Annual Report | 2013

Celebrating Customer Service

Bank Gaborone
Growing together.

"Our Goal at Bank Gaborone is to have customer service that not only meets expectations but *exceeds* expectations"

Index

Customer Service means finding the best solution for each customer, promptly, correctly and with a helpful mindset.

Vision

Our Vision

To be Botswana's bank of choice.

Core Purpose

To make banking a rewarding experience for all stakeholders.

Slogan / Pay-off Line

Growing together. Re gola mmogo.

Brand Positioning

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

Brand Essence

Building mutually beneficial relationships with clients and stakeholders.

Brand Character

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

Values

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.

Innovation

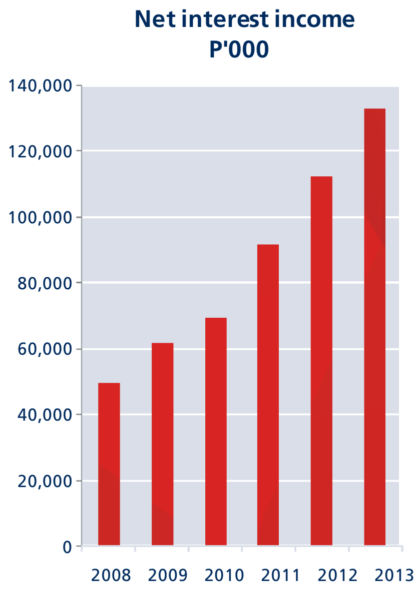
We embrace new thinking & technology to create opportunities for Bank Gaborone.

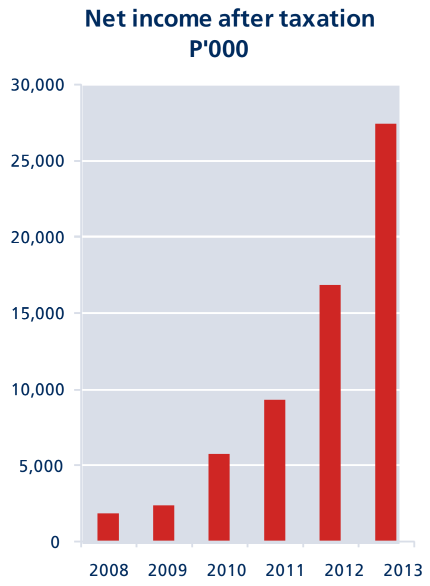
Financial highlights

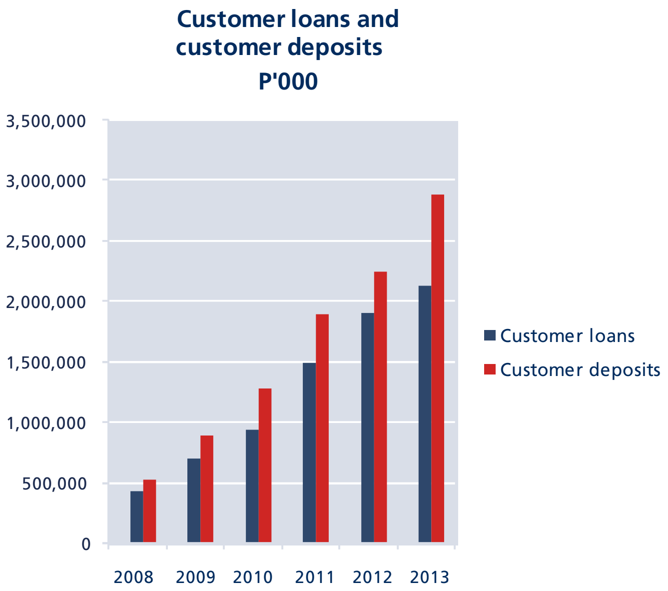
for the year ended 30 June 2013

Net interest income	Net income after tax	Customer loans	Customer deposits
P132.5m	P27.3m	P2.128b	P2.885b
▲ 18%	▲ 62%	▲ 11%	▲ 28%

Capital adequacy maintained in line within regulatory requirements%







Our history & key milestones

Capricorn Investment Holdings Limited (CIH), a leading Namibian financial services group and owner of Bank Windhoek Limited, took a strategic decision in 2002 to expand its banking operations beyond the boundaries of Namibia into the SADC region. Following an in-depth assessment of the socio-economic environment, business climate and risk profile of various SADC member countries, the Board of CIH in Namibia took the view that Botswana was the most appropriate country in which to commence the group's cross-border expansion programme.

Bank Gaborone is a wholly owned subsidiary of Capricorn Investment Holdings (Botswana) Limited, in which CIH holds a 95.5% interest. Bank Gaborone is a relatively new bank in the Botswana market. On 1 February 2006, the Bank of Botswana issued a licence to Bank Gaborone Limited to commence with its full retail banking business. The first branch was opened in Pilane Road in September 2006. Bank Gaborone now has six branches; three branches in Gaborone (Airport Junction Mall, Main Mall and Game City Mall), one branch at Mafenyatlala Mall in Molepolole, one branch at Galo Mall in Francistown and one branch in Ghanzi. There are also eleven Micro Finance office branches (Mall, Molepolole, Francistown, Ghanzi, Lobatse, Kasane, Maun, Serowe, Palapye, Letlhakane and Rail Park). The network is steadily being expanded to other towns.

2004

Capricorn Investment Holdings approached the Bank of Botswana for a banking licence in December.

2005

The banking licence application was approved in May.

2006

Bank Gaborone Limited was awarded a banking licence on 1 February 2006 by the Bank of Botswana to commence with its full retail banking business. Bank Gaborone started operating from its temporary premises located at Capricorn House, Plot 165, Pilane Road, Gaborone.

2007

Bank Gaborone relocated to Plot 5129, Queens Road, The Mall, Gaborone, on 19 November 2007. The move to this new branch marked the beginning of the bank's network expansion.

2008

The Game City branch was opened to the public on 4 November 2008. It was the bank's second branch in Gaborone and marked the ongoing national network expansion.

Our history & key milestones (cont.)

There are seven branch ATMs and 13 mini ATMs around the country. The bank is also working on increasing its number of ATMs to places where there are no branches yet.

Guided by its core values of teamwork, excellence, learning, passion and integrity, the bank is continuously pursuing its vision to become the preferred bank in Botswana. It intends to play a meaningful role in the development of Botswana's economy and the communities in which it operates. The bank will continue to listen to its customers and provide products and services that are relevant to them, such as e-pula internet banking and Tobetsa mobile banking, thereby making banking more accessible and convenient.

Location

Bank Gaborone operates from it spacious and accessible Mall branch situated at Plot No 5129, Queens Road, The Mall. Contact number: (+267) 367 1500 / 367 1600, Fax number: (+267) 390 4007.

2009

The Francistown branch was opened to the public on 24 April 2009. At this time, Bank Gaborone had already employed 158 people of whom 95% were Batswana.
E-pula Internet banking was introduced in March 2009.
The Molepolole branch commenced its full retail banking business on 18 December 2009.

2010

Bank Gaborone officially opened its fifth branch in Ghanzi on 8 October 2010.

2011

Bank Gaborone celebrates its fifth year since being issued a banking licence in Botswana.

2012

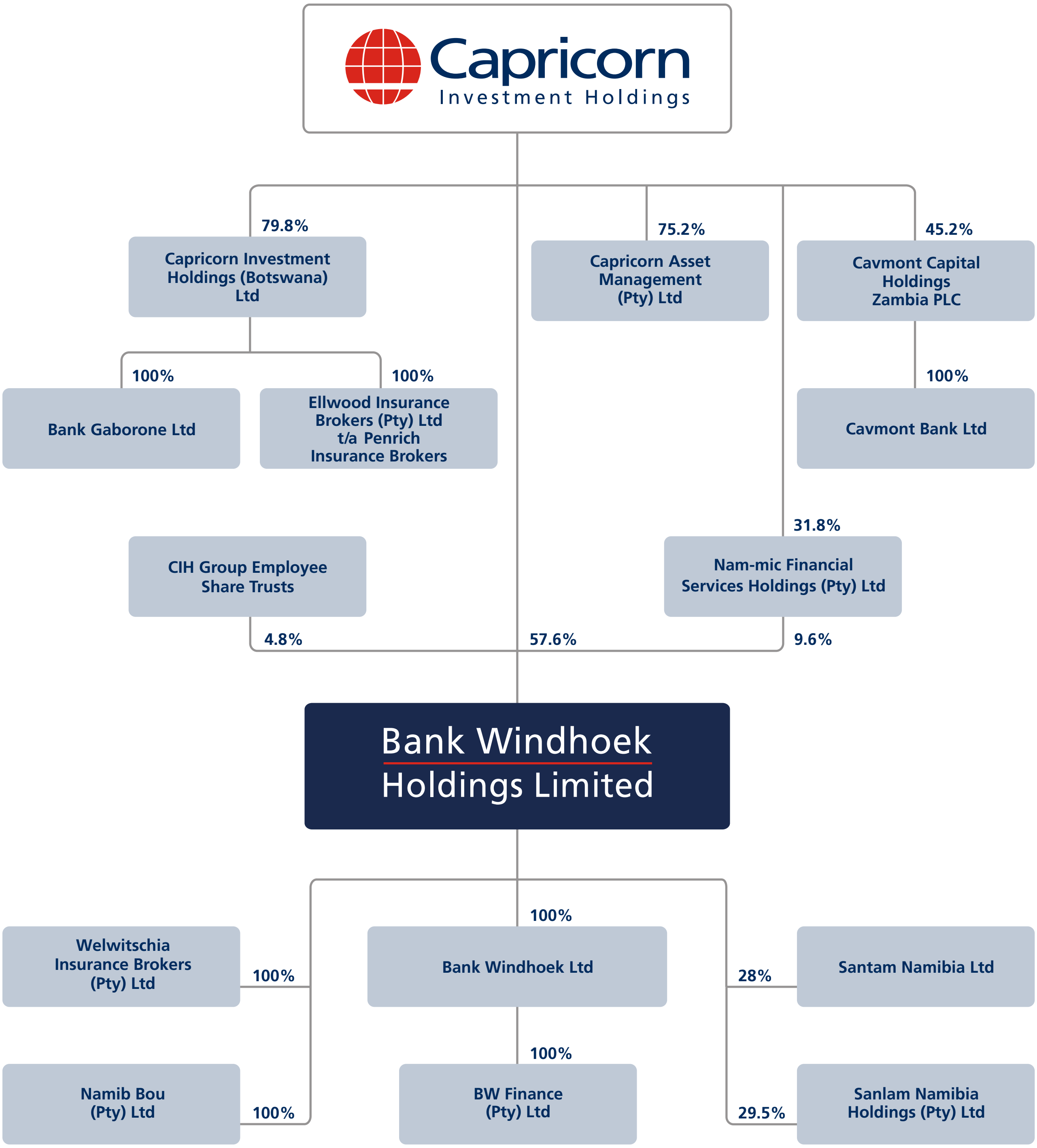
Bank Gaborone launches convenient banking through Tobetsa mobile banking and SMS Alertz, in August 2012.
Bank Gaborone opens its sixth branch, Business and Executive Banking, in the new Airport Junction mall.

2013

Bank Gaborone opens another BG Finance branch in Kang.
Tobetsa mobile banking was enhanced with the introduction of prepaid electricity purchases.

Group structure

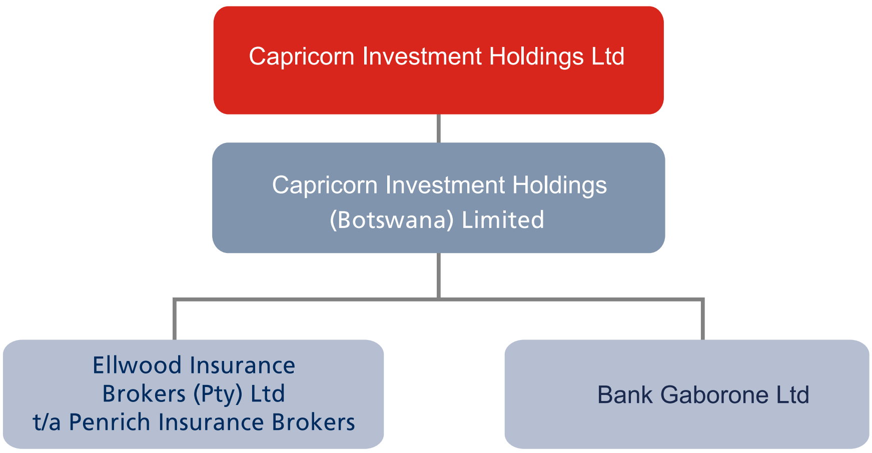
as at 30 June 2013



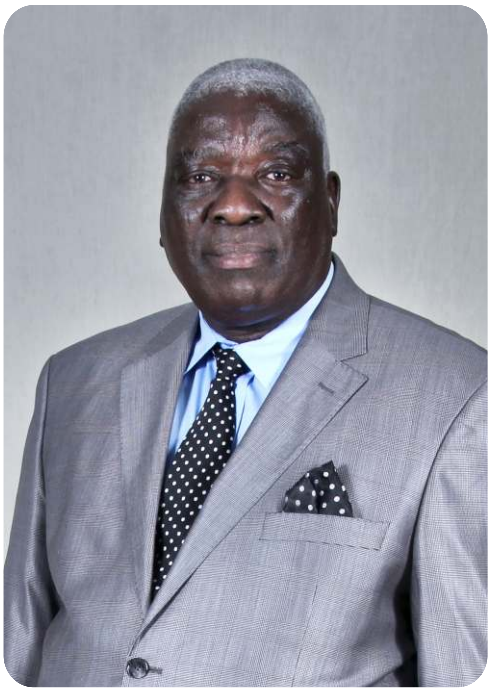
CIH Botswana

Capricorn Investment Holdings Limited (CIH), one of the leading financial services groups and main shareholder of Bank Windhoek Limited in Namibia, took a strategic decision in 2002 to expand its banking operations beyond the boundaries of Namibia into the SADC region. Following an in-depth assessment of the socio-economic environment, business climate and risk profile of various SADC member countries, the Board of CIH in Namibia took the view that Botswana was the most appropriate country in which to commence the group's cross-border expansion programme. CIH, through BOG Reserves Botswana Limited, approached the Bank of Botswana for a banking licence in December 2004. The application was approved in May 2005.

After complying with all the conditions and 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.



Board of directors



Peter Collins
Chairman of the board of directors
Independent non-executive director of the board

Date of first appointment:
6 March 2008

Peter was appointed as a non-executive director of Bank Gaborone in March 2008 and was appointed chairman of the board of directors in June 2012. Peter was admitted to the South African Supreme Court as an attorney in February 1971 after which he relocated to Botswana, becoming an attorney for the Botswana High Court in October 1980. He actively practised law until 1999, elevating to the bench as High Court judge until the end of 2004. He then left the bench to set up his own private legal practice, specialising in corporate law and specialist legal opinion to fellow attorneys seeking advice on commercial and civil matters. He studied law at the University of Cape Town.

André Barnard
Managing director
Executive director of the board

Date of first appointment:
1 July 2006

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

Patrick Balopi
Independent non-executive director of the board

Date of first appointment:
29 October 2010

Patrick is a former speaker of the Botswana National Assembly and was a Member of Parliament for 20 years. He has chaired a number of public commissions and has represented the Botswana Government and the Botswana Democratic Party at several local and international conferences and meetings. He was involved in a number of national, African and international population and development forums and is currently involved in a number of business ventures in Botswana. Patrick was bestowed the Presidential Order of Honour by the President of the Republic of Botswana in 2010.

Board of directors (cont.)

Johan Swanepoel
Independent non-executive director of the board

Date of first appointment: 8 December 2004

Mpho Mothibatsela
Independent non-executive director of the board

Date of first appointment: 8 February 2012

Johan was appointed as a non-executive director of Bank Gaborone in December 2004. His other directorships in Botswana include: Capricorn Investment Holdings (Botswana) Ltd and Ellwood Insurance Brokers (Pty) Ltd, known as Penrich Insurance Brokers. Johan is also the chairman of the Board Audit, Risk and Compliance Committee. Johan was appointed managing director of Bank Windhoek Limited in July 1999 after which he took up the position of group managing director of the Capricorn Investment Holdings Group in 2005. Prior to his appointment at Bank Windhoek Limited, he was employed with Coopers & Lybrand (now PricewaterhouseCoopers Namibia) from 1980 and was elected managing partner of the firm in 1994. He holds a Bcom (Accounting) and a BCom (Hons) degree from the Rand Afrikaans University (RAU) and qualified as a Chartered Accountant CA (SA) and CA (Nam).

Mpho joined the Public Services during 1978 and piloted the National Service (Tirelo Sechaba) from 1980 to 1987. She thereafter joined Standard Chartered where she excelled in various business units and ultimately ended her career at the bank as the executive director of human resources. Mpho then joined Bank Gaborone in 2005 where she set up the human resources department and retired at the end of December 2011. Mpho served as a director of Air Botswana since 2004 and became chairperson from 2006 to 30 April 2011. She holds a Bachelor of Arts degree from the University of Botswana and Swaziland.

Chairman's report

Bank Gaborone Limited is a wholly owned subsidiary of Capricorn Investment Holdings (Botswana) Limited whose parent company is Capricorn Investment Holdings Limited. Capricorn Investment Holdings Limited, registered in Namibia, is a regional financial services group with interests in banking, insurance, asset management, investments and micro-finance.

Bank Gaborone commenced retail banking operations in September 2006 and today has a branch network that incorporates 6 branches, 11 BG Finance outlets, 20 ATMs as well as advanced internet and mobile banking products.

Since its establishment the bank has succeeded in achieving sound and sustained growth in a competitive and highly regulated market. This growth can be attributed to prudent management principle, combined with a well-trained and motivated staff operating within a unique culture of service excellence embedded from day one.

Economy and environment

The economic conditions in 2012 and 2013 continue to be challenging and even more so with the heightened global focus on capital management, risk, corporate governance and stronger regulatory requirements. This is mainly due to the global economic credit crisis of 2008 to 2009 as well as the recent eurozone recessions and political challenges. Overall global growth is projected at 3.3% for the end of 2013, increasing to 4% for 2014.

The domestic economy has remained relatively robust with the gross domestic product (GDP) growing by 7.8% (1st Quarter 2012 to 1st Quarter 2013) and this should remain fairly flat for the remainder of 2013 and continue in 2014 with slight improvements. This is expected to be as a result of recoveries in the mining sector and increased electricity production. This may, however, be constrained by current drought conditions and imposition of water restrictions, which in turn could impact on the agricultural sector of the economy. Despite the strong growth rate in GDP, concerns have been raised by the IMF around the very high levels of household debt and unsecured loans in the market, combined with lower market liquidity. The latter decreased by an average 24% for the period.

Chairman's report (cont.)

It is likely that the year-on-year inflation rate will decline from the average 7.1% for the period to the upper levels of the Bank of Botswana's target range of 3% to 6%. Consistent with this view is that the bank rate has been reduced during the period by 1.5%, further promoting credit extension growth.

The Botswana banking sector remains highly competitive with 10 active commercial banks. Bank Gaborone will continue to position itself as the bank delivering superior customer service, which is at the heart of its value proposition to achieve long term sustainability.

The bank will continually strive towards expanding its geographic footprint in Botswana through gradual gradually expanding its branch network as well as increasing its customer base offering technologically advanced products, which are already being used and appreciated by the presently unbanked population.

We remain aware of the significant challenges facing Botswana, including a high unemployment rate as well as income inequality. Bank Gaborone embraces government initiatives directed at addressing these key issues and remains committed to contributing towards the achievement of government objectives in this regard.

Acknowledgments

I realise that the future success of Bank Gaborone is dependent on the growth and sustainability of the country's economy and acknowledge that mutually beneficial relationships play an important role in the bank's success. We are grateful for the strong relationships we have with our clients, partners, staff, shareholders and government. Without these invaluable relationships the bank would not have been as successful in establishing itself as a vibrant participant in the Botswana banking sector.

I am confident that Bank Gaborone's sound business strategy will continue to leverage on our core competencies: knowledge of clients' needs; our well trained, competent and committed staff; and superior technological developments.

I would like to express my sincere gratitude towards management and staff for their selfless commitment to fulfilling the bank's mantra 'Great Service' and for overcoming diverse challenges. This has been the cornerstone of the bank's success over the past seven years. It is wisely said that blowing one's own trumpet, however deserved, is faint praise. It was therefore particularly gratifying that, for the year under review, the KPMG Africa-wide Banking Industry Customer Satisfaction Survey ranked Bank Gaborone the most customer-focused bank in Botswana. We are truly fortunate to have a workforce that embraces our shareholders' vision to become the bank of choice to Batswana.

I welcome Rose Tatedi to our board, bringing with her a wealth of corporate experience and enthusiasm. To our board of directors, our shareholders, various government institutions and especially our customers: thank you for your invaluable support during the year enabling us to achieve these pleasing results.

Peter Collins
Chairman

Gaborone
9 September 2013

Managing Director's report

The financial year that ended on 30 June 2013 was eventful, as the bank shared the top position as the most customer-focused bank in Botswana in the KPMG Africa-wide Banking Industry Customer Satisfaction Survey, of which we are very proud, and our net profit after tax grew by 62%. These achievements are the result of our management and staff focusing on our clients and being committed to our vision of becoming 'Botswana's bank of choice.'

Bank Gaborone started from humble beginnings in 2005 with a small staff complement and a capital base of P30 million. Since then the Bank has grown to a staff complement of 269 employees, 6 fully fledged branches, 11 BG Finance outlets, 20 ATMs and a capital base of P238 million.

Operating environment

The banking sector in Botswana is highly competitive and that competition will continue to increase, following the Bank of Botswana's approval of two new banking licenses. In spite of fierce competition, the bank has achieved good growth over the past seven years. We are working hard to continue this trend. The future business environment remains challenging and the impact of increased liquidity contraction in the market and high levels of household debt will have a bearing on the future business environment. The impact of De Beers moving the diamond auctions from London to Gaborone is still to be seen, but this may soften market liquidity contractions in the future.

It will require careful navigation to ensure that we grow our business in a responsible and sustainable manner. The identification of risks arising from the operations of the bank, as well as risks arising from the external and largely uncontrollable environment in which the bank operates, will remain a focus area. Our Risk Management Framework ensures that risks are understood and mitigated. The framework is continually refined and updated to adapt to changing business risks and regulatory requirements.

Financial performance

The bank achieved very satisfactory results, reflected by a profit after tax of P27.3 million. A major

Managing Director's report (cont.)

contributor to this good performance was a focused strategy to maintain fund margins under an increasingly illiquid money market, exacerbated by significantly decreased returns on surplus funding. Net interest income grew by 18% while the charge for bad debts reduced to 0.4% of advances. Customer advances grew by 11% while customer deposits grew by 28%. Total impairment provisions remained low at 1.6%, much in line with that of the previous year-end and reflective of prudent credit management processes. Non-interest income remains moderately flat under regulatory pressure on the financial services industry to lower fee related charges. As can be expected from a young bank that requires a high initial capital outlay with low, but fast growing business volumes, total cost to income is still high at 74%. Staff costs remain a major portion of expenditure (52% of total costs) with it being 14% higher compared with 2012.

Human resources

The bank continues to invest in its most valuable resource, its employees, and has been embarking on a talent management journey to develop, grow and retain its employees.

Outlook for 2013 / 2014 financial year

The bank's main objectives are to focus on:

- growing the bank in a sustainable manner
- developing and retaining its staff via its talent management journey;
- continuous improvement in customer service;
- improving efficiency by the utilisation of technology to enhance processes and products; and
- managing risk and compliance.

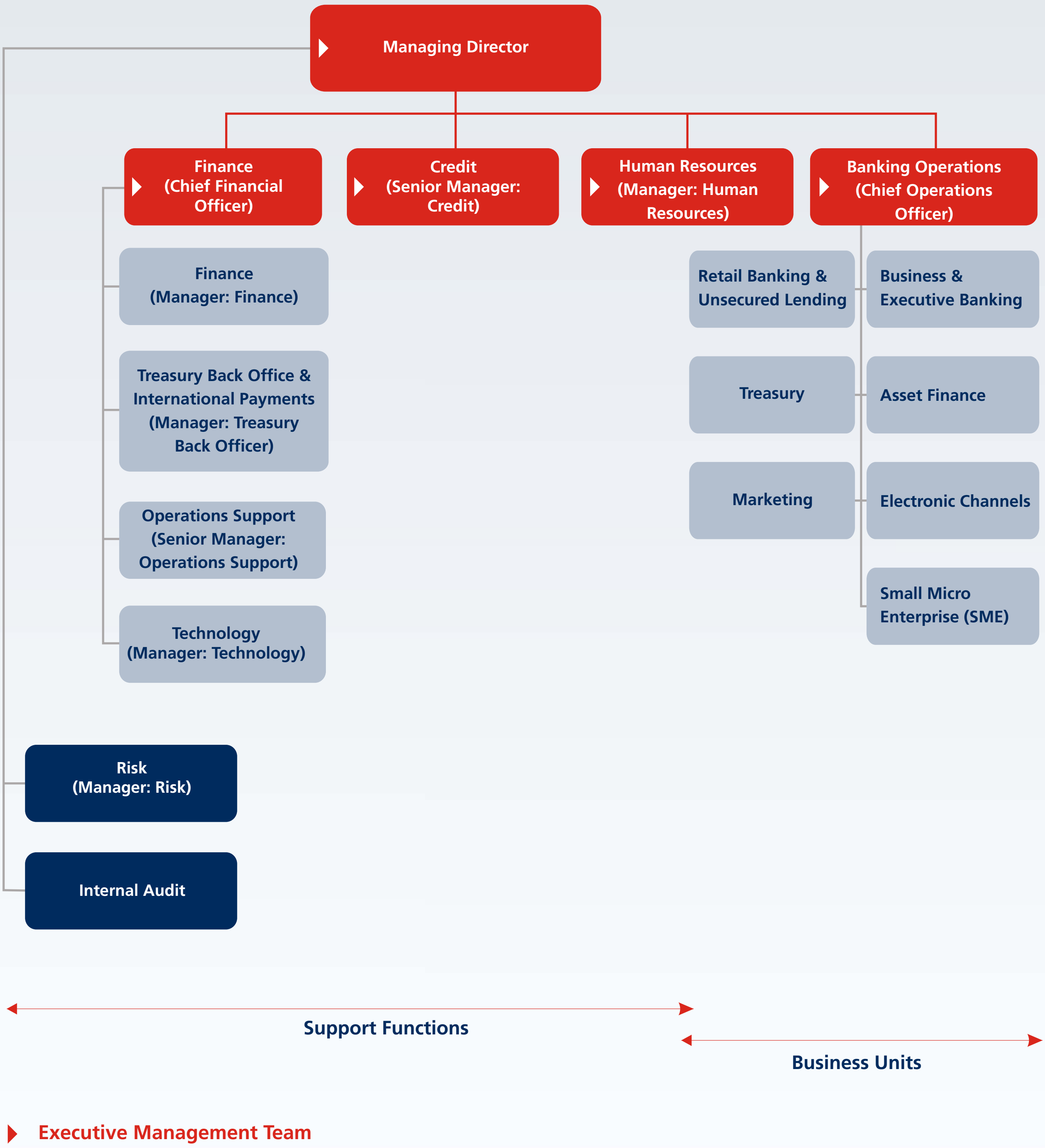
By the grace of God and the hard work of all our staff, we have done well during the past year.

Thanks to our staff, customers, board of directors and all our stakeholders for your support during the past year.

André Barnard
Managing Director

Gaborone
9 September 2013

Bank Gaborone organisational structure



Executive management team

Seated from left to right:

Sybrand Coetzee – *Chief Operations Officer*

André Barnard – *Managing Director*

Agatha Maswibilili – *Senior Manager Credit*

Mmoninyana Mgumba – *Manager Human Resources*

Andre Bester – *Chief Financial Officer*

Senior management team

From left to right:

Johan Vermaas – *Head Retail Banking*

Keemenao Mogotsi – *Treasurer*

Elize Utting – *Head Business & Executive Banking*

Sejo Lenong – *Finance Manager*

Edmundo Dos Santos – *Manager Technology*

Sandra Mokobi – *Manager Marketing & Corporate Communications*

Jose de Jesus – *Senior Manager Operations Support*

Business review

Retail Banking

2012 / 2013 Performance highlights

- Airport Junction breaks even in first year of operation
- Successful launch and uptake of youth accounts
- Introduction of prepaid airtime and electricity
- Rated no. 1 in customer service in Botswana by KPMG Customer Service Survey

Business performance

The customer-centric approach is continuing to generate growth in the number of clients as well as transaction volumes during the past financial year. This approach paid off in 50% growth on transactional and deposit accounts.

Business Unit scope

Early morning team talks and daily sales tracking introduced at each branch enhanced a collective approach culture at all branches, resulting in high customer service levels and an increase in sales. Furthermore there was an increased focus on improving compliance and taking a proactive approach to risk mitigation.

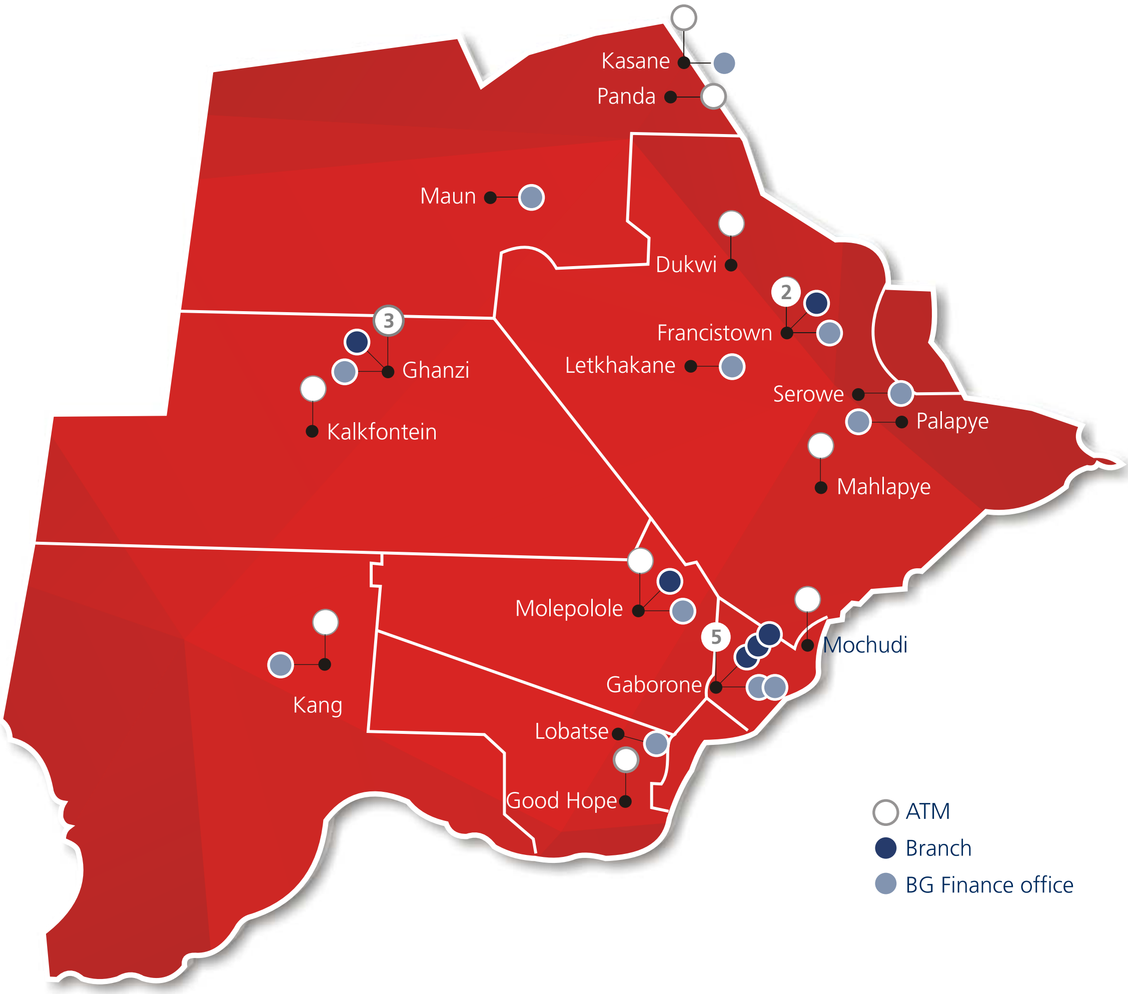
Looking forward

Retail Banking intends to further unlock its potential by

- opening new branches;
- cross-selling asset finance and mortgage products; and
- growing the mobile banking and electronic banking customer base.

Bank Gaborone branch network

Bank Gaborone branches, ATMs and BG Finance branches



5 Gaborone	2 ATMs Mall Branch
	1 ATM Game City Branch
	1 Rail Park Mall
	1 Airport Junction Branch
	1 Merchant ATM – Mont Trade (Feed Centre)
3 Ghanzi	1 ATM Ghanzi Branch
	1 Merchant ATM – Spar
	1 Merchant ATM Ghanzi Highway Filling Station
2 Francistown	1 ATM Francistown Branch
	1 Merchant ATM – Sebopeng (Tati siding)

Business review (cont.)

Asset Finance

2012 / 2013 Performance highlights

The Mortgage loan campaign from March to May 2013, resulted in a substantial growth in the mortgage book.

Business Unit scope

The Asset Finance division is responsible for marketing and growing the bank's property finance and motor vehicle loan book. The products are sold to individuals, companies and scheme participants by sales consultants. Property finance entails straight purchase, building loans and refinance. Motor vehicle finance is restricted to non-imported vehicles over a maximum period of five years and rates differ depending on the age of the vehicle or machinery during the time of purchase.

Business performance

- The main focus areas for Asset Finance during the year under review included:
- building a relationship with dealerships and estate agents around Botswana;
- getting more clients onto its loan book;
- cross-selling; and
- targeting scheme participants;

Looking forward

Asset Finance intends to further develop its potential by:

- developing structured partnerships with property developers, estate agents, dealerships and lawyers;
- partnering with other divisions to develop more business and opportunities to cross-sell; and
- Introducing asset finance sales campaigns.

Business review (cont.)

BG Finance

2012 / 2013 performance highlights

- Partnership with Kredicell
- Loan amount threshold increased to P250,000
- Customer base increased

Business unit scope

BG Finance is a financial services department administering unsecured finance to individuals formally employed based on the individual's creditworthiness and through a salary deduction agreement. This department is a leading role player in providing credit to central government employees, parastatals and private companies. The department has established disbursement points throughout the country by way of branches with sales consultants and supervisors, and brokers / agents. Emphasis is placed on taking the business to the customer, either at his home or workplace.

BG Finance offers short-term loans from P1,000 – P10,000 payable in 3 to 6 months, and long-term loans from P2,000 – P250,000 payable in 12 to 60 months.

Business performance

There has been progress in new business during the past financial year. The loan book grow by 42%. The aim is to continue growing the loan book by:

- increasing communication activities;
- giving the best service to the bank's clientele; and
- asking for referrals.

Looking forward

- Obtaining new business from Kang Service Centre
- Revamping product offerings and lending policies on a continuous basis.

Treasury

2012 / 2013 performance highlights

- The deposit book has grown by 29.3% from P1,830 billion to P2,366 billion
- The number of investors has grown by 20% from 105 to 126
- Non Interest income has grown by 13% from P6,610 million to P7,469 million
- Interest Income has grown by 45% from P16,918 million to P24,599 million

Business unit scope

Treasury plays a very important role in the bank by managing the bank's capital. It ensure that the bank remains liquid and is responsible for the bank's balance sheet. Some of the products and services rendered include: Foreign Exchange and Services to facilitate cross-border operations, e.g. Spot transactions, money market products such as fixed deposits call accounts foreign currency accounts, treasury bills etc.

Business performance

2013 was a tough year but we managed to excel and meet all but one of our targets.

The main focus areas included:

- decrease dependency on wholesale deposits by growing the retail book;
- growing interest income;
- growing non interest income;
- increasing number of clientele (both MM an FX); and
- building counterparty relationships.

Looking forward

Future development in the unit would be brought about by:

- Growing the banks client base to increase our market share
- making use of appropriate programmes (such as I'm Talent) for Continuous Personal Development

Business review (cont.)

Business & Executive Banking

2012 / 2013 performance highlights

- Increased focus on 'cementing' client relationships
- Growth in assets and liabilities
- Growth in market share

Business unit scope

The Business & Executive Banking suite provides products and services to the business banking and individual executive client markets. The aim is to function as partners and trusted advisors to clients in their business operations. With offices based at Airport Junction the unit is able to offer one-stop-banking to its client base.

A key differentiator is the relationship with clients, which is passion driven. The relationship managers are skilled individuals, fueled by a drive to succeed.

Business performance

The Business & Executive Banking Unit has performed very well during the past financial year. Business Banking achieved 110% of the asset growth approval targets and 118% of the liabilities targets and managed to increase its market share under difficult circumstances. Selekt Banking achieved 105% of the asset growth target and 133% of its liability target. Business and Executive Banking managed to strengthen relationships with its clients and this drive will continue during the coming financial year. The client centric approach towards our customers and prospective customers remain the unit's key competitive advantage.

The unit's main focus areas included:

- significant growth in its asset book;
- growth in its liability book;
- client retention;
- client acquisition; and
- cross-selling of products and services.

Looking forward

The unit aims to further develop its potential by:

- becoming the bank of choice in the Botswana market through commitment to superior client service;
- continuously developing itself to become and remain the business partner of choice; and
- remaining committed to 'growing together' with its existing clients and prospective clients.

Service Excellence is not a single incident or an action, but a habit to live by

Bank Gaborone celebrated for Great Customer Service

CELEBRATION SHOUT OUT

DOUBLE TOPS

THIS weeks' good service shout out goes to Bank Gaborone in a double celebration after a happy customer chose two of their staff in Francistown for the award.

Sarah Bame Matlhaku and Gaolatime John Sedubi were nominated for their willingness to help and providing a service that consistently went 'that extra mile' to ensure customer satisfaction.

Unable to separate the two nominees company director Bob Doeser asked us to include the duo as a 'single package' as he went on to pay tribute to the duo's efficiency and the 'extremely pleasant' manner.

"The duo often operate in tandem and the first thing that strikes one is their infectious smile. The way in which they deal with their customers even at the busiest of times is exceptional," Doeser said.

ENQUIRIES

He went on to praise the way both assist in reducing waiting time during busy periods, and the professional way they deal with customer enquiries. "They certainly know their work," he added.

Responding to the nomination Sarah commented: "Even thought it's not the first time that I have been acknowledged, it still makes me happy that I still have not lost my game. I still have my eyes on the ball," said Sarah.

TOGETHER AS ONE: Bank Gaborone's Sarah and John

Bank duo gets combined recognition for best service

Bank Gaborone was ranked 1st in Botswana as the bank with the best customer care by a recent survey compiled by KPMG (Banking Industry Customer Satisfaction Survey).

Bank Gaborone was also ranked in the same survey as the best bank for Customer Care; ranked at no. 2 for Convenience; ranked at no. 2 for Transaction Methods & Systems and ranked at no. 3 for Products and Services, in Botswana.

The Botswana Gazette LETTERS

THE BOTSWANA GAZETTE SINCE 1984

WEDNESDAY 24 - 30 OCTOBER 2012 PAGE 11

Good service at Bank Gaborone commendable

Good service to the public usually passes unnoticed, whilst without failure complaints about poor service delivery in public transport and other social gathering places are the ice breakers to any conversation. It is a baffling part of the human nature to never show appreciation, but always highlight failures of other people; what ingratitude!

I am incited to write this letter because of very good service that I received from Bank Gaborone, main mall branch, last week when I went to open an account there. ... at the door, which made me smile. Then I was ushered into the queue for people opening accounts. Every teller or employee of the bank never failed to smile, and say a kind greeting to the bank customers, before passing on to do their work.

Then as my time came to be assisted in opening the bank account, I was assisted by one Mr. Gaone Lechuti. I was made to feel at home, I was able to ask questions that made me appreciate all the banking procedures, costs and other nitty-gritty's. When I left the ... bank I used, whilst they certainly made effort to assist us kindly, it appeared to me like people doing a mandatory duty, not doing a job they love.

Most books on service delivery highlight affordability, accessibility and availability as the measuring stick for measuring performance. Based on the service I received from Bank Gaborone, I would rate the bank at an average of nine out of ten; in terms of affordability one has only to check their charges and compare them to the other banks' charges in order

Business review (cont.)

Operations support

2012 / 2013 Performance highlights

30 June 2013 marked the end of yet another exciting financial year for Botswana's bank of choice, Bank Gaborone. The Operations Support team once again made a significant contribution to driving the bank forward in achieving its mission of growing together with Botswana.

During the financial year under review, the Operations Support team worked closely with business and other role players to deliver the following projects:

- Launch of the Wiz and Fuze youth accounts
- Launch of the SMS Alertz service
- Implementation of Phoenix Archiving and upgrade of the Phoenix core banking system to SP5
- Upgrade of the internet banking system to version 3.2.10 and improvement of the system's performance
- Significant progress towards becoming PCI DSS and ATM EMV (acquiring) compliant.

During the course of the year, the team managed to make significant progress on most projects and even handed over and completed others before the end of the financial year.

Business Unit scope

The Operations Support Unit primarily focuses on providing internal support to business via the:

- Cash Centre managing bulk cash holding requirements of the bank and branches
- Central Processing Centre – managing the bank's participation in the Botswana payment system in respect of cheque and EFT payments made via the Botswana Electronic Clearing House
- System Support – Unit first-line user support on the bank's core and peripheral systems
- Projects Office – project management and support services on IT and infrastructural projects
- Business Process Management Unit – assisting business units to document their business processes and also coordination of the business continuity plans
- Central Account Administration Unit – back office processing of unsecured loans inclusive of credit vetting, disbursements and collections
- Administration Support Unit – management of other support services.

Looking forward

One of the objectives for the coming year is to improve performance delivery by being more efficient and customer-orientated. Amongst the deliverables for the next financial year are:

- Implementation of Creditease (automation of credit processes and the replacement of LAM)
- Full implementation of BPS to offer clients a bureau services for both collections (debit orders) and disbursements (bulk salary payments)
- Opening of branches in Kang and Maun
- Establishment of the Disaster Recovery Site, Business Continuity Site and Training Facility
- Roll out of the Cash Acceptor ATM
- Attainment of PCI DSS and ATM EMV compliance

Business review (cont.)

Human Resources

Recruitment and selection

The bank's key success lies in its people, therefore we have continued to focus on attracting and developing competent human resources to ensure that the delivery of efficient service in all bank operations is not compromised as the business grows. For the financial year ending June 2013, the staff complement has grown from 253 in July 2012 to 269 as at June 2013.

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 identifies talent and potential, supports learning and development and rewards excellence in a timely manner.

The bank continues 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, to the extent possible, being given to serving employees.

Business review (cont.)

Human Resources (cont.)

Industrial relations

The bank continues to enjoy a fairly peaceful industrial relations climate with minimal cases at hand. The bank also strives to ensure sustainability and continuous improvement. A disciplinary course was held for management to ensure embedding of knowledge in this area.

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.

Learning and development

The bank highly values 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 the bank trainers and the training facility are Bota accredited. Nine training modules have been Bota accredited. This should further enable the bank to effectively make use of the training levy for the development of its workforce.

The bank has an experimental training programme where new graduates without any work experience are engaged and exposed to basic banking over a one-year period. Employees with experience are also included with the intention to develop them to specific areas within the bank in order to ensure that the right skills are embedded for purposes of succession and to ensure continuity.

Organisational development

The bank continues to value skills development, hence the decision to drive the bank's talent management and succession planning which facilitates identifying internal and external talent for leadership and other key positions, and to retain them through targeted effective recruitment and placements strategies, focused development initiatives, effective performance management and staff recognition in order for the bank to be able to respond to sudden losses of talent and for competitiveness and retention.

Corporate social responsibility

Bank Gaborone continued to create initiatives to give back to the community. The bank has been involved in a number of projects that it has funded for the past three years and other projects that it continues to support on an ad-hoc basis. During this financial year, the bank has contributed through donations and sponsorships to a number of deserving organisations in the community by giving them support to grow and to continue their good work to improve lives amongst Batswana. The bank is committed to continue supporting different initiatives that make a difference in the community of Batswana all over the country.

Bank Gaborone Ghanzi branch gives to the community.

Charity golf event

The bank takes pride in contributing towards the good of the community. As such, Bank Gaborone has hosted a charity golf event for three consecutive years that allowed corporate customers and suppliers to help sponsor a good cause, the proceeds of which were donated to identified beneficiaries. The proceeds of the 2012 Charity Golf Day were donated to the Diabetes Association of Botswana and the Botswana Baylor Children's Clinical Centre of Excellence.

Diabetes Association of Botswana receives funds from the Bank Gaborone Charity Golf Event.

Botswana Baylor children's clinical centre of excellence receives funds from the Bank Gaborone Charity Golf event.

Corporate social responsibility

Journey of hope

Bank Gaborone took part in the Journey of Hope, which educates nurses at clinics by getting them to work with the Journey of Hope nurses. The bank has been an associated sponsor of the Journey of Hope in creating cancer awareness in Botswana for the past three years running.

Projects funded by Bank Gaborone

- Lady Khama Trust
- Diabetes Association of Botswana
- Botswana Baylor Children's Clinical Centre of Excellence
- Journey of Hope

Going forward, Bank Gaborone will, on an ad-hoc basis, continue to support deserving organisations that

"We have asked our customers, what great service means to them. We are now striving to deliver on and exceed their expectations."

Annual financial statements

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Statement of responsibility by the board of directors

for the year ended 30 June 2013

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 implements 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 various group Audit, Risk and Compliance Committees, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control 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 board Audit, Risk and Compliance Committees of operating subsidiaries, 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 control 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.

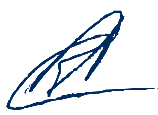
The financial statements, presented on pages 40 to 84, have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Botswana Companies Act, 2003 and Banking Act (Cap 46:04).

The directors have no reason to believe that the bank as a whole will not be going concerns in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on a going concern 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. PricewaterhouseCoopers' audit report is presented on page 39.

The financial statements, set out on pages 40 to 84, were authorised and approved for issue by the board of directors on 10 September 2013 and are signed on their behalf:

J J Swanepoel
Director



A Barnard
Managing Director

Corporate governance statement and risk report

for the year ended 30 June 2013

Bank Gaborone Limited is committed to the principles of corporate governance which are characterised by discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. By subscribing to these principles, the bank believes all stakeholders' interests are promoted, including the creation of long-term shareholders value.

The board and its sub-committees are responsible to ensure the appropriate application of governance practices and principles contained in the King II Report on Corporate Governance (King II). The board believes that, to the best of its knowledge, the group has complied, or is implementing processes to comply, with the principles contained in King II. The board manages corporate governance through the Board Audit, Risk and Compliance Committee, which monitors the group's compliance with relevant corporate governance principles and reports any findings directly to the board.

1. Board of directors

The bank's board plays a pivotal role in the corporate governance system. An overriding principle in regard to the board's deliberations and approach to corporate governance will be that of intellectual honesty.

The board, as constituted by the Companies Act, is governed by the board charter. The purpose of this board charter is to regulate how business is to be conducted by the board in accordance with the principles of good corporate governance. The board charter sets out the specific responsibilities to be discharged by the board members collectively and the individual roles expected from them.

Role of the board
An important role of the board is to define the purpose of the bank, which is its strategic intent and objectives as a business enterprise, and its values, which is its organisational behaviour and norms to achieve its purpose. Both the purpose and the values should be clear, concise and achievable. It should also ensure that procedures and practices are in place that protect the group's assets and reputation. The bank's strategy is considered and agreed annually prior to the approval of the annual budget.

Responsibilities of the board include the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure and overseeing the company's systems of internal control, governance and risk management. A schedule of matters reserved for the board's decision details key aspects of the company's affairs that the board does not delegate (including, among other things, approval of business plans and budgets, material expenditure and alterations to share capital).

Board leadership and composition
The board should provide leadership and vision to the bank in a way that will enhance shareholder value and ensure long-term sustainable development and growth of the bank.

There are two key tasks at the head of a company, the running of the board and the executive responsibility for the running of the company's business. There should be a clear division of responsibilities at the head of the company to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. Based on this principle the roles of the chairperson and managing director do not vest in the same person.

The company has a unitary board, consisting of executive, non-executive and independent directors. There are no agreements regulating board appointments. Representation of independent directors on the board is required and adhered to.

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 re-appointment is not automatic, but considered individually, based on their contribution.

Corporate governance statement and risk report (cont.)

for the year ended 30 June 2013

Board meetings and attendance at meetings

The meeting programme is approved by the board annually and should not be less than four meetings per year. During the year, all members of the board attended all meetings held with the exception of one board member, who was excused from attending one of the meetings.

	Board of Directors		BARC		Board Credit Committee		Human Resource Board Committee		
	Four meetings held during the year		Four meetings held during the year		Weekly meetings are held		Four meetings held during the year		Category
P C G Collins	✓	4 Chair	✓	4	✓	Note 1 Chair			Independent non-executive
J J Swanepoel	✓	4	✓	4 Chair	✓	Note 1	✓	4	Non-executive
A Barnard	✓	4	✓	4	✓	Note 1	✓	4	Executive
P K Balopi	✓	4	✓	4					Independent non-executive
M Mothibatsela	✓	4					✓	4 Chair	Independent non-executive

Note 1: Board Credit Committee meetings are held on a weekly basis, and a quorum is always present. Loans, advances, guarantees or other commitments above a predetermined threshold are escalated to the Board Lending Committee for approval, in terms of the credit policy.

Board members are required to observe the requirements of the Companies Act dealing with disclosures of interests and, where appropriate, board members should excuse themselves from discussion or decisions on matters of potential conflict, unless resolved otherwise by the chairman or by the remaining members of the board. No conflicts of interests were observed during the reporting period.

Appointments

Procedures for appointments to the board are formal and transparent. Members of the board are recommended by the group Board, Nomination and Remuneration Committee which receives its mandate from the board of directors of the company. New board members will only hold office until the next annual general meeting at which they will retire and become available for election. Executive directors will be engaged on employment contracts, subject to short-term notice periods, unless otherwise approved by the board.

On appointment, non-executive directors will have the benefit of an induction programme aimed at deepening their understanding of the company and the business environment and markets in which the company operates that includes background material, meetings with senior management and visits to the company's facilities. All board members are expected to keep themselves abreast of changes and trends in the business and in the company's environment and markets, which shall include changes and trends in the economic, political, social and legal climate generally. One new non-executive director has been appointed during the year under review.

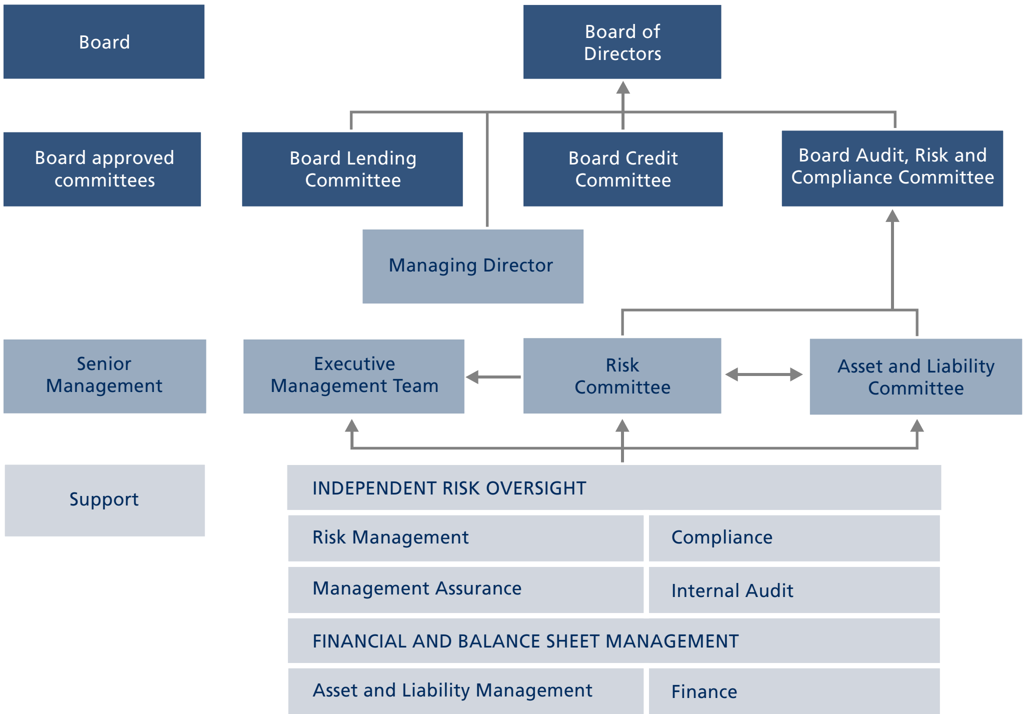
Access to independent advice

The company secretary is available to provide assistance and information on governance and corporate administration to the directors as appropriate. The directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the board committees. No requests for external professional advice were received during the year.

2. Risk management

Risk management framework
The board is ultimately accountable for any financial loss or reduction in shareholders value, and therefore has a duty to make the necessary enquiries to ensure that the requisite systems, practices and culture are in place to manage all risks to which the company is exposed. These risk management / control responsibilities have primarily been delegated to the Group Board Audit, Risk and Compliance committee (BARC), a sub-committee established by the board. The BARC is governed by formal, written terms of reference and the board is satisfied that the Board Audit, Risk and Compliance Committee has satisfied its responsibilities under the mandate for the period under review.

The risk management structure of the bank subsidiaries is as follows:



The BARC, whose chairman is a non-executive director, was established to ensure the bank's compliance with the requirements of the risk management framework, and more specifically to oversee sound risk management, accounting, internal audit, management assurance, internal control, compliance, forensics and ethics structures, and to liaise with the external auditors within the group. Both the internal and external auditors have unrestricted access to this committee, which ensures that their independence is in no way impaired.

During recent years and with the planning of BASEL II, risk management within the bank has become a focal point. To assist the BARC in monitoring exposures to risks in the day-to-day operations, a risk committee comprising of members of the executive management team and senior management, was established. The primary responsibility of this team is to evaluate the risk management model employed by the group and to provide recommendations to manage identified, unidentified and potential risks.

The risk management (RM) function, including operational risk analysis, market risk analysis and credit risk analysis, provides independent risk oversight. The compliance function also reports to this unit and has a primary function of setting bank-wide standards for achieving compliance with the relevant laws, regulations and supervisory requirements, and industry and international best practice. The RM function is headed by Manager: Risk. Manager: Risk reports directly to the managing director. She has unrestricted access to the chairman of the BARC. RM is responsible for establishing and driving the implementation of the risk management framework (Group Risk Internal Control and Assurance Framework), which include policies, procedures, standards, methodology and processes.

Risk management framework (cont.)
The bank has set in place a risk management framework to receive information on the effectiveness of measures to identify and address significant internal risks arising from the operations of the bank, as well as external risks arising from the external environment in which the group operates, including the design and operating effectiveness of internal control procedures to mitigate the identified risks.

The risk management approach of the bank is to ensure that all risks that may have a significant negative impact or potential negative impact on the bank are identified and managed. The risk management policies, approved by the BARC, define the major risks that the group is exposed to, as well as how the identified risks should be assessed, monitored, controlled / mitigated and reported. This framework also establishes and quantifies the risk appetites for each category of principal risk the bank is exposed to.

In order for the bank to determine the extent to which potential events have an impact on the achievement of objectives, a risk assessment process is followed. Within this process, risks identified are subject to the assessment of the likelihood of occurrence, the magnitude of impact and its risk rating. Each risk is required to have a risk response, representing the bank's response to mitigate or accept the risk.

As operational risk events continuously evolve arising from external market changes and other environmental factors, as well as from new products, activities and / or systems, the ongoing review of the operational risk management framework is a crucial link in the risk management process. Risk management procedures enhanced during the year include refining of the risk registers / risk and control self-assessments and the implementation of key risk indicators.

Refer to note 3 to the financial statements for an analysis and quantitative disclosure in relation to credit, market and liquidity risk.

3. Internal control

The bank maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposition. These are designed to provide reasonable assurance to the bank's management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of the bank's assets. An approved business continuity plan (BCP) is in place which is tested annually. The directors will however seek assurance that significant risks pertaining to these entities are managed and any system of internal control is operating effectively.

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.

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 2013 its systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, were adequate.

4. External auditors

The external audit policy, as approved by the BARC, governs the work performed by the external auditor, both from an audit and non-audit perspective. The BARC approved the external auditor's terms of engagement, scope of work, as well as the 2013 annual audit and agreed on the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditor, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

4. External auditors (cont.)

The committee has also assessed the external auditor's independence and has concluded that the external auditor's independence was not impaired during the reporting period and up to the date of signing of the financial statements.

Non-audit services received and fees paid during the financial year are as follows:

	Type of non-audit service	Fees paid (excl. VAT) P'000
PricewaterhouseCoopers	Consulting fees including	
	Tax advice	45
	Total	45

It is the external auditor's responsibility to report on whether the financial statements are fairly presented in all material respects in accordance with the applicable frameworks and their audit opinion is included on page 39.

5. Code of conduct

As part of its corporate governance practice and to encourage an environment where loyalty, integrity and trust prevails, all directors and employees are required to abide to the bank's code of ethics.

Independent auditor's report

to the members of Bank Gaborone Limited

We have audited the annual financial statements of Bank Gaborone Limited, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 40 to 84

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of, financial position of Bank Gaborone Limited as at 30 June 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Individual practising member: Rudi Binedell
Membership number: 20040091

Gaborone
28 October 2013

Directors' report

for the year ended 30 June 2013

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 worldwide. Bank Gaborone is a bank licensed in Botswana under registration number 8812 / 2004. The registered office of the bank is Plot 50371, Fairgrounds Office Park, Gaborone. The principle office address where business is conducted is at Plot 5129, Queens Road, The Mall, Gaborone.

2. Financial results and dividends

Profit after tax was P27,394,000 (2012: P16,875,000). Full details of the financial results of the bank are set out on pages 41 to 84.

3. Stated capital

During the year, the bank issued Nil (2012 – P56,594,000) 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 company during the financial year:

Non-executive

P C G Collins	Chairman
J J Swanepoel	Vice-Chairman
P K Balopi	
M Mothibatsela	

Executive

André Barnard	Managing Director

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

Bank Gaborone
Queens Street
Gaborone

Private Bag 00325
Gaborone
Botswana

Statement of comprehensive income

for the year ended 30 June 2013

	Notes	2013 P'000	2012 P'000
Interest and similar income	5	287,056	236,054
Interest and similar expenses	5	(154,470)	(123,836)
Net interest income		132,586	112,218
Impairment charges on loans and advances	6	(8,233)	(12,971)
Net interest income after loan impairment charges		124,353	99,247
Fee and commission income	7	23,142	17,770
Net trading income	8	6,529	6,879
Other operating income	9	3,728	1,489
Fee and commission expense	11	(7,087)	(1,516)
Operating expenses	12	(116,154)	(102,250)
Profit before income tax		34,511	21,619
Income tax expense	13	(7,117)	(4,744)
Profit for the year		27,394	16,875
Other comprehensive income		-	-
Total comprehensive income for the year		27,394	16,875

Statement of financial position

for the year ended 30 June 2013

	Notes	2013 P'000	2012 P'000
ASSETS			
Cash and balances with the Central Bank	14	276,458	215,934
Bank of Botswana Certificates	15	529,514	298,774
Due from other banks	16	239,892	111,930
Loans and advances to customers	17	2,128,388	1,913,625
Loans and advances to staff	15	53,761	38,895
Other assets	18	68,010	16,737
Intangible assets	19	9,905	7,371
Property, plant and equipment	20	18,132	19,831
Deferred tax asset	26	50	-
Total assets		3,324,110	2,623,097
LIABILITIES			
Due to other banks	21	2,301	12,389
Debt securities in issue	22	100,000	100,000
Deposits from customers	23	2,885,893	2,246,666
Other liabilities	25	97,429	50,498
Current tax liability		227	539
Deferred tax liability	26	-	187
Total liabilities		3,085,850	2,410,279
EQUITY			
Stated capital	28	175,000	175,000
Non-distributable reserves	29	750	750
Retained earnings		62,510	37,068
Total shareholder's equity		238,260	212,818
Total equity and liabilities		3,324,110	2,623,097

Statement of changes in equity

for the year ended 30 June 2013

	Notes	Stated capital P'000	Non-distributable reserves P'000	Retained earnings P'000	Total equity P'000
Balance at 1 July 2011		118,406	-	20,193	138,599
Issue of shares	28	56,594	-	-	56,594
Total comprehensive income for the year		-	-	16,875	16,875
Staff share benefit	29	-	750	-	750
Balance at 30 June 2012		175,000	750	37,068	212,818
Balance at 1 July 2012		175,000	750	37,068	212,818
Issue of shares	28	-	-	-	-
Total comprehensive income for the year		-	-	27,394	27,394
Dividend Paid	29	-	-	(1,952)	(1,952)
Balance at 30 June 2013		175,000	750	62,510	238,260

Statement of cash flows

for the year ended 30 June 2013

	Notes	2013 P'000	2012 P'000
Cash flows from operating activities			
Interest receipts		287,056	236,054
Interest payments		(154,470)	(123,836)
Commission and fee receipts		30,251	25,437
Commission paid		(7,087)	(1,516)
Amounts recovered during the year		596	-
Cash payments to employees and suppliers		(108,444)	(96,030)
Cash generated by operations	31	47,902	41,109
Income taxes paid	32	(7,334)	(5,957)
Cash flows from operating profits before changes in operating assets and liabilities		40,568	35,152
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(240,970)	(443,262)
Net increase in other assets		(51,273)	(5,558)
Net increase in deposits from customers		639,227	346,855
Net increase in other liabilities		46,931	15,545
Net increase in amounts due to other banks		(10,088)	(37,560)
Net cash flows (utilised in) / generated from operating activities		424,395	(88,828)
Cash flows from investing activities			
Additions to property, plant and equipment	20	(3,224)	(7,519)
Proceeds from sale of property, plant and equipment		-	-
Additions to intangible assets	19	(4,857)	(3,267)
Dividends received		2,912	701
Net cash utilised in investing activities		(5,169)	(10,085)
Cash flows from financing activities			
Proceeds from the issue of debt securities in issue	22	-	50,000
Issue of shares		-	56,594
Net cash flows generated from financing activities		-	106,594
Net increase in cash and cash equivalents		419,226	7,681
Cash and cash equivalents at beginning of year		626,638	618,957
Cash and cash equivalents at end of year	33	1,045,864	626,638

Notes to the financial statements

for the year ended 30 June 2013

1. Basis of presentation

Bank Gaborone Limited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) 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 judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

1.1 Going concern

The bank's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the bank should be able to operate within the level of its current financing. After making enquiries, the directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future. The bank therefore continues to adopt the going concern basis in preparing its financial statements.

1.2.1 International Financial Reporting Standards and amendments effective for the first time for 30 June 2013 year-end

Amendments to IAS 1, 'Presentation of financial statements', on presentation of items of OCI

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address items which are presented in OCI.

Amendment to IAS 12,'Income taxes' on deferred tax

Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

1.2.2 Standards and interpretations issued but not yet effective

These amendments are not expected to have a significant impact on the financial statements.

	Effective date
Amendments to IFRS 1, 'First time adoption of IFRS' The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances. The amendment clarifies that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date. The consequential amendment (as a result of the amendment to IAS 1 discussed below) clarifies that a first-time adopter should provide the supporting notes for all statements presented.	Annual periods commencing on or after 1 January 2013
Amendment to IAS 1, 'Presentation of financial statements' The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or voluntarily.	Annual periods commencing on or after 1 January 2013

Notes to the financial statements (cont.)

for the year ended 30 June 2013

1.2.2 Standards and interpretations issued but not yet effective (cont.)

	Effective date
Amendment to IAS 16, 'Property, plant and equipment' The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	Annual periods commencing on or after 1 January 2013
Amendment to IAS 32, 'Financial Instruments: Presentation' The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.	Annual periods commencing on or after 1 January 2013
Amendment to IFRS 1, 'First-time adoption' on government loans This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.	Annual periods commencing on or after 1 January 2013
Amendment to IFRS 7, Financial Instruments: Disclosures – Asset and Liability offsetting The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.	Annual periods commencing on or after 1 January 2013
IFRS 9 – Financial Instruments (2009) This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.	Annual periods commencing on or after 1 January 2013
IFRS 9 – Financial Instruments (2010) The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.	Annual periods commencing on or after 1 January 2013
Amendment to IAS 19, 'Employee benefits' The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.	Annual periods commencing on or after 1 January 2013
Amendments to IFRS 9 – Financial Instruments (2011) The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.	Annual periods commencing on or after 1 January 2013

1.2.2 Standards and interpretations issued but not yet effective (cont.)	**Effective date**
IFRS 13 – Fair value measurement This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	Annual periods commencing on or after 1 January 2013
IFRS 9 – Financial Instruments This standard will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The accounting for financial assets differs in various other areas from exiting requirements, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income (OCI).	Annual periods commencing on or after 1 January 2015
Amendments to IAS 32 – Financial Instruments: Presentation and off-setting The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP.	Annual periods commencing on or after 1 January 2014

Notes to the financial statements (cont.)

for the year ended 30 June 2013

2. 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:

2.1 Foreign currency translation

Items included in the financial statements of the bank 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.

2.2 Financial instruments

2.2.1 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.

Financial assets are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, for all financial assets not carried at fair value through profit or loss.

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 group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The designation cannot be subsequently changed. This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

Treasury Bills, Government Stock, loans to employees and derivatives are designated in this category. Derivatives are designated as held for trading, unless they are designated and effective as hedging instruments.

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

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue.
- Financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivative that 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 under net gain from financial instruments designated at fair value through profit or loss in the profit or loss and in the period in which they arise. Interest income and expense and dividend income and expense on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

(ii) 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 group provides money, goods 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 rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

Loans and advances are classified in this category.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group 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.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

(iv) 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 or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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 in the statement of comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the statement of comprehensive income should be recognised in the profit or loss.

However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale, as well as impairment losses, are recognised in the profit or loss. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss in 'Dividend income' when the group's right to receive payment is established.

2.2.2 Financial liabilities

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

(i) 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 profit or loss over the period of the liability using the effective interest rate method.

The dividends on preference shares are recognised in the profit or loss as interest expense on an amortised cost basis using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

(ii) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss and are reported as 'Net gains / (losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'. The bank designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated.

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.2.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the consolidated statement of financial position.

The bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

2.2.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.2.6 Derivative financial instruments and hedge accounting

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

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

(1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,

(2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The group only applies hedge accounting when these criteria are met. Where these criteria are not met, derivatives are fair valued through profit or loss and these adjustments are disclosed separately.

The bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security, at which point it is included in the statement of comprehensive income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are recycled to the profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). They are recorded in the revenue or expense line item associated with the related hedged item.

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

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and the derivatives are disclosed separately in the statement of financial position.

No hedge accounting existed at year-end.

2.3 Sale and repurchase agreements

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

2.4 Impairment of financial assets

2.4.1 Assets carried at amortised cost

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

(i) significant financial difficulty of the issuer or obligator;

(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 becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a 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 group, 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 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 and the amount of the loss is recognised in the profit or loss.

Impairment of loans and advances

Impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

(i) Individually assessed loans and advances

Each loans and advances are assessed on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include the loss events described above. For those loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and likelihood of successful repossession.

(ii) Collectively assessed loans and advances

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation is based on the incurred but not identified ('IBNR') model, which takes into cognisance that it may take a period of time before management becomes aware of an objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is also factored into the model, which represents management's view of the how long it takes for the objective evidence to become known to management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non-distributable reserves.

When a loan is uncollectable, 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 profit or loss.

2.4.2 Assets carried at fair value

The bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

2.4.3 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.

2.5 Intangible assets

2.5.1 Computer software and development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by

2.5.1 Computer software and development costs (cont.)

the bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which ranges between three to seven years depending on the project life cycle.

2.6 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 group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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

Motor vehicles	5 years
Furniture and fittings	8.3 years
Office equipment	6.67 years
Computer equipment	3 – 5 years
Plant	5 years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the profit or loss.

Leasehold improvements included in the furniture and fittings are depreciated over the lesser of useful lives or the lease period.

2.7 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included at the lower of cost or net realisable value, and are derecognised when the assets are sold to third parties.

2.8 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

2.8 Impairment of non-financial assets (cont.)

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.

2.9 Leases

Bank is 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. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss 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.

2.10 Cash and cash equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the Central Bank, treasury bills and other eligible bills, placements with other banks, short-term government securities and money market investments, as well as short-term borrowings from other banks.

2.11 Provisions

Provisions are recognised when the group 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 for restructuring costs and legal claims are recognised when: the group 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. The bank recognises no provisions for future operating losses.

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.

No provisions were raised during the current year.

2.12 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 instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdraft and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the

2.12 Financial guarantee contracts (cont.)

future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. 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 profit or loss under operating expenses.

2.13 Employee benefits

2.13.1 Pension obligations

The bank operates a defined contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. 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.

2.13.2 Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

2.13.3 Bonus plans

The bank recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14 Share-based payments

The bank operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (shares) of Capricorn Investment Holding Botswana (Pty) Ltd. Equity-settled share purchase schemes are valued at grant date. The fair value of the employee services received in exchange for the grant of the shares and share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares and share options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the bank revises its estimates of the number of shares and share options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

2.14 Share-based payments (cont.)

IFRS 2 requires an entity to measure the fair vale employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any change in these assumptions will impact the expense and share-based compensation reserve created at grant date. The valuation technique used to determine the cost of shares granted on interest-free loan is the Black-Scholes valuation model and includes assumptions such as share price, volatility and a risk-free interest rate. Additional information is disclosed in note 32.

2.15 Deferred and current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Deferred 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, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, the 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 assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

(b) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdiction where the bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the bank's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the bank.

The bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the bank's activities as described below. The bank bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2.16.1 Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading as well as foreign exchange gains and losses arising from instruments held for trading.

Notes to the financial statements (cont.)

for the year ended 30 June 2013

2.16.2 Interest income and expense

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest rate 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.

Interest income and expense and dividend income and expense on financial assets at fair value through profit or loss are included in 'Net interest income' or 'Dividend income', respectively.

Once 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.

2.16.3 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. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Insurance broking commission; consultancy- and administration fee income – comprise commission income and negotiated fees earned in respect of the placement of insurance and servicing of clients under insurance programmes. Income is brought to account on the effective commencement or renewal dates of the related insurance programme. Commission- and administration fee income is deferred over the policy term.

2.16.4 Other income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividend income is recognised when the right to receive payment is established.

2.17 Stated capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

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

2.18 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the bank's financial statements in the period in which the dividends are declared by the Board of Directors.

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

Notes to the financial statements (cont.)

for the year ended 30 June 2013

2.19 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.

3. 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 the continued operations of the bank. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

Management's approach to risk management is to ensure all risk are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies are an integral part of the group's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The following key principles are the foundations of the bank's risk management process:

- Adoption of a risk management framework which applies to all business units and risk types;
- Risk assessment, measurement, monitoring and reporting;
- Independent reviews, and
- Risk governance processes.

The following subcommittees at subsidiary level 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, including derivatives, to take advantage of short-term market movements in bonds and in currency, interest rate and commodity prices. 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.

The ALCO also carries the primary responsibility of monitoring the bank's liquidity position, as well as formulating the funding strategy. During the year, a sub-committee of ALCO, the interest-rate sub-committee, was established. The interest-rate committee reviews the economic environment and recommends to ALCO interest rate views. ALCO activities are reported to the Board, Audit, Risk and Compliance Committee.

Board Credit Committee (BCC) and Board Lending Committee
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 and Board Lending Committee are tasked to ensure this objective is achieved by ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position; but also guarantees and other commitments such as letters of credit.

Risk Committee
In addition to the above committees, a Risk Committee, comprising of members of the Executive Management Team and reporting to the Board Audit, Risk and Compliance Committee, was established. Its primary responsibilities are to:

- evaluate the risk management model employed by the bank in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit);
- discuss and identify gaps and weaknesses in the management information system (MIS) to enable management to make the correct decisions;
- discuss the findings and recommendations of the Bank's risk functions and evaluate whether appropriate action has been taken when necessary;
- enhance general risk awareness within the Bank;
- monitor the management of risks to ensure that the bank complies with the Bank of Botswana's guidelines for effective risk management; and
- to discuss in detail any identified, unidentified and potential risks that are material to the bank.

The Board of Directors, through its Board Audit, Risk and Compliance 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.

Significant risks to which the bank is exposed is discussed below. Quantitative disclosures are based on banks results.

3.1 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. Impairment provisions are provided for losses that have been incurred at the reporting 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 reporting date. Credit risk, together with large exposures, are monitored by the Board Credit and Board Lending Committees.

In addition to credit risk through a loan, the bank is exposed to counterparty credit risk, which is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Unlike credit exposures to loan, exposures to counterparty credit could result in a positive or negative impact to the financial performance of the bank, depending on the underlying market factors. Such risk is associated primarily with derivative transactions.

3.1.1 Risk limit control and mitigation policies
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 industry segments. Such risks, including exposures to industry segments, are monitored on a monthly basis and are subject to an annual or more frequent review. Limits on the level of credit risk by country are approved by the Board of Directors.

Exposure to credit risk is managed upfront when an application for credit is received. The Credit Risk Management Model is utilised by the bank and assess the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations is assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but for a portion of personal lending no such collateral or guarantee can be obtained. The amount the bank is willing to lend unsecured is also capped and approved by the Board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. Credit limits to these banks takes into consideration ratings performed by external rating agencies.

Some other specific control and mitigation measures are outlined on the next page:

Notes to the financial statements (cont.)

for the year ended 30 June 2013

3.1.1 Risk limit control and mitigation policies (cont.)

(i) 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:

- cash which is deposited with and ceded to the bank;
- deposit with any registered financial institution and ceded to the bank;
- life assurance policy with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the Credit Department.

Valuation methodologies and period of validity on collateral are outlined in established policies, which are approved by the Board.

Long-term finance and lending to corporate entities are generally secured. In addition, in order 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.

(ii) Derivatives

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

(iii) 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 assets and liabilities reflected on the statement of financial position, 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 financial instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(iv) 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 assurance 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 group 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 long-term commitments generally have a greater degree of credit risk than short-term commitments.

3.1.2 Impairment and provisions

The bank employs various techniques to determine the specific and general impairment of its financial assets.

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 60 days. Other financial assets are impaired according to the general impairment policy as per note 2.4.1.

(i) Loans and advances neither past due or impaired

Loans and advances to banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Loans and advances to customers in this category primarily comprise structured finance to large corporate clients, which have no evidence of a deterioration of credit quality.

(ii) Loans and advances subject to general impairment

The total loans and advances to customers portfolio is subject to collective assessment as described in note 2.4.1.

(iii) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is P43.59 million (2012: P29.57 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the bank as security, is as follows:

	Article finance P'000	Commercial loans P'000	Mortgages P'000	Individual loans P'000	Overdrafts P'000	Total P'000
As at 30 June 2013						
Individually impaired loans	3,805	14,533	17,107	6,808	1,336	43,589
Fair value of collateral	(2,585)	(13,630)	(14,967)	(4,799)	(443)	(36,424)
Total	1,220	903	2,140	2,009	893	7,165
As at 30 June 2012						
Individually impaired loans	6,213	12,048	6,873	4,436	-	29,570
Fair value of collateral	(1,711)	(11,834)	(6,134)	(1,943)	-	(21,622)
Total	4,502	214	739	2,493	-	7,948

Loans and advances are summarised as follows:

	2013		2012	
	Loans and advances to customers P'000	Due from other banks P'000	Loans and advances to customers P'000	Due from other banks P'000
Neither past due nor impaired	2,001,609	239,892	1,886,837	111,930
Past due but not impaired	117,178	-	33,062	-
Individually impaired	43,589	-	29,570	-
Gross	2,162,376	239,892	1,949,469	111,930
Less: allowance for impairment	(33,988)		(35,844)	-
Net	2,128,388	239,892	1,913,625	111,930

(a) Loans and advances neither past due nor impaired

	Article finance P'000	Commercial loans P'000	Mortgages P'000	Individual loans P'000	Overdrafts P'000	Total P'000
As at 30 June 2013	191,350	475,223	658,905	493,081	183,050	2,001,609
As at 30 June 2012	257,878	405,712	506,590	593,106	123,551	1,886,837

Notes to the financial statements (cont.)

for the year ended 30 June 2013

3.1.2 Impairment and provisions (cont.)

(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:

	2013 P'000	2012 P'000
Loans granted within the last 12 months, with no history of default	635,237	796,428
Loans granted within the last 12 months, with minor history of default	222,562	24,027
Loans granted prior to the last 12 months, with no history of default	407,887	1,028,636
Loans granted prior to the last 12 months, with minor history of default	735,923	37,746
	2,001,609	1,886,837

(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	Mortgages P'000	Individual loans P'000	Overdrafts P'000	Total P'000
30 June 2013						
Past due up to 30 days	9,037	17,042	32,392	12,121	-	70,592
Past due 30 – 60 days	4,484	21,999	5,844	4,332	-	36,659
Past due more than 60 days	-	-	24	9,903	-	9,927
Total	13,521	39,041	38,260	26,356	-	117,178
30 June 2012						
Past due up to 30 days	1,737	2,700	4,272	1,941	-	10,650
Past due 30 – 60 days	164	3,674	4,332	1,520	-	9,690
Past due more than 60 days	2,760	1,335	1,371	7,256	-	12,722
Total	4,661	7,709	9,975	10,717	-	33,062

(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	Mortgages P'000	Individual loans P'000	Overdrafts P'000	Total P'000
30 June 2013						
Past due up to 30 days	56	-	487	1,062	-	1,605
Past due 30 – 60 days	-	-	136	-	-	136
Past due up to 60 – 90 days	279	8,344	6,857	274	-	15,754
Past due 91 – 180 days	715	1,053	2,009	1,991	1,335	7,103
Past due 180 days	2,756	5,135	7,619	3,481	-	18,991
Total	3,806	14,532	17,108	6,808	1,335	43,589
30 June 2012						
Past due up to 60 – 90 days	73	3,803	-	-	-	3,876
Past due 91 – 180 days	472	5,886	4,863	989	-	12,210
Past due 180 days	5,668	2,359	2,010	3,447	-	13,484
Total	6,213	12,048	6,873	4,436	-	29,570

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

3.1.3 Repossessed collateral

The bank obtained assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position are as follows:

	Carrying amount 2013 P'000	2012 P'000
Nature of assets		
Movable property	873	794

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

3.1.4 Credit risk weighted amounts

The following risk weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk, in accordance with the requirement of the Banking Act (46:04) on capital adequacy:

	2013 Exposure P'000	Impairment P'000	Risk-weighted amounts P'000	Written-off P'000
Counterparties				
Corporate	257,612	-	67,725	3,250
Retail	480,241	4,507	480,241	347
Residential mortgage properties	299,115	419	150,625	-
Commercial Real Estate	410,591	502	204,833	-
Others	714,817	1,737	780,984	7,088
	2,162,376	7,165	1,684,408	10,685

Only claims on banks are risk-weighted based on external credit assessment. The bank utilises available external rating agencies' ratings on both short-term and long-term exposures.

3.1.5 Credit risk concentration by industry

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

	Cash and balances with the Central Bank P'000	Financial Asset at Fair value through profit and loss P'000	Due from other banks P'000	Loans and advances to customers P'000	Other assets P'000	Total P'000
As at 30 June 2013						
Agriculture and forestry	-	-	-	109,394	-	109,394
Fishing	-	-	-	-	-	-
Mining	-	-	-	1,166	-	1,166
Manufacturing	-	-	-	32,988	-	32,988
Building and construction	-	-	-	72,934	-	72,934
Electricity, gas and water	-	-	-	1,231	-	1,231
Trade and accommodation	-	-	-	224,584	-	224,584
Transport and communication	-	-	-	25,559	-	25,559
Finance and insurance	-	-	239,892	6,072	-	245,964
Real estate and Business services	-	-	-	798,253	-	798,253
Government	263,099	529,514	-	237,000	-	1,029,613
Individuals	-	53,761	-	632,872	-	686,633
Other	13,359	-	-	20,323	68,010	101,692
	276,458	583,275	239,892	2,162,376	68,010	3,330,011

Notes to the financial statements (cont.)

for the year ended 30 June 2013

3.1.5 Credit risk concentration by industry (cont.)

	Cash and balances with the Central Bank P'000	Bank of Botswana Certificates P'000	Due from other banks P'000	Loans and advances to customers P'000	Other assets P'000	Total P'000
As at 30 June 2012						
Agriculture and forestry	-	-	-	77,867	-	77,867
Fishing	-	-	-	-	-	-
Mining	-	-	-	1,171	-	1,171
Manufacturing	-	-	-	20,924	-	20,924
Building and construction	-	-	-	64,942	-	64,942
Electricity, gas and water	-	-	-	1,389	-	1,389
Trade and accommodation	-	-	-	125,463	-	125,463
Transport and communication	-	-	-	33,584	-	33,584
Finance and insurance	-	-	111,930	164	-	112,094
Real estate and Business services	-	-	-	740,166	-	740,166
Government	206,810	298,774	-	3,856	-	509,440
Individuals	-	38,895	-	868,274	-	907,169
Other	9,124	-	-	11,669	16,737	37,530
	215,934	337,669	111,930	1,949,469	16,737	2,631,739

3.2 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.

3.2.1 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.

3.2.2 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 financial instruments

	US$ P'000	€ P'000	£ P'000	R P'000	Total P'000
As at 30 June 2013					
ASSETS					
Loans and advances to customers	-	-	-	4,235	4,235
Loans and advances to banks	74,953	12,027	711	3,475	91,167
Total financial assets	74,953	12,027	711	7,710	95,402

3.2.2 Foreign exchange risk (cont.)

Concentration of foreign denominated currency financial instruments (cont.)

	US$ P'000	€ P'000	£ P'000	R P'000	Total P'000
LIABILITIES					
Deposits from customers	74,301	10,350	525	5,607	90,783
Total financial liabilities	74,301	10,350	525	5,607	90,783
Net financial position	652	1,677	186	2,103	4,619
As at 30 June 2012					
Total financial assets	23,113	6,998	1,531	47,935	79,577
Total financial liabilities	20,740	6,323	1,520	35,515	64,098
Net financial position	2,373	675	11	12,420	15,479

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

	Effect on net profit 2013 P'000	2012 P'000
Currency		
US Dollar / Botswana Pula	23	83
Euro / Botswana Pula	59	24
British Pounds / Botswana Pula	7	-
Rand / Botswana Pula	74	435

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the bank's exposure to interest rate risks. It includes the bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Interest rate risk analysis	Up to 1 month P'000	1 – 3 months P'000	3 – 12 months P'000	1 – 5 years P'000	Over 5 years P'000	Non-interest sensitive P'000	Total P'000
As at 30 June 2013							
ASSETS							
Cash and balances with the Central Bank	276,458	-	-	-	-	-	276,458
Bank of Botswana Certificates	301,176	228,338				-	529,514
Due from other banks	239,892	-	-	-	-	-	239,892
Loans and advances to customers	243,677	70,560	282,844	917,347	647,948	-	2,162,376
Loans and advances to staff	476	951	4,184	16,251	31,899	-	53,761
Other assets	-	-	-	-	-	68,010	68,010
Total assets	1,061,679	299,849	287,028	933,598	679,847	68,010	3,330,011

3.2.3 Interest rate risk (cont.)

Interest rate risk analysis (cont.)

	Up to 1 month P'000	1 – 3 months P'000	3 – 12 months P'000	1 – 5 years P'000	Over 5 years P'000	Non-interest sensitive P'000	Total P'000
LIABILITIES							
Due to other banks	2,301	-	-	-	-	-	2,301
Debt securities in issue	-	-	-	50,000	50,000	-	100,000
Deposits from customers	1,201,513	1,121,139	550,489	12,752	-	-	2,885,893
Other liabilities	-	-	-	-	-	97,656	97,656
Total liabilities	1,203,814	1,121,139	550,489	62,752	50,000	97,656	3,085,850
Interest sensitivity gap	(142,135)	(821,290)	(263,461)	870,846	629,847	(29,646)	244,161
Cumulative interest sensitivity gap	(142,135)	(963,425)	(1,226,886)	(356,040)	273,807	244,161	-
As at 30 June 2012							
Interest sensitivity gap	(274,798)	(657,841)	(205,042)	752,589	641,039	(33,761)	222,186
Cumulative interest sensitivity gap	(274,798)	(932,639)	(1,137,681)	(385,092)	255,947	222,186	-

	Effect on net profit 2013 P'000	2012 P'000
Effect on net interest income arising from the following shift in yield curve:		
100 basis points increase	5,652	4,473
100 basis points decrease	(5,652)	(4,473)

The following interest-rate sensitivity is based on the effect of changes to the interest rate as a percentage of total shareholders equity

	2013	2012
100 basis points increase	2%	2%
100 basis points decrease	-2%	-2%

3.3 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.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The bank's liquidity management process is outlined in the liquidity policy which includes inter alia the bank's funding strategy. Procedures, as set out in this policy, includes:

- Daily monitoring of liquid assets;
- Proactive identification of liquidity requirements and maturing assets;
- Liquid asset minimum limit;
- Proactively identify short, medium and long-term liquidity requirements; and
- Relationship management with other financial institutions.

3.3 Liquidity risk (cont.)

Liquidity risk analysis

The table below presents the cash flows payable by the bank by remaining contractual maturities at the date of the bank's statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, hence it does not reconcile to the values reflected on the statement of financial position:

	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
As at 30 June 2013						
FINANCIAL ASSETS						
Cash and balances with Central bank	276,458	-	-	-	-	276,458
Bank of Botswana Certificates	301,320	230,000	-	-	-	531,320
Due from other banks	239,892	-	-	-	-	239,892
Loans and advances to customers	251,378	86,000	351,387	1,219,168	1,019,867	2,927,800
Loans and advances to staff	656	1,312	5,809	24,212	58,796	90,785
Other assets	68,010	-	-	-	-	68,010
Total assets (contractual maturity dates)	1,137,714	317,312	357,196	1,243,380	1,078,663	4,134,265
FINANCIAL LIABILITIES						
Due to other banks	2,301	-	-	-	-	2,301
Debt securities in issue	255	765	2,550	64,047	54,878	122,495
Deposits from customers	1,204,639	1,137,444	567,265	14,392	-	2,923,740
Other liabilities	97,429	-	-	274	-	97,703
Total liabilities (contractual maturity dates)	1,304,624	1,138,209	569,815	78,713	54,878	3,146,239
Liquidity sensitivity gap	(166,910)	(820,897)	(212,619)	1,164,667	1,023,785	988,026
Cumulative liquidity sensitivity gap	(166,910)	(987,807)	(1,200,426)	(35,759)	988,026	-
As at 30 June 2012						
Liquidity sensitivity gap	(301,679)	(644,996)	(159,574)	994,916	931,693	820,360
Cumulative liquidity sensitivity gap	(301,679)	(946,675)	(1,106,249)	(111,333)	820,360	-

3.4 Fair values of financial assets and liabilities

(a) Fair value estimation

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

(a) Fair value estimation (cont.)

(i) Cash and balances with the Central Bank

Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

(ii) Derivative financial instruments and financial assets designated at fair value through profit or loss

Financial instruments are measured at fair value using valuation techniques supported by observable market prices or rates.

iii) Investment securities

For listed investment securities, the fair value is derived by using stock market prices, adjusted for any restrictions on its tradability. Unlisted investments are valued using market prices for similar instruments.

(iv) Due to and from other banks

Amounts due to and from other banks include inter-bank placements. The fair value of overnight deposits is their carrying amount.

(v) Loans and advances to customers

The nominal value less impairment provision approximates the fair value.

(vi) 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.

(vii) Debt securities in issue

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

(viii) Other deposits

The carrying amount approximates the fair value of these financial liabilities.

(ix) Trade receivables and payables

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

(x) Financial instruments not recorded on the statement of financial position

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

(b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

Notes to the financial statements (cont.)

for the year ended 30 June 2013

(b) Fair value hierarchy (cont.)

Assets and liabilities measured at fair value

	Level 1 P'000	Level 2 P'000	Total P'000
As at 30 June 2013			
Bank of Botswana Certificates	-	529,514	529,514
Loans and advances to staff	-	53,761	53,761
Financial assets at fair value through profit or loss	-	583,275	583,275
As at 30 June 2012			
Financial assets at fair value through profit or loss	-	337,669	337,669

3.5 Classification of financial instruments

Financial assets and liabilities are classified as follows:

	Fair value though profit or loss P'000	Loans and receivables P'000	Total P'000
As at 30 June 2013			
FINANCIAL ASSETS			
Cash and balances with the Central Bank	-	276,458	276,458
Bank of Botswana Certificates	529,514	-	529,514
Due from other banks	-	239,892	239,892
Loans and advances to customers	-	2,128,388	2,128,388
Loans and advances to staff	53,761		53,761
Other assets	-	68,010	68,010
	583,275	2,712,748	3,296,023

	Other financial liabilities P'000	Total P'000
As at 30 June 2013		
FINANCIAL LIABILITIES		
	2,301	2,301
Due to other banks	100,000	100,000
Debt securities in issue	2,885,893	2,885,893
Deposits from customers	97,429	97,429
Other liabilities	3,085,623	3,085,623

	2013 P'000	2012 P'000
Credit commitments		
Guarantees	81,568	78,325
Loan commitments and other credit related liabilities	198,343	130,863
	279,911	209,188

Notes to the financial statements (cont.)

for the year ended 30 June 2013

3.6 Capital management

The bank's objectives when managing capital, which is a broader concept than the 'equity' on statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking markets the entity operates;
- Safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and
- Maintain a strong capital base to support the development of its business.

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.

Capital management

The table below summarises the composition of regulatory capital and the ratios of the bank for the years ended 30 June 2013 and 2012. During those two years the bank complied with all of the externally imposed capital requirements to which it is subject to.

	2013 P'000	2012 P'000
Tier 1 capital		
Stated Capital	175,000	175,000
Retained earnings	62,510	37,068
Other reserves	750	750
Total qualifying Tier 1 capital	238,260	212,818
Tier 2 capital		
Debt security in issue	100,000	100,000
Collective impairment allowance	22,889	18,572
Total qualifying Tier 2 capital	122,889	118,572
Total regulatory capital	361,149	331,390
Risk-weighted assets:		
On-balance sheet	1,804,847	1,446,669
Off-balance sheet	51,240	39,118
Total risk-weighted assets	1,856,087	1,485,787
Return on Assets ratio	0.82%	0.64%
Return on Equity ratio	11.50%	7.93%
Capital adequacy ratio	19.46%	22.30%
Core capital ratio	65.97%	64.22%

4. 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

Estimates in assessing the general impairment are dependant on the analysis of historical data relating to probability of default, emergence period and loss given default. Specific impairment is triggered for individual non-performing loans. Non-performing loans comprises of loans due and unpaid for longer than 60 days, as well as other loans where events have been identified which would compromise the repayability of the loan.

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.

(b) Fair value of financial instruments

The fair value of financial instruments requires the use of estimates and judgements. Refer to 3.4 above for methodology and assumptions utilised.

(c) Property, plant and equipment

The bank follows the guidance of IAS 16 (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 the 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.

(d) Equity-settled share-based payments

IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. This fair value depends on a number of factors that are determined on an actuarial basis, at grant date, using a number of assumptions. Any changes in these assumptions will impact the expense and share-based compensation reserve created at grant date. The valuation technique used to determine the cost of shares granted on interest-free loans is the Black-Scholes valuation model and includes assumptions such as share price, volatility and a risk-free interest rate. Additional information is disclosed in note 34.

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
5.	**Net interest income**		
	Interest and similar income		
	Loans and advances	262,456	219,054
	Cash and short-term funds	24,600	17,000
		287,056	236,054
	Interest and similar expenses		
	Banks and customers	146,960	117,107
	Other borrowed funds	7,510	6,729
		154,470	123,836
6.	**Impairment charges on loans and advances**		
	Increase in specific impairment	5,065	3,583
	Increase in portfolio impairment	3,764	9,398
	Amounts recovered during the year	(596)	(10)
		8,233	12,971
7.	**Fee and commission income**		
	Transaction and related fees	17,220	14,038
	Loan Administration fee	5,922	3,732
		23,142	17,770
8.	**Net trading income**		
	Net foreign exchange gains and losses from trading assets	6,529	6,879
		6,529	6,879
9.	**Other operating income**		
	Other operating income includes:		
	Dividend income	3,148	701
	Commission income	504	351
	Others	76	437
		3,728	1,489
10.	**Staff costs**		
	Wages and salaries	55,097	47,550
	Share options granted to directors and employees	-	750
	Staff training	1,063	893
	Fair value adjustment to staff loans	509	411
	Pension costs – defined contribution plan	3,319	2,919
		59,988	52,523
11.	**Fee and commission expense**		
	Commission and profit share expense	7,087	1,516
		7,087	1,516

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
12.	**Operating expenses**		
	Expenses by nature		
	Advertising and marketing	4,208	3,428
	Amortisation charge of intangible assets	2,323	2,261
	Auditors remuneration		
	– Audit fees	1,423	1,110
	– Fees for other services	174	-
	Courier and postage charges	1,367	663
	Depreciation and impairment of property, plant and equipment	4,878	3,798
	Directors' emoluments		
	– Non-executive directors	925	861
	Donations	92	23
	Insurances	827	721
	Losses, penalties and fines	14	57
	Office expenses	312	336
	Operating lease rentals – immovable property	10,620	10,340
	Other expenses	11,002	9,247
	Professional services	1,327	971
	Repairs and maintenance	1,991	2,410
	Staff costs (note 10)	59,988	52,523
	Stationery and printing	1,636	1,403
	Security	1,094	834
	Technology costs	6,603	6,640
	Telephone and fax	2,198	1,908
	Travel and entertainment	2,023	1,729
	Water, electricity and rates & taxes	1,129	987
		116,154	102,250
13.	**Income tax expense**		
	Current tax	7,354	5,413
	– Current year	7,060	5,413
	– Current year – WHT on dividends paid	236	-
	– Prior year – underprovision	58	-
	Deferred tax	(237)	(669)
	– Current year	(237)	(669)
		7,117	4,744
	The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:		
	Profit before tax	34,511	21,619
	Tax calculated at a tax rate of 22% (2012: 22%)	7,592	4,756
	Income not subject to tax	(456)	(168)
	Expenses not deductible for tax purposes	78	156
	Prior year expense allowed in current year	(155)	-
	Prior year under provision	58	-
	Income tax expense	7,117	4,744
	Effective tax rate	20.6%	21.9%

		2013 P'000	2012 P'000
14.	**Cash and balances with the Central Bank**		
	Cash and bank balances	13,359	9,124
	Mandatory reserve deposits with the Central Bank	263,099	206,810
		276,458	215,934

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

		2013 P'000	2012 P'000
15.	**Financial assets at fair value through profit or loss**		
	Bank of Botswana Certificates	529,514	298,774
	Loans and advances to staff	53,761	38,895
		583,275	337,669

The above debt securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy.

Bank of Botswana Certificates at fair value through profit or loss are presented within 'Cash and cash equivalents' for the purpose of statement of cash flows (note 33) and Loans and advances to staff at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows (note 31).

Changes in fair values of Bank of Botswana Certificates are recorded in 'Other operating income' in the income statement (note 9). Changes in fair values of Loans and advances to staff are recorded in 'Staff costs' in the income statement (note 10).

The fair value of Bank of Botswana Certificates is based on their current bid prices in an active market. The fair value of Loans and advances to staff is based on market interest rates of similar loan instruments.

Bank of Botswana Certificates are securities issued by Bank of Botswana for a term of two weeks and three months. These securities are carried at fair value with Bank of Botswana. Bank of Botswana Certificates with a nominal value of P150,000,000 (2012: P91,000,000) are pledged as securities with the Bank of Botswana.

		2013 P'000	2012 P'000
16.	**Due from other banks**		
	Placement with other banks	239,892	111,930

Placement with other banks are included in cash and cash equivalents for the purpose of cash flow statement.

		2013 P'000	2012 P'000
17.	**Loans and advances to customers**		
	Overdrafts	184,385	123,551
	Commercial loans	529,984	425,469
	Mortgages	715,647	523,438
	Article finance	209,030	268,752
	Individual loans	523,330	608,259
	Gross loans and advances	2,162,376	1,949,469
	Less:		
	Specific impairment	(7,165)	(7,948)
	Portfolio impairment	(26,823)	(27,896)
		2,128,388	1,913,625

The effective interest rate for the portfolio is 11.96% p.a (2012: 11.52% p.a).

	2013 P'000	2012 P'000
Movement in impairment for the bank is as follows:		
Balance at the beginning of the year	35,844	28,459
Provision for loan impairment	8,829	12,981
Amounts written off during the year as uncollectible	(10,685)	(5,596)
Balance at the end of the year	33,988	35,844

	2013		2012	
	P'000	%	P'000	%
Maturity analysis of loans and advances to customers for the bank were as follows:				
Repayable within 1 month	204,832	9.6%	203,139	10.6%
Repayable after 1 month but within 3 months	70,560	3.3%	75,954	4.0%
Repayable after 3 months but within 6 months	99,913	4.7%	3,630	0.2%
Repayable after 6 months	1,753,083	82.4%	1,630,902	85.2%
	2,128,388	100.0%	1,913,625	100.0%

	2013 P'000	2012 P'000
The loans and advances to customers include installment finance receivables which may be analysed as follows:		
Repayable within 1 year	114,931	149,718
Repayable after 1 year but within 5 years	90,893	119,095
Repayable after 5 years	128	23
Net investment in installment finances	205,952	268,836
Gross finance lease investment at statement of financial position date	225,546	295,149
Less: Future unearned finance income	(19,594)	(26,313)
Present value of minimum lease payments receivable	205,952	268,836

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
18.	**Other assets**		
	Accounts receivable and prepayments	1,678	4,442
	Clearing accounts	60,942	12,295
	Inter group company loans (note 35.3)	5,390	-
		68,010	16,737

19. Intangible assets

	Work in progress P'000	Computer software P'000	Total P'000
Year end – 30 June 2013			
Cost			
Cost at 1 July 2012	850	14,960	15,810
Additions	1,236	3,621	4,857
Transfer	(362)	362	-
Cost at 30 June 2013	1,724	18,943	20,667
Amortisation			
Amortisation and impairment at 1 July 2012	-	8,439	8,439
Amortisation charge for the year	-	2,323	2,323
Amortisation and impairment at 30 June 2013	-	10,762	10,762
Net book value at 30 June 2013	1,724	8,181	9,905
Year end – 30 June 2012			
Cost			
Cost at 1 July 2011	-	12,543	12,543
Additions	850	2,417	3,267
Cost at 30 June 2012	850	14,960	15,810
Amortisation			
Amortisation and impairment at 1 July 2011	-	6,178	6,178
Amortisation charge for the year	-	2,261	2,261
Amortisation and impairment at 30 June 2012	-	8,439	8,439
Net book value at 30 June 2012	850	6,521	7,371

Intangible assets consist of computer software, including its related acquisition and development costs associated with the Bank.

Notes to the financial statements (cont.)

for the year ended 30 June 2013

	Capital work in progress P'000	Plant P'000	Computer and other equipment P'000	Vehicles P'000	Furniture and fittings P'000	Total P'000
20. Property, plant and equipment						
Year end – 30 June 2013						
Cost						
Cost at 1 July 2012	2,554	215	9,476	805	20,659	33,709
Additions	693	31	1,565	167	768	3,224
Transfers	(623)	-	171	119	333	-
Disposals	-	-	(90)	(110)	-	(200)
Cost at 30 June 2013	2,624	246	11,122	981	21,760	36,733
Depreciation and impairment						
Accumulated depreciation at 1 July 2012	-	109	5,184	371	8,214	13,878
Charge for the year	-	47	1,978	160	2,694	4,879
Depreciation on disposals	-	-	(52)	(103)	(1)	(156)
Accumulated depreciation at 30 June 2013	-	156	7,110	428	10,907	18,601
Net book value at 30 June 2013	2,624	90	4,012	553	10,853	18,132
Year end – 30 June 2012						
Cost						
Cost at 1 July 2011	742	192	7,632	661	17,015	26,242
Additions	2,175	23	1,533	144	3,644	7,519
Transfers	(363)	-	363	-	-	-
Disposals	-	-	(52)	-	-	(52)
Cost at 30 June 2012	2,554	215	9,476	805	20,659	33,709
Depreciation and impairment						
Accumulated depreciation at 1 July 2011	-	67	3,853	263	5,949	10,132
Charge for the year	-	42	1,383	108	2,265	3,798
Depreciation on disposals	-	-	(52)	-	-	(52)
Accumulated depreciation at 30 June 2012	-	109	5,184	371	8,214	13,878
Net book value at 30 June 2012	2,554	106	4,292	434	12,445	19,831

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
21.	**Due to other banks**		
	Current account	2,298	12,372
	Borrowings from other banks	3	17
		2,301	12,389
22.	**Debt securities in issue**		
	Balance as at 1 July	100,000	50,000
	Issued during the year	-	50,000
	Balance as at 30 June	100,000	100,000
	BIFM Capital Fund (Pty) Ltd	50,000	50,000
	Fleming (Pty) Ltd	50,000	50,000
		100,000	100,000

The debt security of P50,000,000 from BIFM Capital Fund (Pty) Ltd bears interest at a variable rate equivalent to 3 month Bank of Botswana Certificate plus 1% and matures not earlier than 31 August 2014 (five years) and during the last five years ending 31 August 2019, a cumulative discount factor of 20% per annum will be applied to reflect diminishing value of notes. Interest is paid quarterly in arrears. The debt is guaranteed by the bank's ultimate parent company, Capricorn Investment Holdings Limited.

The debt security of P50,000,000 from Fleming (Pty) Ltd bears interest at Botswana Certificate plus 1.6% per annum for the first five years plus a stepped up margin of 2.1%, thereafter and matures on 31 October 2021. Interest is paid quarterly in arrears. The debt is guaranteed by the bank's ultimate parent company, Capricorn Investment Holdings Limited.

		2013 P'000	2012 P'000
23.	**Deposits from customers**		
	Current accounts	236,370	192,093
	Savings accounts	64,338	54,138
	Fixed deposits	2,237,899	1,756,845
	Demand deposits	303,946	215,577
	Notice Deposits	43,340	28,013
		2,885,893	2,246,666

	2013		2012	
	P'000	%	P'000	%
Maturity analysis within the customer current, savings and deposit account portfolio for the bank were as follows:				
Withdrawable on demand	798,685	27.7	804,161	35.8
Maturing within 1 month	402,680	14.0	884,540	39.4
Maturing after 1 month but within 12 months	1,671,776	57.9	497,402	22.1
Maturing after 12 months	12,752	0.4	60,563	2.7
	2,885,893	100.0	2,246,666	100.0

	2013 P'000	2012 P'000
25. Other liabilities		
Accounts payable and other accruals	27,295	19,953
Intercompany balances (note 35.3)	1,918	6,381
Clearing, settlement and internal accounts	68,216	24,164
	97,429	50,498

26. Deferred income tax (asset) / liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 22% (2011: 22%).

	2013 P'000	2012 P'000
The movement on the deferred income tax account is as follows:		
Balance as at 1 July	187	856
Income statement reversal	(237)	(669)
Balance as at 30 June	(50)	187

Deferred income tax (asset) / liability is attributable to the following item :

	2013 P'000	2012 P'000
Accelerated tax depreciation and amortisation	274	616
Share based payment	(165)	(264)
Fixed escalation operating lease accrual	(159)	(165)
	(50)	187

27. Post-employment benefits

Medical aid scheme
The bank has no liability in respect of post-retirement medical aid contributions.

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

The bank 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.

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
28.	**Stated Capital**		
	Balance as at 1 July	175,000	118,406
	Shares issued during the year	-	56,594
	Balance as at 30 June	175 000	175 000
	Stated capital at year end comprise of 175,000,000 (2012: 175,000,000) ordinary shares.		
29.	**Non-distributable reserves**		
	Share-based compensation reserve		
	Balance as at 1 July	750	-
	Acquired during the year	-	750
	Balance as at 30 June	750	750
	The share based compensation reserve was created to fund future staff costs relating to share purchase scheme (note 34).		
30.	**Contingent assets, liabilities and commitments**		
	Capital commitments	20,815	25,626
	Letters of credit and liabilities under guarantees	201,260	209,188
	Operating lease commitments:		
	Office premises		
	– Not later than 1 year	10,259	9,181
	– Later than 1 year but not later than 5 years	27,720	47,227
	– Later than 5 years	-	-
		37,979	56,408
	Funds to meet these commitments will be provided from own resources.		
31.	**Cash generated by operations**		
	Profit before income tax	34,511	21,619
	Dividends received	(3,148)	(701)
	Adjusted for non-cash items:		
	– Depreciation, amortisation and impairment	7,201	6,059
	– Staff share benefit	-	750
	– Fair value adjustment on staff loan through profit or loss	509	411
	– Impairment losses on loans and advances	8,829	12,971
		47,902	41,109
32.	**Income taxes paid**		
	Amounts payable as at 1 July	539	1,083
	Current tax charged to profit or loss	7,021	5,413
	Amounts payable as at 30 June	(226)	(539)
		7,334	5,957

	2013 P'000	2012 P'000
33. Cash and cash equivalents		
For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:		
Cash and balances with Central Banks (note 14)	276,458	215,934
Treasury bills and government stocks with a maturity of less than 90 days (note 15)	529,514	298,774
Placement with other banks (note 15)	239,892	111,930
	1,045,864	626,638

34. Share-based payments

Directors and selected employees from a specified grade level may participate in the group's share purchase schemes, to purchase Capricorn Investment Holdings (Botswana) Ltd shares. The shares are offered through the issue of an interest-free loan, cash or bonuses paid for an amount equal to the net asset value (NAV) of the shares at grant date. Employees who take up shares through a loan are required to make minimum monthly or annual repayments on the loan. The loan has to be repaid over a period of nine years. Employees are entitled to the dividends on the shares from the grant date. The shares can be sold, (should the portion of the loan be repaid for shares purchased on interest-free loan), as per the following conditions:

- The first one third of the shares can be sold after a minimum period of three years from grant date;
- The second third of the shares can be sold after a period of four years from grant date; and
- The last third of the shares can be sold after a period of five years from grant date.

Share purchase scheme

Movements in the number of share purchases and their related weighted average exercise prices are as follows:

	Interest-free loan		Cash		Total
	Average exercise price per purchase	Purchases	Average exercise price per purchase	Purchases	
	P	Number of shares	P	Number of shares	P
Granted	4.29	675,100	4.48	257,550	932,650
Forfeited	3.57	(82,500)	4.70	(10,300)	(92,800)
Exercised	3.57	-	3.57	(105,703)	(105,703)
At 30 June 2013	3.81	592,600	4.62	141,547	734,147
At 30 June 2012	3.63	355,000	3.64	115,584	470,584

Interest-free loan

Out of the 675,100 shares purchased none have vested to date while 82,500 shares have been forfeited as a result of employees electing to exit the scheme. No transaction costs resulted from the forfeited shares.

34. Share-based payments (cont.)

Cash shares

Out of the 257,550 shares purchased, 105,703 have vested at an weighted average price of P3.57 each and 10,300 shares have been forfeited as a result of employees electing to exit the scheme. No transaction costs resulted from the forfeited shares.

Share purchases outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Purchase price per share	Shares 2013	
		P	Interest-free loan	Cash
19 Mar 2010	2017	3.57	200,000	32,227
5 Jul 2011	2019	3.96	-	20,000
19 Oct 2011	2020	4.06	95,000	13,750
8 Nov 2011	2020	3.87	-	16,000
12 Dec 2012	2021	4.86	297,600	59,570
			592,600	141,547

The share-based payment charge was determined using the Black-Scholes valuation model. The significant inputs into the model were the weighted average share prices at the grant dates, the exercise price shown above, a volatility of 20% to 30%, a dividend yield of 0%, an expected option life of nine years and an annual risk-free interest rate ranging between 6.6% and 10.1%. The strike price is determined as the loan purchase price, which is equal to the NAV at the grant date, taking payments on the loan into consideration. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of annual share prices over the last five years for two banks operating in Botswana, as Bank Gaborone is not listed on the Botswana Stock Exchange. Refer to note 10 for the total expense recognised in the statement of comprehensive income for shares purchased by directors and employees.

35. 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 Limited, a company incorporated in Namibia.

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.

During the year the bank transacted with the following related parties:

Entity	Relationship	Type of transactions
Bank Windhoek Ltd	Subsidiary of CIH (Namibia)	Consulting services
Penrich Employee Benefits (Pty) Ltd	Subsidiary of CIH (Botswana)	Support services
Ellwood Insurance Brokers (Pty) Ltd	Subsidiary of CIH (Botswana)	Consulting services
Peo (Pty) Ltd	Subsidiary of CIH (Botswana)	Consulting services
Capricorn Investment Holdings (Botswana) Ltd	Holding Company	Consulting services
Capricorn Investment Holdings (Namibia) Ltd	Ultimate Holding Company	Guarantee
BG Insurance Agency (Pty) Ltd	Subsidiary	Dividends

Notes to the financial statements (cont.)

for the year ended 30 June 2013

		2013 P'000	2012 P'000
35.1	*Income received from related parties*		
	Ellwood Insurance Brokers (Pty) Ltd	-	66
	Capricorn Investment Holdings (Botswana) Ltd	-	124
	Peo (Pty) Ltd	-	20
	BG Insurance Agency (Pty) Ltd	3,148	701
	Key management personnel	375	47
35.2	*Expenses paid to related parties*		
	Bank Windhoek Ltd	1,489	3,012
	Capricorn Investment Holdings (Botswana) Ltd	2,678	1,282
	Penrich Employee Benefits (Pty) Ltd	804	484
	Key management personnel	10,162	8,364
35.3	*Receivable (Payable) to related parties*		
	Ellwood Insurance Brokers (Pty) Ltd	1,530	(726)
	Penrich Employees Benefit (Pty) Ltd	(314)	-
	Capricorn Investment Holdings (Botswana) Ltd (including dividend payable)	(1,604)	(5,361)
	Bank Windhoek Ltd	(120)	(412)
	BG Insurance Agency (Pty) Ltd	4,080	(294)
	Key management personnel	4,290	3,206
35.4	*Directors emoluments*		
	Refer to note 11		
35.5	*Dividends paid*		
	Capricorn Investment Holdings (Botswana) Ltd	1,952	-
35.6	*Guarantee by related party*		
	Debt security in issue (note 22)	100,000	100,000

36. Reclassification of disclosure items

Certain reclassifications of items in the current year resulted in changes to the relevant comparative information to ensure accurate comparability with the current year information. A third set of financial position is not presented as this is merely a reallocation to describe the nature of certain operating and other operating expenses. This reallocation had no impact on the measurements in terms of IAS 39: Financial Instruments: Recognition and Measurement.

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