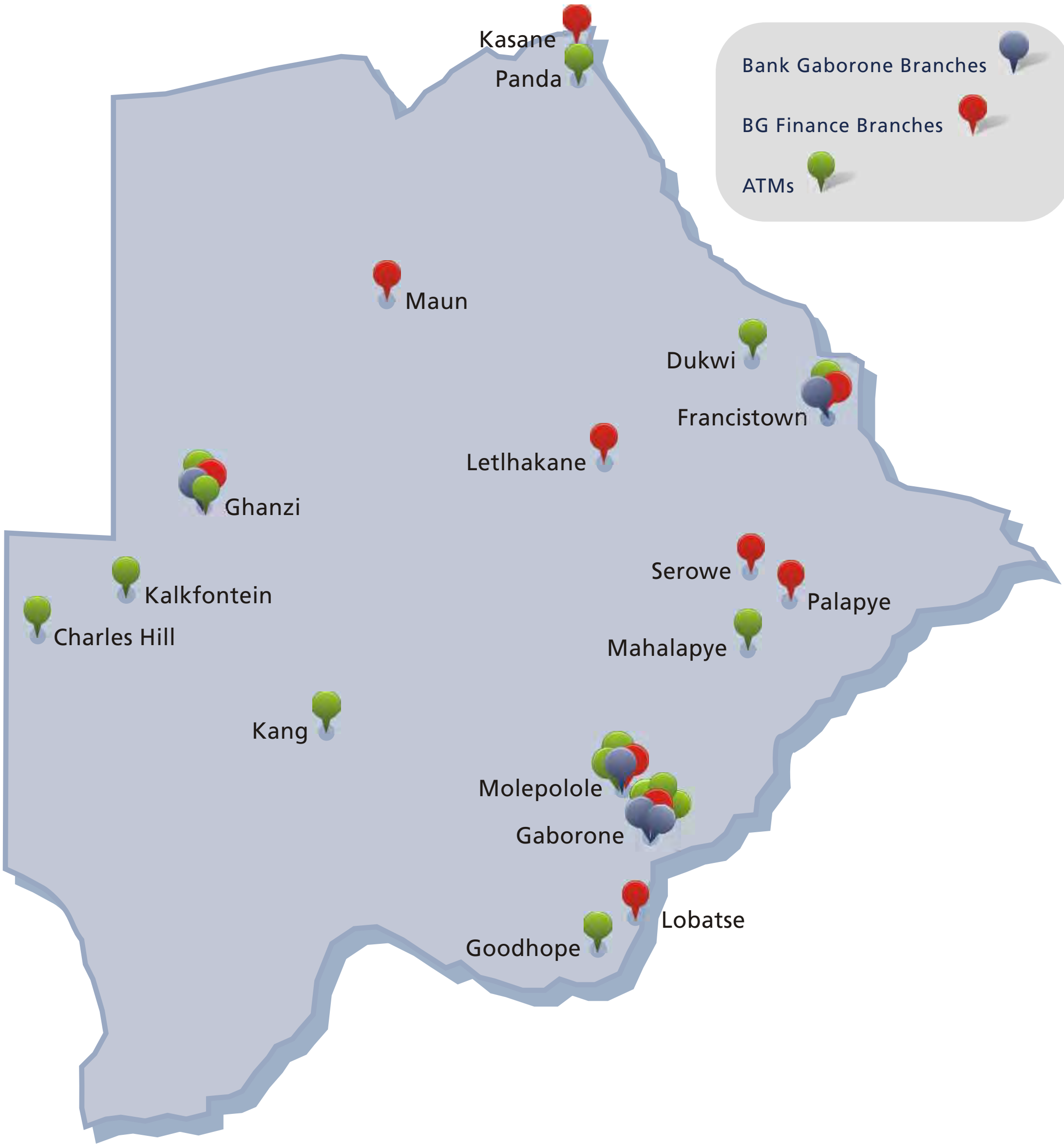
The Electronic Channels department was established in 2008 to consolidate all of Bank Gaborone's electronic channels into one single entity. The department is responsible for ATMs, Internet banking (E-pula), cards (queries and chargebacks) and soon to come mobile banking. E-Channels performed exceptionally well in the past financial year ensuring E-pula is actively sold to the bank's existing and potential clients.

Bank Gaborone's ATM footprint has also grown during the past year, with 15 ATMs in places such as Dukwi, Goodhope and Charles Hill to mention but a few. It is interesting to note that in places such as Dukwi and Kang, Bank Gaborone is the only bank providing an ATM, which shows the bank's commitment to taking services to the people and banking the unbanked.

Upcoming projects in the next financial year include the upgrade of E-pula to a new version which has a host of new and additional functionalities that will make E-pula even more competitive and truly make banking accessible 24 / 7. Mobile banking is a product that is also planned for the upcoming financial year. Bank Gaborone is quite excited by this product as we believe it will go a long way in banking the unbanked, as well as putting the bank in the pocket of our customers.

Gone are the days when electronic channels were 'nice to have' services. In today's competitive market, electronic channels are a must-have as they promote convenience and access to banking services and are in line with the Bank Gaborone 'slogan' of providing great service. These are truly exciting times and the Electronic Channels department looks forward to the opportunities ahead.

Bank Gaborone Distribution Map



Business & Executive Banking

Standing from left to right: Elize Utting (Head of Business & Executive Banking), Samson Mapulanga (Relationship Support Manager)
Seated from left to right: Maria Seboni (Relationship Support Manager), Gaseediwe Thekiso (Relationship Support Manager)

The Business Banking division was established in January 2008 and has gained significant momentum since then.

It has a dynamic sales and service team, who not only provide solutions to clients' needs but also 'makes financial dreams come true'. They work with clients to find suitable solutions whilst also gaining knowledge and understanding from the various industries within which customers operate.

2011 was a very successful year for the Business Banking division. It has grown its customer base quite substantially and exceeded its financial target, adding positively to the bank's bottom line. The division is well positioned for another successful financial year, realising that the only differentiator in a very competitive market is superior customer service.

Marketing & Corporate Communication

The Marketing & Corporate Communication Services is mandated to manage the Bank Gaborone brand, communication and public relations, intelligence and research, as well as corporate social responsibility. The focus this year was mainly on expanding the banks' product and services offering in line with changing customer needs. Re-alignment of our offering was informed by the results from customer satisfaction surveys. We strive to be in touch with our customers and to be driven by their needs and requirements which enable us to provide financial solutions that are relevant to them.

In addition to determining our customers' satisfaction levels, we also focused on determining our service levels. Valuable information was extracted from initiatives that measured our customers' experience when they interacted with us. We were able to put interventions in place that would improve our service levels towards Great Service and provide our customers with a rewarding banking experience.

The bank kept the public informed through media conferences and our Let's Talk Money publications in local newspapers and by participating in exhibitions.

Sandra Mokobi
(Marketing and Corporate Communications Manager)

Keemenao Mogotsi
(Treasurer)

Treasury

Treasury recorded growth on both the interest and non-interest income compared to last year. There has been a significant growth in deposits, as more and more clients who had invested offshore are slowly starting to invest locally, because Botswana still remains competitive in offering better returns even though there was a decrease of 50 basis points in interest rates at the end of 2010. The non-interest income has grown by more than 50% due to an increase in the number of clients trading in foreign currencies, and the fact that Botswana is still an importer of goods and services from South Africa, even if the ZAR is almost on par with the BWP.

Credit

Agatha Maswibilili (Senior Credit Manager)

One of the bank's primary activities is lending to individuals, retail business and commercial borrowers hence the bank takes on exposure to credit risk, which becomes inherent when borrowers are unable to meet their obligations in accordance with agreed terms.

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 daily basis and are subject to annual or more frequent reviews.

Exposure to credit risk is managed through a framework of policies and procedures which include regular analysis of the ability of existing borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring the terms and conditions where appropriate. Accounts that are overdue on borrowing repayments are closely monitored and are subject to a collection process.

In 2010 the credit environment remained challenging due to the continued economic turbulence and slow-down in financial markets which has seen the bank introducing and implementing stringent credit risk management processes to cover the impact of possible losses due to macro-economic factors affecting our borrowers. The division has since grown from a complement of 14 employees to 26 within the period under review.

The structure of the department has four functions, namely Credit Evaluation, Collateral Custodianship, the Collection Process and Legal Intermediation.

Credit (continued)

Seated from left to right: Malebogo Lesolame (Manager – Collateral), Felistus Moraka (Senior Credit Analyst)
Standing from left to right: Mojahi Kgari (Manager – Credit), Murphy Peters (Manager – Collections), Kago Letshabo (Manager – Legal Collections)

Credit Evaluation

This division's main objectives are to evaluate and assess the borrower's creditworthiness and the sustainability of the source of repayment, to sanction the borrowing and to monitor its associated risks. The department also ensures compliance with Banking and Bank of Botswana Acts, as well as other regulatory bodies which are concerned with economic financial activities.

Collateral Custodianship

This division is responsible for managing the bank's risk in relation to the assets held as security for the credit extended. The division ensures that the prepared security documents are in order and acts as custodians of security documents provided by borrowers to secure their borrowing as secondary repayment source in case of any eventuality of default in the repayment of such borrowing.

Collection Process

The division is involved in the management and monitoring of borrowing which has fallen into arrears and the recommendation of restructuring of such borrowing to enable customers to afford repayment of the debt.

Legal Intermediation

This division is involved in the intermediation between the bank, its customers and the legal framework of the country to resolve disputes relating to defaulted debts.

Operations Support

Jose De Jesus (Senior Operations Manager)

The past financial year has seen tremendous changes at Bank Gaborone. Change is a sign of progress; and moving forward and growing together is what we are all about.

The Operations Support division is often the driver of change at the bank, not in the sense that it initiates change but in the sense that it becomes involved and often drives change to ensure that business needs are met.

It gives great pleasure to report that, together with other business units, the Operations Support division has played a significant role in the delivery of the following projects over the past financial year:

- Upgrading the SQL database to SQL 2008. This project was delivered on time and within budget and is the first step in upgrading the Bank's core banking system.
- Developing and installing the Loan Automation Management (LAM) system to greatly improve the processing of BG Finance loans.
- Developing and installing the Statement Enhancement System (SES) which enabled the bank to improve the delivery of its bulk monthly statements.
- Making improvements to the Deduction Request System (DRS) to help with the early identification of defaulters on BG Finance loans.
- Opening a Bank Gaborone branch in Ghantsi.
- Opening another BG Finance branch in Kasane.

Operations Support (continued)

From left to right: Mpho Nato (Operations Support Manager), Freda Motswagae (Process Manager), Sheridan Kieran (Special Project Manager)

- Upgrading the CCTV system at Bank Gaborone House.

These are only some of the improvements introduced over the past year. The Operations Support division, comprising the Special Projects office, Business Process Management unit, Cash centre, Central Processing centre, Central Account Administration unit and the system Support unit, has also introduced numerous smaller changes that have enhanced service delivery for clients and mitigated risk at the bank. For example, for the first time in the bank's history, it managed to put in place Business Continuity Plans for all business units and also to conduct quarterly Disaster Recovery Tests for some business units.

The year ahead will undoubtedly bring even more challenges and even greater opportunities. Hard work is already underway to plan, amongst others, the upgrade of the bank's core system, the upgrade of the Internet banking application and the introduction of mobile banking.

I would like to take this opportunity to thank my team for all their hard work and dedication. I would also like to thank the Executive Management Team for their support and the other business units for their efforts and co-operation. Let's make 2011 / 2012 another year during which we significantly contribute to make bank Gaborone Botswana's bank of choice.

Human Resources

Five years of growing together

Recruitment and Selection

The bank has continued to focus on attracting and developing competent human resources to ensure that delivery of efficient service in all bank operations is not compromised as the business expands. For the year ending June 2011, staff numbers have grown from 205 in July 2010 to 235 in June 2011.

The bank still faces tough competition in recruiting specialist skills, where the pool of resources is not only limited, but highly mobile.

A Performance Management Process, using a Balanced Scorecard and Performance Contracts as tools for setting objectives and measuring achievement, is being used to embed a performance culture that timely identifies talent and potential, supports learning and development, as well as rewards excellence.

As in the previous year, the bank has continued to search for its employees' demonstrated ability and potential for growth, resulting in the first opportunity to fill vacancies at higher job levels, as well as cross-functionally, being given to serving employees to the extent possible. During the period, 11 employees were promoted to higher positions of responsibility, while a significant number moved to other jobs within and across functions for development and growth.

Industrial Relations

The bank continues to enjoy a fairly peaceful industrial relations climate. In an endeavor to ensure sustainability and continuous improvement, the bank undertook an Employee Climate Survey in June 2011, the results of which are being analysed to identify areas of strength and areas that require management attention for improvement.

Human Resources (continued)

From left to right: Mpho Mothibatsela (Human Resources Manager),
Mmoninyana Mgumba (Manager: HR Relationship Support – Banking Operations)

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 the rates that are reviewed from time to time to ensure competitiveness and sustainability. During the year, the pension fund contribution by the employer was increased from 10% to 10.5% of basic salary while the medical aid contributions remained unchanged at a 50% contribution by both the employer and the employee.

Learning, Training and Development

The bank places importance on skills development, and has focused on this area over the period in terms of training intervention delivery for a broad skills base, using in-house and external trainers.

Both bank trainers are now Bota accredited, and applications for accreditation of the bank training facility and the in-house programmes are in process. This should further enable the bank to effectively make use of the training levy for the development of its workforce.

Plans are underway to relocate the training facility to appropriately customised premises in the course of 2011 / 12, which will also serve as a disaster relief site.

During 2009 / 2010, the bank introduced a training programme on experimental basis, where fresh graduates without any work experience were engaged and exposed to basic banking over a one-year period. The 10 graduates who participated in this programme successfully completed their training during 2010 / 2011 and have been appointed to substantive positions where they will continue learning on the job. The second batch of 11 trainees has been taken on during the year under review.

Social Responsibility

The bank believes in investing in different community initiatives as a way of fulfilling its social responsibility. Bank Gaborone was part of a number of social investment projects including: the Lady Khama Annual Dinner; the Botswana Cancer Association National Awareness Drive; and the Ghanzi branch donated blankets to the SOS Foundation and assisted students with food.

Bank Gaborone donated blankets to the SOS Children Centre in Francistown

Breast Cancer Journey of Hope in Maun

Elize Utting, represented the bank during the Breast Cancer Journey of Hope Big Ride

Ghanzi branch staff during the cancer awareness day

Ghanzi branch staff extend a helping hand to hostel students in Ghanzi

Chief Financial Officer's Team

Standing from left to right: Andre Bester (Chief Financial Officer), Console Ramotlhwa (Treasury Back Office Manager), Sejo Lenong (Enterprise Risk and Audit Manager)

Seated from left to right: Gaboetelwe Moloi (Financial Accountant), Kagiso Tlhase (Reconciliations Manager)

Annual Financial Statements

2011

Annual Financial Statements

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The directors herewith submit their report with the annual financial statements of the bank for the year ended 30 June 2011.

1. General review

Bank Gaborone Limited conducts business as a licensed bank and provides comprehensive banking services to its clients in Botswana. Although Bank Gaborone is an autonomous Botswana company, the bank also provides international banking services through direct liaison with financial centres and institutions world-wide. Bank Gaborone is a bank licensed in Botswana bearing 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 P9 325 000 (2010: P5 761 000). Full details of the financial results of the Bank are set out on pages 33 to 82.

3. Stated capital

During the year, the bank issued P15 000 000 ordinary shares.

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	
P K Balopi	

Executive

André Barnard	*Managing Director*

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

Bank Gaborone	Private Bag 00325
Queens Road	Gaborone
Gaborone	Botswana

6. Subsequent events

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

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2011

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 bank Audit and Compliance 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 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 33 to 82, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with the provisions of the Botswana 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 36.

The financial statements were authorised and approved for issue by the board of directors on 12 September 2011 and are signed on their behalf:

P C G 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 consist 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 bank's 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 of the bank are non-executive directors. Two of the non-executive directors of the bank are independent. Non-executive directors bring with them diversity of experience, insight, and 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 reappointment 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 executive directors are 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 directors 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. In addition, the committee ensures that management and staff is remunerated appropriately and that the remuneration scales, including incentive and share schemes, and conditions of employment of the bank, are market related.

4. Board Nominations and Remuneration Committee

The Group 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 regarding the bank's credit risk.

CORPORATE GOVERNANCE STATEMENT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2011

6. Internal control system

The bank maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposal. These are designed to provide reasonable assurance to the bank management and board of directors re-garding 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 audit and risk committee, provide 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 co-ordinated risk management framework is in place, for the bank, which comprises 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 risks

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 determine staff policy and remuneration levels. In addition, insurance policies cover the bank's assets as well as liabilities against fraud.

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.

Independent Auditor's Report to the Members of Bank Gaborone Limited

We have audited the accompanying financial statements of Bank Gaborone Limited, which comprise the statement of financial position as at 30 June 2011, 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 information as set out on pages 37 to 82.

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 the manner required by the Companies Act of Botswana (2003) and the Botswana Banking Act (1995), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 judgement, 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 under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank Gaborone Limited as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

10 October 2011
Gaborone

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 P'000	2010 P'000
Interest and similar income	6	192,333	194,478
Interest expense and similar charges	6	(100,549)	(80,114)
Net interest income		91,784	69,364
Fee and commission income	7	16,793	12,039
Net trading income	8	3,876	2,298
Other operating income	9	1,790	1,200
Impairment losses on loans and advances	12	(11,925)	(5,376)
Administrative expenses	10	(49,343)	(37,681)
Other operating expenses	11	(40,470)	(34,140)
Profit before income tax		12,505	7,704
Income tax expense	13	(3,180)	(1,943)
Profit for the year		9,325	5,761
Other comprehensive income		-	-
Total comprehensive income for the year		9,325	5,761
Profit / total comprehensive income attributable to owners of the parent		9,325	5,761

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	2011 P'000	2010 P'000
Assets			
Cash and balances with central bank	14	120,803	66,152
Financial assets designated at fair value through profit and loss	15	460,027	377,446
Loans and advances to banks	16	38,127	45,561
Loans and advances to customers	17	1,522,640	942,526
Other assets	18	11,179	39,511
Property, plant and equipment	19	16,110	15,970
Intangible assets	20	6,365	6,751
Total assets		2,175,251	1,493,917
Liabilities			
Amount due to banks	21	49,949	17,954
Deposits from customers	22	1,899,811	1,286,236
Other liabilities	23	34,953	23,942
Current tax liability		1,083	187
Deferred tax liability	24	856	1,324
Debt security in issue	25	50,000	50,000
Total liabilities		2,036,652	1,379,643
Equity			
Stated capital	26	118,406	103,406
Distributable reserves		20,193	10,868
Total shareholders' equity		138,599	114,274
Total equity and liabilities		2,175,251	1,493,917

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Stated capital P'000	Retained earnings P'000	Total equity P'000
For the year ended 30 June 2010				
Balance at 1 July 2009		103,406	5,107	108,513
Comprehensive income				
Profit for the year		-	5,761	5,761
Total comprehensive income		-	5,761	5,761
Total transactions with owners		-	-	-
Balance at 30 June 2010		103,406	10,868	114,274
For the year ended 30 June 2011				
Balance at 1 July 2010		103,406	10,868	114,274
Comprehensive income				
Profit for the year		-	9,325	9,325
Total comprehensive income		-	9,325	9,325
Transactions with owners				
Shares issued during the year	26	15,000	-	15,000
Total transaction with owners		15,000	-	15,000
Balance at 30 June 2011		118,406	20,193	138,599

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 P'000	2010 P'000
Cash flows from operating activities			
Interest and discount receipts		192,333	149,478
Interest payments		(100,549)	(80,114)
Commission, fees and other income receipts		22,459	15,536
Cash payments to employees and suppliers		(83,906)	(67,327)
Cash generated by operations	29	30,337	17,573
Income tax (paid) / refund	30	(2,752)	(1,420)
Cash inflow from operating activities before changes in operating assets and liabilities		27,585	16,153
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(592,039)	(244,658)
Net decrease / (increase) in other assets		28,332	(14,695)
Net increase in amounts due to customers		613,584	386,607
Net increase / (decrease) in other liabilities		11,011	(13,104)
Net increase in amounts due to other banks		31,995	17,954
Net cash generated from operating activities		120,468	148,257
Cash flows from investing activities			
Additions to property, plant and equipment	19	(3,681)	(4,865)
Additions to intangible assets	20	(2,003)	(1,063)
Proceeds on asset disposal		14	-
Net cash utilised in investing activities		(5,670)	(5,928)
Cash flows from financing activities			
Proceeds from issue of debt security	25	-	50,000
Issue of shares	26	15,000	-
Net cash generated from financing activities		15,000	50,000
Net increase in cash and cash equivalents		129,798	192,329
Cash and cash equivalents at beginning of year		489,159	296,830
Cash and cash equivalents at end of year	31	618,957	489,159

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2011

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 12 September 2011.

2. Basis of preparation

Bank Gaborone Limited 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

2.1.1 New and amended standards adopted by the bank
The following improvements to IFRSs, issued under the IABS's annual improvements process are effective for the first time for the year ended 30 June 2011. These have been adopted by the bank during the year.

- IAS 17, Leases – the improvement deals with classification of leases of land and buildings
- IFRS 7, Financial Instruments (Improvement), Clarification of disclosures (effective from 1 May 2010)
- IAS 1, Presentation of Financial Statements (Improvement), Clarification of statement of changes in equity (effective from 1 May 2010)

2.1.2 New and amended standards applicable to the current period for the first time 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.

- IFRS 2, Share-based payments (effective from 1 January 2010). The amendment clarifies the accounting for group cash-settled share-based payment transactions.
- IAS 32, Classification of rights issues (Amendments), accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer (effective from 1 February 2010)
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)
- IFRIC 13, Customer Loyalty Programmes (Improvement), Fair value of award credits (effective from 1 May 2010)
- IFRS 3, Business Combinations (Improvement), Measurement of non-controlling interests, un-replaced and voluntarily replaced share-based payment awards (effective from 1 July 2010)
- IAS 27, Consolidated and Separate Financial Statements (Improvement), Transition requirements (effective from 1 July 2010)
- IAS 34, Interim Financial Reporting (Improvement), Significant events and transactions (effective from 1 July 2010)
- IFRS 1 and IFRS 7, (Amendments), Limited exemption from comparative, Disclosures for first-time adopters, (effective from 1 July 2010)

2.1.3 Adoption of standards in future financial periods
The following new standards, amendments and interpretations to existing standards are mandatory for the bank's accounting periods beginning on or after 1 July 2011. These have not been early adopted by the bank.

(a) *New standards, amendments and interpretations which are relevant to the bank's operations*

- IFRS 9, Financial Instruments (2009) (Applicable to annual periods beginning on or after 1 January 2013)
- IFRS 13, Fair Value Measurement (Applicable to annual reporting periods beginning on or after 1 January 2013)

(a) New standards, amendments and interpretations which are relevant to the bank's operations (continued)

- IAS 12, Income taxes (Amendments), Deferred tax (effective from 1 January 2012)
- IFRS 7, (Amendments), Disclosures for transfer of financial assets (effective from 1 July 2011)
- IAS 19, Employee Benefits (2011) (Applicable to annual reporting periods beginning on or after 1 January 2013)
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (Applicable to annual reporting periods beginning on or after 1 July 2012)

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.

(b) New standards, amendments and interpretations which are not relevant to the bank's operations

- IFRS 10, Consolidated Financial Statements (Applicable to annual reporting periods beginning on or after 1 January 2013)
- IAS 27, Separate Financial Statements (2011) (Applicable to annual reporting periods beginning on or after 1 January 2013)
- IAS 28, Investments in Associates and Joint Ventures (2011) (Applicable to annual reporting periods beginning on or after 1 January 2013)
- IFRS 11, Joint Arrangements (Applicable to annual reporting periods beginning on or after 1 January 2013)
- IFRS 12, Disclosure of Interests in Other Entities (Applicable to annual reporting periods beginning on or after 1 January 2013)
- IFRIC 14, (Amendments), Pre-payments of a Minimum Funding Requirement (effective from 1 January 2011)
- 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 1, (Amendments), First-time adoption on hyperinflation and fixed dates (effective from 1 July 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 exist, the bank recognises profits on day one.

3.2 Derivative financial instruments (continued)

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 are 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. Fees and commission 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 sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Bank of Botswana Certificates and 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 derivatives

(a) *Financial assets at fair value through profit or loss (continued)*
significantly modify 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

3.9 Sale and repurchase agreements (continued)

customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrues 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 events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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

3.10 Impairment of financial assets (continued)

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 as 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.

3.12 Property, plant and equipment (continued)

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 are derecognised when the assets are sold to third parties.

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 party to the contractual terms of the financial instrument and 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 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 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 during 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

3.16 Leases (continued)

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, it is more likely than not that an outflow of resources will be required to settle the obligation, and 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 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 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

3.21 Deferred and current income tax (continued)

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 during 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 during which the dividends are approved by the bank's 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 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, and which may ultimately have an adverse effect on its continued operations. 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 and in 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)

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, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The BCC is tasked with ensuring that this objective is achieved by seeing to it that 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.

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 comply 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 2011						
Neither past due nor impaired	120,803	460,027	38,127	1448,538	11,179	2,078,674
Past due but not impaired	-	-	-	73,494	-	73,494
Impaired	-	-	-	30,492	-	30,492
Total	120,803	460,027	38,127	1,552,524	11,179	2,182,660
Impairment allowance	-	-	-	(29,884)	-	(29,884)
Total carrying value	120,803	460,027	38,127	1,522,640	11,179	2,152,776
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	1,471,196

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.

FINANCIAL RISK MANAGEMENT DISCLOSURES & CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1.1 Risk limit control and mitigation policies (continued)
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. In addition, to minimise the credit loss the bank will 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 margin deposits from counterparties are requited.

(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 in the event that a customer cannot 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	
	2011	**2010**
	P'000	**P'000**
Cash and balances with central bank	120,803	66,152
Financial assets designated at fair value through profit and loss	460,027	377,446
Loans and advances to banks	38,127	45,561
Loans and advances to customers	1,522,640	964,866
Other assets	11,179	39,511
At end of year	2,152,776	1,493,536
Credit risk exposure relating to off-balance sheet items are as follows:		
Guarantees	101,815	79,154
Loan commitments and other credit related liabilities	154,074	16,197
At end of year	255,889	95,351

The above table represents a worse case scenario of credit risk exposure to the bank at 30 June 2011 and 2010, 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 controlling and sustaining minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio and debt securities based on the following:

- Mortgage loans are backed by collateral;
- Impairment provision is maintained at below 3% of total advances;
- The bank has 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 for 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:

	2011		2010	
	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	1,448,538	38,127	892,699	45,561
Past due but not impaired	73,494	-	57,656	-
Individually impaired	30,492	-	14,511	-
Gross	1,552,524	38,127	964,866	45,561
Less: allowance for impairment	(29,884)	-	(22,340)	-
Loans and advances after impairment	1,522,640	38,127	942,526	45,561

(a) Loans and advances neither past due nor impaired

	Article finance P'000	Commercial loans P'000	Mortgage loans P'000	Other P'000	Total P'000
As at 30 June 2011	227,779	323,731	406,928	490,100	1,448,538
As at 30 June 2010	184,446	176,209	272,239	259,805	892,699

(i) 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:

	2011 P'000	2010 P'000
Loans granted within the last 12 months, with no history of default	514,521	493,170
Loans granted within the last 12 months, with minor history of default	25,278	4,070
Loans granted prior to the last 12 months, with no history of default	859,283	335,822
Loans granted prior to the last 12 months, with minor history of default	49,456	59,637
	1,448,538	892,699

(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	Mortgage loans P'000	Other P'000	Total P'000
30 June 2011					
Past due up to 30 days	8,319	10,646	11,172	5,787	35,924
Past due 30-60 days	14,050	4,088	3,415	1,687	23,240
Past due 60 days	4,799	5,335	3,318	878	14,330
Total	27,168	20,069	17,905	8,352	73,494
Fair value of collateral	17,659	20,000	18,115	920	56,694
30 June 2010					
Past due up to 30 days	8,791	15,157	23,550	3,173	50,671
Past due 30-60 days	2,209	2,629	1,945	202	6,985
Past due 60 days	-	-	-	-	-
Total	11,000	17,786	25,495	3,375	57,656
Fair value of collateral	7,000	18,000	23,000	-	48,000

(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, are as follows:

	Article finance P'000	Commercial loans P'000	Mortgage loans P'000	Other P'000	Total P'000
30 June 2011					
Past due 60-90 days	107	223	2,290	887	3,507
Past due 91-180 days	1,420	1,655	189	1,245	4,509
Past due 180 days	2,403	3,394	6,851	9,828	22,476
Total	3,930	5,272	9,330	11,960	30,492
Fair value of collateral	2,770	6,225	9,075	509	18,579

(c) Loans and advances individually impaired (continued)

	Article finance P'000	Instalment finance P'000	Mortgage loans P'000	Other P'000	Total P'000
30 June 2010					
Past due 60-90 days	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

Collateral consists of property, plant and equipment and acceptable financial instruments. At year end the bank had collateral of P109 000 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 2011, the carrying amount of loans and advances that have been renegotiated and classified as neither past due nor impaired, was as follows:

	2011 Carrying amount P'000	2010 Carrying amount P'000
Loans and advances to customers	9,806	2,674

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 2011						
Agriculture	-	-	-	54,860	-	54,860
Mining	-	-	-	90,106	-	90,106
Manufacturing	-	-	-	27,433	-	27,433
Building and construction	-	-	-	70,707	-	70,707
Electricity, gas and water	-	-	-	1,453	-	1,453
Trade and accommodation	-	-	-	144,183	-	144,183
Transport and communication	-	-	-	17,880	-	17,880
Finance and insurance	-	-	38,127	214	-	38,341
Real estate and business services	-	-	-	465,781	-	465,781
Government	120,803	460,027	-	6,588	-	587,418
Individuals	-	-	-	604,539	-	604,539
Other	-	-	-	38,896	11,179	50,075
	120,803	460,027	38,127	1,522,640	11,179	2,152,776
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	-	459,257
Individuals	-	-	-	294,423	-	294,423
Other	-	-	-	-	39,511	39,511
	66,152	377,446	45,561	942,526	39,511	1,471,196

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 the 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 2011					
Assets					
Loans and advances to customers	-	-	-	13,681	13,681
Loans and advances to banks	20,068	4,101	844	7,629	32,642
Total financial assets	20,068	4,101	844	21,310	46,323
Liabilities					
Amount due to banks	-	-	-	-	-
Deposits from customers	15,794	1,685	998	8,690	27,167
Total financial liabilities	15,794	1,685	998	8,690	27,167
Net on-balance sheet financial position	4,274	2,416	(154)	12,620	19,156
Credit commitments	-	-	-	-	-
As at 30 June 2010					
Total financial assets	34,335	1,824	143	26,932	63,234
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	-	-	-	-	-

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	
		2011	2010
Currency			
US Dollar / Botswana Pula	**P'000**	150	(151)
As a percentage of total shareholders' equity		0.11%	-0.13%
British Pound / Botswana Pula	**P'000**	-	-
As a percentage of total shareholders' equity		0.00%	0.00%
Euro / Botswana Pula	**P'000**	85	42
As a percentage of total shareholders' equity		0.06%	0.04%
Others / Botswana Pula	**P'000**	442	569
As a percentage of total shareholders' equity		0.32%	0.50%

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.

4.2.3 Interest rate risk (continued)

The table below 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 reprising and maturity dates do not differ significantly from the contract dates.

	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 bearing P'000	Total P'000
Interest rate risk analysis							
As at 30 June 2011							
Assets							
Cash and balances with central bank	120,803	-	-	-	-	-	120,803
Financial assets at fair value through profit or loss	271,971	188,056	-	-	-	-	460,027
Loans and advances to banks	38,127	-	-	-	-	-	38,127
Loans and advances to customers	128,643	61,766	235,229	551,941	545,061	-	1,522,640
Other assets	-	-	-	-	-	11,179	11,179
Total assets	559,544	249,822	235,229	551,941	545,061	11,179	2,152,776
Liabilities							
Debts security in issue	-	-	-	50,000	-	-	50,000
Deposits from banks	49,949	-	-	-	-	-	49,949
Deposits from customers	936,928	333,144	520,452	109,287	-	-	1,899,811
Other liabilities	-	-	-	-	-	34,953	34,953
Total liabilities	986,877	333,144	520,452	159,287	-	34,953	2,034,713
Interest sensitivity gap	(427,333)	(83,322)	(285,223)	392,654	545,061	(23,774)	118,063
Cumulative interest sensitivity gap	(427,333)	(510,655)	(795,878)	(403,224)	141,837	118,063	-
As at 30 June 2010							
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	-

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:

	2011	2010
Sensitivity of net interest income		
Net interest arising from a shift in yield curves of +100 basis points (P'000)	3,517	1,276
As a percentage of total shareholders' equity	3%	1%
Net interest arising from a shift in yield curves of -100 basis points (P'000)	(3,517)	(1,276)
As a percentage of total shareholders' equity	-3%	-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 2011						
Assets						
Cash and balances with central bank	120,803	-	-	-	-	120,803
Financial assets at fair value through profit or loss	272,300	190,000	-	-	-	462,300
Loans and advances to banks	38,127	-	-	-	-	38,127
Loans and advances to customers	143,897	92,231	370,056	1,119,940	948,497	2,674,621
Other assets	11,179	-	-	-	22,475	33,654
Total assets (contractual maturity dates)	586,306	282,231	370,056	1,119,940	970,972	3,329,505
Liabilities						
Amount due to banks	50,000	-	-	-	-	50,000
Debt security in issue	331	991	2,313	58,553	-	62,188
Deposits from customers	940,373	336,881	534,909	121,098	-	1,933,261
Other liabilities	34,953	-	1,083	856	-	36,892
Total liabilities (contractual maturity dates)	1,025,657	337,872	538,305	180,507	-	2,082,341
Liquidity sensitivity gap	(439,351)	(55,641)	(168,249)	939,433	970,972	1,247,164
Cumulative liquidity sensitivity gap	(439,351)	(494,992)	(663,241)	276,192	1,247,164	-
As at 30 June 2010						
Liquidity sensitivity gap	(397,821)	(103,515)	149,438	663,146	629,925	941,173
Cumulative liquidity sensitivity gap	(397,821)	(501,336)	(351,898)	311,248	941,173	-

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, as disclosed in 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 P '000	1-5 years P '000	Over 5 years P '000	Total P '000
At 30 June 2011				
Loan commitments	154,074	-	-	154,074
Financial guarantees and other financial facilities	101,815	-	-	101,815
Operating leases	9,316	41,555	7,610	58,481
Capital commitments	18,027	-	-	18,027
	283,232	41,555	7,610	332,397
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

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	
	2011 P'000	2010 P'000	2011 P'000	2010 P'000
Financial assets				
Cash and balances with central bank	120,803	66,152	120,803	66,152
Financial assets at fair value through profit or loss	460,027	377,446	460,027	377,446
Loans and advances to banks	38,127	45,561	38,127	45,561
Loans and advances to customers	1,522,640	942,526	1,522,640	942,526
Other assets	11,179	39,511	11,179	39,511
	2,152,776	1,471,196	2,152,776	1,471,196
Financial liabilities				
Amounts due to banks	49,949	17,954	49,949	17,954
Deposits from customers	1,899,811	1,286,236	1,899,811	1,286,236
Debts security in issue	50,000	50,000	50,000	50,000
Other liabilities	34,953	23,942	34,953	23,942
	2,034,713	1,378,132	2,034,713	1,378,132
Off-balance sheet financial instruments				
Guarantees, acceptances and other financial facilities	101,815	79,154	101,815	79,154
Loan commitments	154,074	16,197	154,074	16,197
	255,889	95,351	255,889	95,351

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 values 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)
At 30 June 2011						
Financial assets						
Financial assets designated at fair value						
through profit and loss	(b)	460,027	-	-	460,027	460,027
Loans and advances						
– Loans and advances to banks	(c)	-	38,127	-	38,127	38,127
– Loans and advances to customers	(c)	-	1,522,640	-	1,522,640	1,522,640
– Other assets		-	11,179	-	11,179	11,179
Cash and balances with central banks	(a)	-	120,803	-	120,803	120,803
		460,027	1,692,749	-	2,152,776	2,152,776

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)	49,949	49,949	49,949
Deposits from customers	(d)	1,899,811	1,899,811	1,899,811
Debt security in issue	(e)	50,000	50,000	50,000
Other liabilities		34,953	34,953	34,953
		2,034,713	2,034,713	2,034,713

	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 2010						
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 bank	(a)	-	66,152	-	66,152	66,152
		377,446	1,093,750	-	1,471,196	1,471,196

	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

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, or where these are unavailable, 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 arising 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 2011 and 2010. During those two years the bank complied with all of the externally imposed capital requirements it is subject to.

	2011 P'000	2010 P'000
Tier 1 capital		
Stated capital	118,406	103,406
Retained earnings	20,193	10,868
Total qualifying Tier 1 capital	138,599	114,274
Tier 2 capital		
Debt security in issue	50,000	50,000
Collective impairment allowance	14,543	12,037
Total qualifying Tier 2 capital	64,543	62,037
Total regulatory capital	203,142	176,311
Capital management		
Risk-weighted assets:		
On-balance sheet	1,112,524	923,382
Off-balance sheet	50,908	39,577
Total risk-weighted assets	1,163,432	962,959
The bank uses Return on Equity (RoE) and Return on	68.23%	64.81%
Assets (RoA) as its key investment performance ratios.	17.46%	18.31%
Return on Equity	6.73%	5.04%
Return on Assets	0.43%	0.39%

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 2011						
			+0.3%	-0.3%	+5%	-5%
Specific impairment	P'000	4,365	41	(41)	(359)	359
Portfolio impairment	P'000	25,519	2,109	(2,109)	(1,672)	1,672
		29,884	2,150	(2,150)	(2,031)	2,031
At 30 June 2010						
			+0.3%	-0.3%	+5%	-5%
Specific impairment	P'000	4,043	45	(45)	471	(471)
Portfolio impairment	P'000	18,298	1,382	(1,382)	1,467	(1,467)
		22,341	1,427	(1,427)	1,938	(1,938)

(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 asset is acquired; market conditions at the statement of financial position date; and the practice adopted by similar organisations.

	2011 P'000	2010 P'000
6. Net interest income		
Interest and similar income		
Cash and short-term funds	30,815	25,259
Loans and advances	161,518	124,219
	192,333	149,478
Interest expense and similar charges		
Banks and customers	96,302	76,214
Other borrowed funds	4,247	3,900
	100,549	80,114
7. Net fee income		
Fee and commission income		
Credit-related and other fees	11,570	8,042
Commissions	5,223	3,997
	16,793	12,039
8. Net trading income		
Net translation gains of trading assets	3,876	2,298
9. Other operating income		
Other operating income includes:		
Commission income (Note 32)	1,790	1,200
10. Administrative expenses		
Staff costs		
Wages and salaries	36,421	28,744
Staff training and transfer cost	898	878
Fair value adjustment to staff loans (Note 12)	321	399
Pension costs – defined contribution plans	2,374	1,547
Other remuneration costs	5,515	3,798
	45,529	35,366
Other administrative expenses included:		
Auditor's remuneration		
– Audit fees	1,000	883
– Fees for other services	162	40
Directors' emoluments		
– For services as directors	669	444
Consulting fees paid – related parties (Note 32)	1,983	948
	49,343	37,681

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	2011 P'000	2010 P'000
10. Administrative expenses (continued)		
Number of employees	235	201
11. Other operating expenses		
Other operating expenses include:		
Advertising and marketing	3,452	2,949
Commissions paid	1,905	1,812
Courier charges	715	559
Depreciation (Notes 19 and 20)	5,907	4,493
Micro lending expenses	-	853
Office expenses	400	823
Operating lease rentals – immovable property	8,287	7,411
Other expenses	8,921	4,377
Professional services	693	866
Repairs and maintenance	1,413	2,616
Security expenses	726	725
Software expenses	2,688	1,530
Stationery	1,239	986
Telephone and fax	1,970	1,786
Travel and entertainment	1,314	1,552
Water and electricity	840	802
	40,470	34,140
12. Impairment losses		
Increase in specific impairment (Note 17)	5,025	2,521
Increase / (decrease) in portfolio impairment (Note 17)	7,221	2,364
Fair value adjustment to staff loans (Note 10)	(321)	(399)
Bad debts written off	-	890
	11,925	5,376
13. Income tax expense		
Current tax @ 15%	2,093	1,001
Advanced company tax @ 10%	1,395	667
Under provision in respect of prior year	160	-
Deferred tax (Note 24)		
Origination / (reversal) of temporary differences	(351)	275
Impact of change in the corporate tax rate	(117)	-
	3,180	1,943

During the year, as a result of the change in the corporate tax rate from 25% to 22% that was substantively enacted on 13 May 2011 and that will be effective from 1 July 2011, the relevant deferred tax balances have been re-measured.

	2011 P'000	2010 P'000
13. Income tax expense (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	12,505	7,704
Tax at the applicable rate of 25 % (2010: 25%)	3,126	1,926
Expenses disallowed for tax purposes	-	10
Under provision in respect of prior year	160	-
Tax allowed adjustments	(106)	7
Income tax expense	3,180	1,943
Further information regarding deferred tax is presented in note 24.		
14. Cash and balances with central bank		
Cash in hand	6,188	5,304
Balances with central bank	114,615	60,848
	120,803	66,152
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.		
15. Financial assets designated at fair value through profit and loss		
Bank of Botswana Certificates	460,027	377,446

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

Bank of Botswana Certificates with a nominal value of P80 000 000 (2010: P67 000 000) are pledged as securities with the Bank of Botswana.

An effective interest rate of 6.89% p.a. (2010: 7.1% p.a.) is applicable on Bank of Botswana Certificates.

	2011 P'000	2010 P'000
16. Loans and advances to banks		
Loans and advances to other banks	38,127	45,561

The effective interest rate on loans and advances to other banks is 1.9% p.a. for 2011 (2010: 2.5% p.a.).

	2011 P'000	2010 P'000
17. Loans and advances to customers		
Overdrafts	95,687	138,211
Commercial loans	337,860	195,582
Mortgages	435,578	308,169
Article finance	260,419	197,622
Personal loans	422,980	125,282
Gross loans and advances	1,552,524	964,866
Less: Impairment		
Specific impairment	(4,365)	(4,043)
Portfolio impairment	(24,094)	(17,192)
Less: Fair value adjustment to staff loans	(1,425)	(1,105)
	1,522,640	942,526

The effective interest rate for the portfolio is 11.57% (2010: 11.3%).

Movement in the impairment provision for the bank is as follows:

	Specific impairment P'000	Portfolio impairment P'000
Balance at 30 June 2009	1,522	15,934
Provision for loan impairment	2,521	2,364
Amounts written off during the year as uncollectible	-	-
Balance at 30 June 2010	4,043	18,298
Provision for loan impairment (Note 12)	5,025	7,221
Amounts written off during the year as uncollectible	(4,703)	-
Balance at 30 June 2011	4,365	25,519

17. Loans and advances to customers (continued)

The aggregate amount of non-performing loans on which interest was not being accrued amounted to P30 491 841 at 30 June 2011 (2010: P20 040 607). Accumulated unrecognised interest related to such loans amounted to P6 793 265 (2010: P3 435 209).

Maturity analysis of loans and advances to customers for the bank were as follows:

	2011		2010	
	P'000	%	P'000	%
Repayable within 1 month	128,643	8.3	138,929	14.4
Repayable after 1 month but within 3 months	61,766	4.0	733	0.1
Repayable after 3 months but within 12 months	235,229	15.2	17,281	1.8
Repayable after 12 months	1,126,886	72.5	807,923	83.7
	1,552,524	100.0	964,866	100.0

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

	2011 P'000	2010 P'000
Repayable within 1 year	116,084	85,407
Repayable after 1 year but within 5 years	144,225	112,208
Repayable after 5 years	110	7
Net investment in instalment finances	260,419	197,622
Gross finance lease investment at statement of financial position date	288,306	221,832
Less: future unearned finance income	(27,887)	(24,210)
Present value of minimum lease payments receivable	260,419	197,622
Provision for impairment for instalment finance	4,516	4,641

18. Other assets

	2011 P'000	2010 P'000
Accounts receivable and prepayments	24	2,430
Intercompany balances (Note 32)	-	468
Clearing accounts	11,155	36,613
	11,179	39,511

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 2011						
Cost						
Cost at 1 July 2010	1,581	192	5,860	290	14,661	22,584
Additions	47	-	893	371	2,370	3,681
Transfers	(886)	-	886	-	-	-
Disposals	-	-	(7)	-	(16)	(23)
30 June 2011	742	192	7,632	661	17,015	26,242
Depreciation						
Depreciation at 1 July 2010	-	28	2,508	174	3,904	6,614
Charge for the period	-	39	1,345	89	2,045	3,518
Disposals	-	-	-	-	-	-
30 June 2011	-	67	3,853	263	5,949	10,132
Net book value	742	125	3,779	398	11,066	16,110
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
Net book value as at 30 June 2009	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 2011			
Cost			
Cost at 1 July 2010	-	10,540	10,540
Additions	-	2,003	2,003
30 June 2011	-	12,543	12,543
Depreciation			
Depreciation at 1 July 2010	-	3,789	3,789
Charge for the period	-	2,389	2,389
30 June 2011	-	6,178	6,178
Net book value	-	6,365	6,365
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
Depreciation			
Depreciation 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

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

FOR THE YEAR ENDED 30 JUNE 2011

	2011 P'000	2010 P'000
21. Amount due to banks		
Short-term borrowings	49,949	17,954

The short-term borrowings include reverse repo borrowings and bear interest at the rate of 6.52% p.a.

	2011 P'000	2010 P'000
22. Deposits from customers		
Current accounts	138,037	96,951
Savings accounts	34,113	19,643
Other deposits (on call and fixed terms)	1,727,661	1,169,642
	1,899,811	1,286,236

The following deposits have been pledged as security for facilities provided:

	2011 P'000	2010 P'000
Call deposits	3,231	2,009
Fixed deposits	4,230	13,775
Foreign deposits	7,984	-
Notice deposits	20	-
	15,465	15,784

The effective interest rate for the portfolio is 5.8% (2010: 6.5%).

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

	2011		2010	
	P'000	%	P'000	%
Financial institutions	446,227	23.5	322,231	25.0
Companies	413,333	21.8	299,781	23.3
Individuals	130,383	6.9	62,585	4.9
Others	909,868	47.8	601,639	46.8
	1,899,811	100.0	1,286,236	100.0

Maturity analysis within the customer current, savings, deposit account portfolio for the bank were as follows:

	2011 P'000	%	2010 P'000	%
Withdrawable on demand	363,775	19.1	714,551	55.6
Maturing within 1 month	573,153	30.2	140,155	10.9
Maturing after 1 month but within 12 months	853,596	44.9	418,200	32.5
Maturing after 12 months	109,287	5.8	13,330	1.0
	1,899,811	100.0	1,286,236	100.0

	2011 P'000	2010 P'000
23. Other liabilities		
Creditors	17,288	13,029
Inter company balances (Note 32)	752	646
Clearing accounts	11,150	8,842
Sundry creditors	134	142
Internal accounts	5,629	1,283
	34,953	23,942
24. Deferred tax		
Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 22% (2010: 25%).		
The movement on the deferred income tax account is as follows:		
Balance as at 1 July	1,324	1,049
Income statement (reversal) / charge	(468)	275
Balance as at 30 June	856	1,324
Deferred income tax liability is attributable to the following item:		
Deferred income tax liability		
Accelerated tax depreciation and amortisation	856	1,324
25. Debt security in issue		
Balance at beginning of year	50,000	-
Issued during the year	-	50,000
At end of year	50,000	50,000

The debt security from BIFM Capital Fund (Pty) Ltd bears interest at a variable rate equivalent to 3 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. Capital repayment starts in September 2014.

	2011 P'000	2010 P'000
26. Stated capital		
At 1 July	103,406	103,406
Shares issued	15,000	-
At 30 June	118,406	103,406

Stated capital at year end comprise of 118 406 000 (2010: 103 406 000) ordinary shares.

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

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 and governed in Botswana in accordance with the requirements of the Pension and Provident Funds Act, 1987.

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

The bank has no further obligation towards the pension plan other than the monthly contributions, should there be inadequate assets to settle its pension liabilities to its members.

		2011 P'000	2010 P'000
28.	**Contingent assets, liabilities and commitments**		
	Capital commitments		
	Property, plant and equipment	16,664	6,921
	Software and licences	1,363	2,148
		18,027	9,069
	Operating lease commitments		
	Office premises		
	– Not later than 1 year	9,316	8,278
	– Later than 1 year and not later than 5 years	41,555	33,681
	– Later than 5 years	7,610	16,122
		58,481	58,081
	Funds to meet these commitments will be provided from own resources.		
	Letters of credit and liabilities under guarantees (Note 4.1.2)	255,889	95,351
29.	**Cash generated by operations**		
	Profit before income tax	12,505	7,704
	Adjusted for non-cash items:		
	– Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	5,907	4,493
	– Provision for impairment losses	11,925	5,376
		30,337	17,573
30.	**Income tax paid**		
	Income tax paid is reconciled to the amounts disclosed in the income statement as follows:		
	Amounts unpaid / (receivable) as at 1 July	187	(61)
	Current tax charge	3,648	1,668
	Amounts (unpaid) / receivable as at 30 June	(1,083)	(187)
		2,752	1,420
31.	**Cash and cash equivalents**		
	For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:		
	Cash and balances with central bank (Note 14)	120,803	66,152
	Loans and advances to banks (Note 16)	38,127	45,561
	Treasury bills and government stocks (Note 15)	460,027	377,446
		618,957	489,159

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 of the company is Capricorn Investment Holdings Limited, incorporated in Namibia which owns 95.5% of Capricorn Investment Holdings (Botswana) (Pty) Ltd 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.

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

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

	2011 P'000	2010 P'000
32.1 Payments made to related parties (Note 10)		
Capricorn Investment Holdings Limited: Consulting fees	1,003	296
Bank Windhoek Limited: Consulting fees	980	652
32. 2 Services rendered to related parties		
Ellwood Insurance Brokers (Pty) Ltd (Note 9)	1,790	1,200

	2011 P'000	2010 P'000
32. Related party transactions (continued)		
32.3 Payable to related parties arising from services rendered (Note 23)		
Bank Windhoek Limited	732	113
Capricorn Investment Holdings Limited	20	95
Penrich Employee Benefits (Pty) Ltd	-	438

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

	2011 P'000	2010 P'000
32.4 Receivable from related parties arising from services rendered (Note 18)		
Capricorn Investment Holdings (Botswana) (Pty) Ltd	-	129
Peo Micro (Pty) Ltd	-	85
Ellwood Insurance Brokers (Pty) Ltd	-	254

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

	2011 P'000	2010 P'000
32.5 Compensation paid to key management personnel		
Salaries and other short-term benefits	6,876	6,500

Bank Windhoek is a fellow subsidiary of the bank, registered in Namibia. Transactions with these parties have been carried at normal commercial terms and conditions. No provisions for impairment have been made in respect of receivables from related parties during the year.

Head Office

Bank Gaborone Head Office
Plot 5129
Queens Road
The Mall

Private Bag 00325
Gaborone
Botswana
Tel: 367 1500
Fax: 390 4007
www.bankgaborone.co.bw

Produced by

Marketing & Corporate Communication Services
Bank Gaborone
Tel: 3671 606
info@bankgaborone.co.bw

Layout and Design

Michelle Pieterse
Cell: +27 82 468 7690
Fax: +27 865 109 853
michellepieterse@telkomsa.net

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