ANNUAL REPORT
2014

GROWING RELATIONSHIPS

Bank Gaborone
Growing together.

Our most important asset is our stakeholders. This is why we believe in fostering these relationships to a point where we all share the same value system.

Contents

Vision

Our Vision / Tebelopele

To be Botswana's bank of choice.
Go nna banka e e tla itlhopelwang ke botlhe.

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.

Who we are

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 been conducting full retail banking operations since September 2006, with its first branch in Pilane Road.

CIH Botswana is a Botswana-registered company with a diversified financial services portfolio, which fulfils the role of a Botswana holding company for its Namibian parent company. Bank Gaborone is a wholly owned subsidiary of Capricorn Investment Holdings (Botswana) (Pty) Ltd, in which CIH holds a 79,5% interest.

Our journey

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.

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. 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. Bank Gaborone launched its internet banking facility, e-pula, which allows customers to transact anywhere in the world.

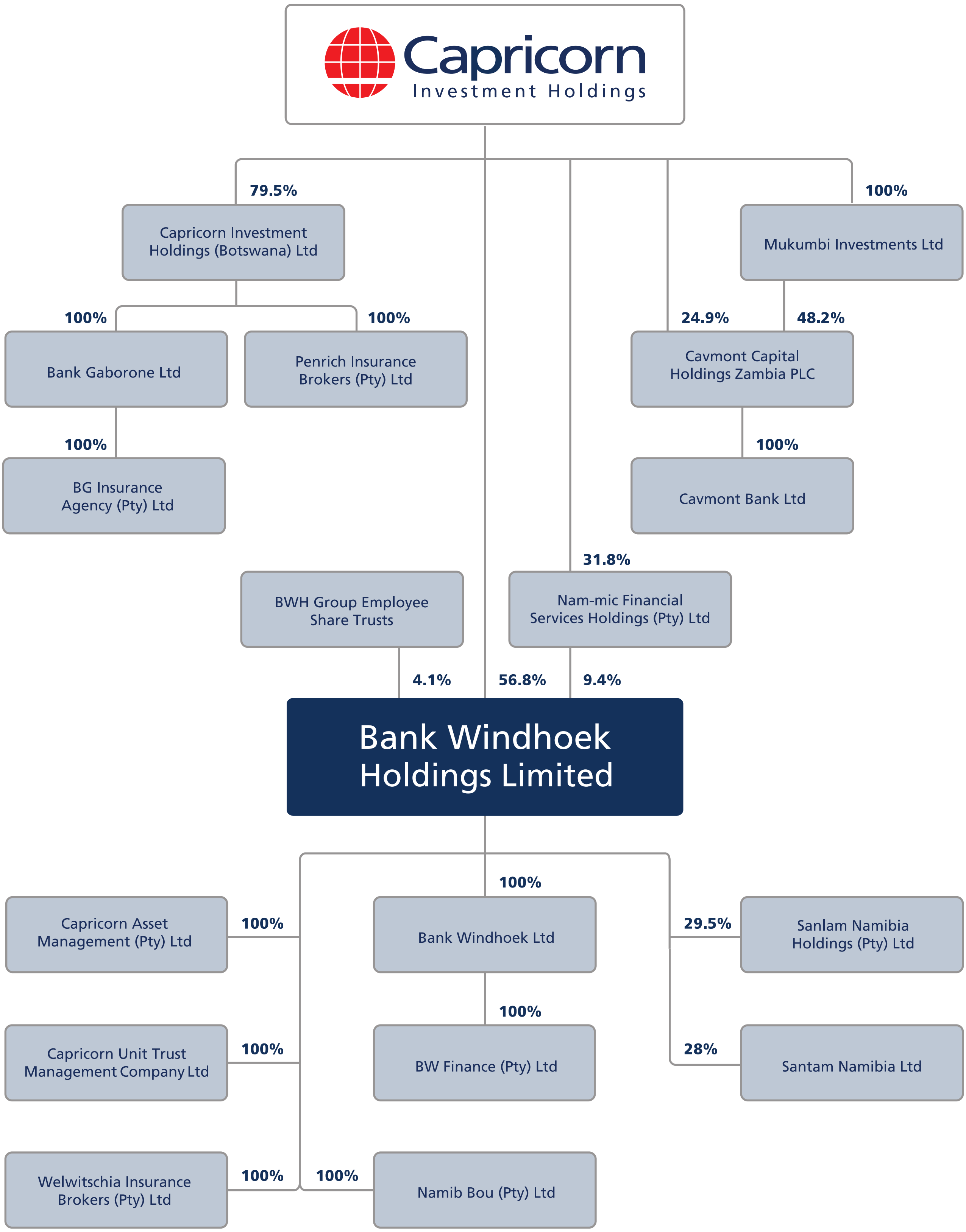
2011
Bank Gaborone celebrated its fifth year since being issued a banking licence in Botswana. The charity golf day was held to mark the bank's five-year anniversary and to give back to the community of Botswana.

2012
Bank Gaborone launched convenient banking through Tobetsa mobile banking. Bank Gaborone opened its sixth branch, Business and executive banking, in the new Airport Junction mall. Bank Gaborone launched SMS Alertz in order to help customers manage fraud by keeping track of transactions in their accounts. Bank Gaborone launched two youth accounts called Wiz and Fuze.

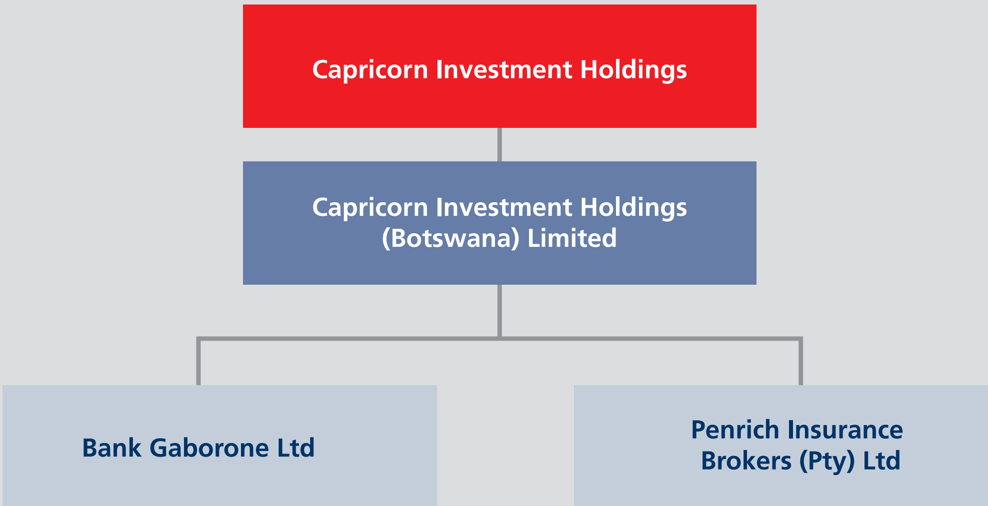
2013
Bank Gaborone launched SME banking which assists small and medium enterprises with a suite of products. Tobetsa mobile banking introduced prepaid power purchasing. This features allows customers to buy electricity at the press of a button.

2014
Bank Gaborone launches the Diabetes Apple Project (DAP).

Group structure



CIH Botswana



Board of directors

Peter Collins

Chairman of the board
Independent non-executive director of the board

Date of first appointment:
6 March 2006

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.

Mpho Mothibatsela

Independent non-executive director of the board

Date of first appointment:
8 February 2012

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.

Board of directors

Johan Swanepoel
Independent non-executive director of the board

Date of first appointment:
8 December 2004

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).

Rose Tatedi
Independent non-executive director of the board

Date of first appointment:
26 July 2013

Rose is the managing director of Symphonic (Pty) Ltd, the administrator of Symphony Health, the medical aid that she founded. Prior to starting Symphonic and Symphony Health in early 2013, Rose was the managing director of AFA, the administrators of the Botswana Public Officers' Medical Aid Scheme and Pula Medical Aid Fund, until December 2012. She is an economist by profession and has spent almost all her professional career working in the Botswana financial services sector. Rose holds a BA Degree in Economics from the University of Botswana, a post-graduate diploma in Development Policy and an MPhil in Economic Planning from the University of Glasgow, Scotland, as well as qualifications in various disciplines, including Management & Executive Development, Marketing Management, Marketing of Services, International Investment Promotion and Financial Restructuring from various institutions and countries.

Thinus Prinsloo
Independent non-executive director of the board

Date of first appointment:
1 June 2012

Thinus is executive director at Capricorn Investment Holdings responsible for CIH groupwide strategy implementation, technology, risk and people agenda. Prior to joining CIH In 2011, Thinus worked at Absa in South Africa since 2006, where he held various positions including head of the Productivity and Efficiency Programme, retail franchise chief operating officer and head of Integration. Prior to joining Absa, Thinus worked as a business strategy consultant at IBM and had several roles at PwC in South Africa and the UK. Thinus holds a BCompt (Hons) degree from the University of the Free State in 1992 and qualified as a chartered accountant (CA (SA)).

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 microfinance.

Bank Gaborone commenced retail banking operations in September 2006 and today has a branch network that incorporates 6 branches and 12 BG Finance outlets, 17 ATMs as well as advanced internet and cellphone 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 principles combined with a well-trained and motivated staff force, operating within a unique culture of service excellence embedded from day one.

Economy and environment

The economic conditions in 2013 and 2014 remain 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 euro zone recession and political challenges. Overall global growth is projected to further stagnate for 2014/15 as "the deep wounds of the economic crisis that began in 2008 are 'proving tougher to resolve', especially in Europe", according to a recent publication.

The domestic economy has remained relatively robust with the Gross Domestic Product (GDP) growing by 15% (1st Quarter 2013 to 1st Quarter 2014) and this should remain stable at that growth rate for the remainder of 2014 and continue in 2015. This is expected to be as a result of recoveries in the mining sector. This may, however, be constrained due to current drought conditions and the 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. Additionally, increases in business loan impairments have been observed in the economy and this may negatively impact general economic growth.

It is likely that the year-on-year inflation rate will remain at the Bank of Botswana's target range of 3% to 6%.

The Botswana banking sector remains highly competitive with 12 active commercial banks. Bank Gaborone will continue to position itself as the bank delivering superior customer service, which is at the core of its value proposition to achieve long term sustainability.

The bank will continually strive towards expanding its geographic footprint in Botswana through the gradual expansion of its branch network, as well as to increase 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 eight years. We are truly fortunate to have a workforce that embraces our shareholders' vision to become the bank of choice to Batswana.

To our board of directors, shareholders, various government institutions and especially our customers: thank you for your valuable support during the year, enabling us to achieve sustainable results. We will continue to strive for superior performance.

Peter Collins
Chairman

Gaborone
14 October 2014

Managing Director's report

The financial year that ended on 30 June 2014 is indicative of a tightening economy and a tough competitive banking environment as our net profit after tax reduced by 20% compared with the previous financial year-end. Despite this, there are significant underlying achievements that Bank Gaborone has attained and we must never lose sight of the fact that we are building a long-term sustainable and viable bank.

Bank Gaborone started from humble beginnings in 2006 with a staff complement of 6 and a capital base of P30 million. Since then the bank has grown to a staff complement of 283 employees, 6 fully-fledged branches, 12 BG Finance outlets, 17 ATMs and a capital base of P254 million.

Operating environment

The banking sector in Botswana is highly competitive and competition will continue to increase. In spite of fierce competition, the bank has achieved good growth over the past eight years. We are working hard to continue this trend, but not at all costs. The business environment remains challenging and the impact of increased liquidity contraction in the market, high levels of household debt and, more recently, a significant increase in arrears of business accounts will have a significant impact on the future business environment of Botswana.

It will require careful and prudent 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 environment in which the bank operates, will remain key focus areas. Our risk management framework ensures that risks are understood, identified and mitigated. The framework is continually refined and updated to adapt to changing business risks and regulatory requirements.

Financial performance

The bank achieved reasonable results, reflected by a profit after tax of P21.7 million. The main reason for a contraction in profits is due to an increase in impairments of 102%, which correlates with the existing economic environment of Botswana. Net interest income grew by 1,2%, which is reasonable considering that interest rates decreased by 1,5% during the financial year and re-pricing of longer term deposits takes effect at a later date together with the continued market liquidity contraction.

Customer advances grew by 18% while customer deposits grew by 12%. Total impairment provisions remained at 1,57% of the gross loan book and this is in line with that of the previous year-end and reflective of prudent credit management processes. Non-interest income grew by 22% as a result of more efficient recovery. 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 81%. Staff costs remain a major portion of expenditure (51% of total costs), which is 3,1% higher compared with 2013 because of the lower income. We have now established a support structure that can support at least 15 more branches and Bank Gaborone is well positioned to grow its branch network.

Human resources

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

Outlook for the 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 the Talent Management journey;
- continuing improvement in customer service;
- improving efficiency by the utilisation of technology to enhance processes and products;
- managing risk and compliance;
- continuing to improve delinquency management; and
- utilising surplus funds more efficiently.

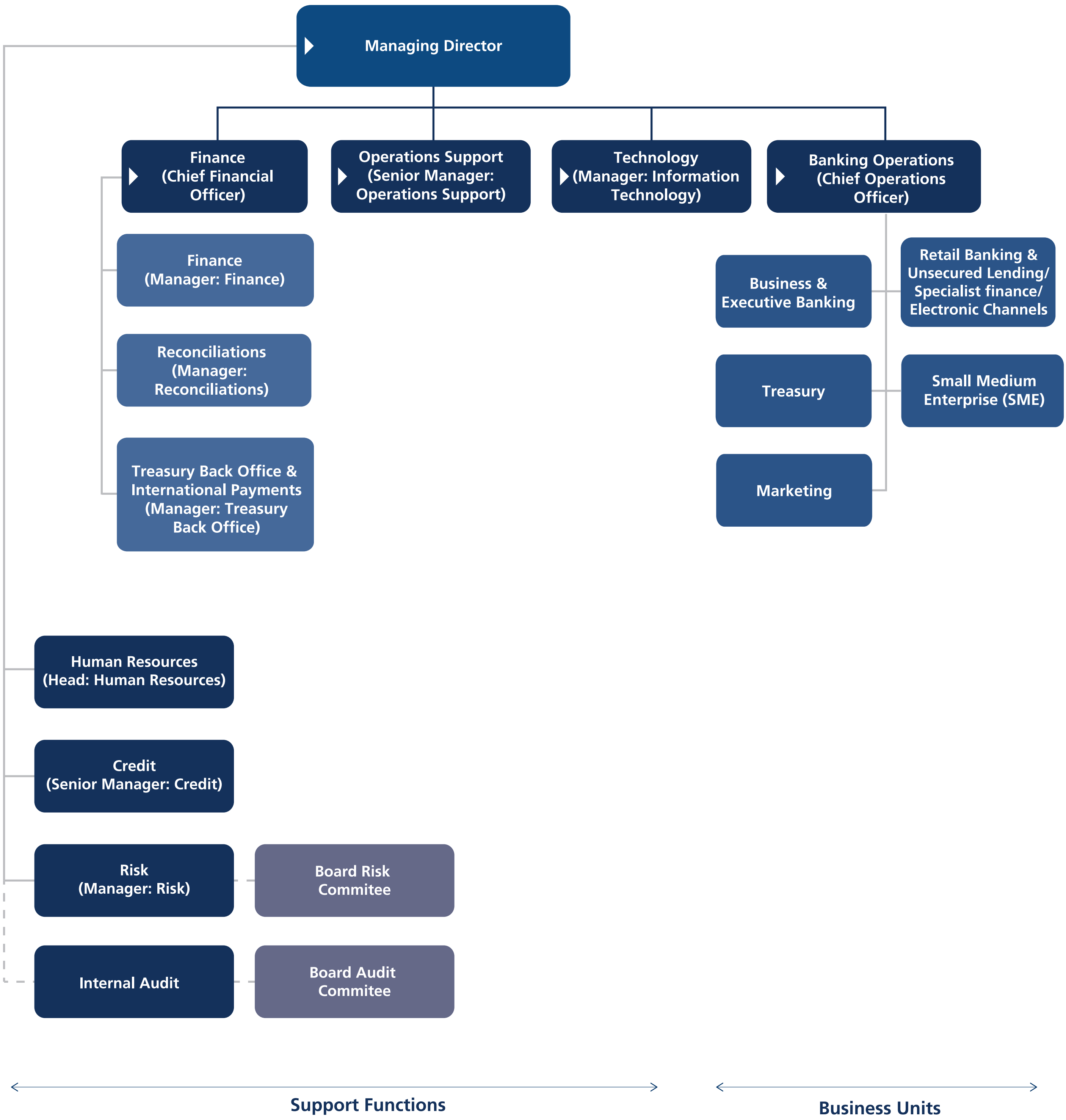
By the grace of God, the hard work of all our members of staff and considering some of the economic forces impacting upon banks in general, we have maintained acceptable performance and look forward to improved results in the years ahead.

Thanks to our staff, customers, the board and all other stakeholders for your continuous support during the past year. We look forward to your support to become "the Bank of Choice in Botswana".

André Barnard
Managing Director

Gaborone
14 October 2014

Bank Gaborone organisational structure



Executive management team

André Barnard
Managing Director

Ed dos Santos
Manager: IT

Sejo Lenong
Chief Financial Officer

Sybrand Coetzee
Chief Operations Officer

Agatha Maswibilili
Senior Manager: Credit

Jose de Jesus
Senior Manager: Operations Support

Mmoninyana Mgumba
Head: Human Resources

Senior management team

Johan Vermaas
Head: Retail Banking

Sandra Mokobi
Manager: Marketing & Corporate Communications

Elize Utting
Head: Business & Executive Banking

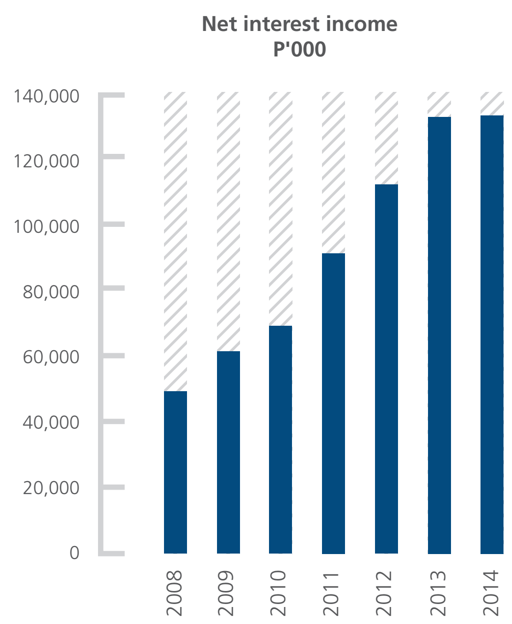
Keemenao Mogatsi
Treasurer

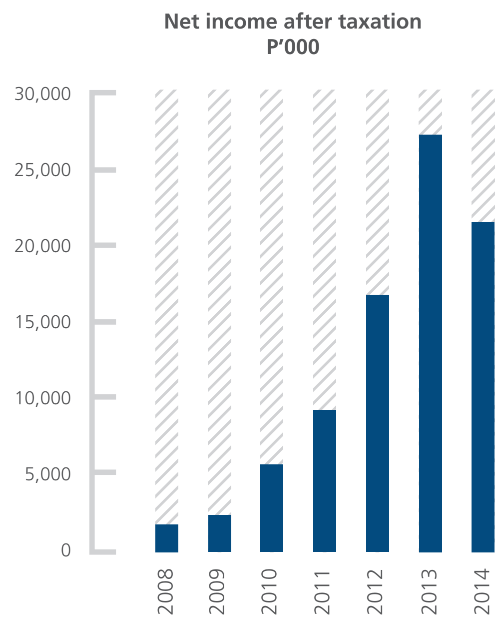
Financial highlights

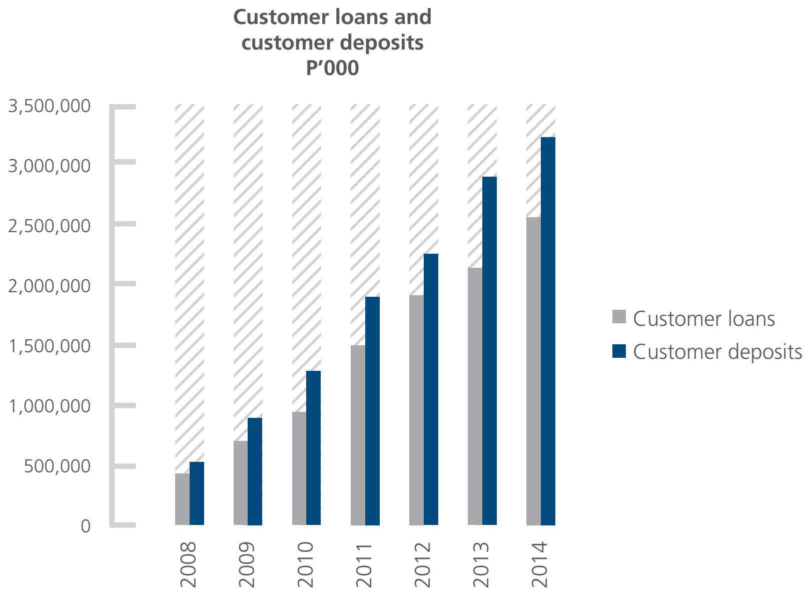
for the year ended 30 June 2014

Net interest income	Advances net of impairments	Non-interest income	Net profit after tax
P134.2m ↑ 1%	P2.5b ↑ 18%	P40.7m ↑ 23%	P21.7m ↓ 21%

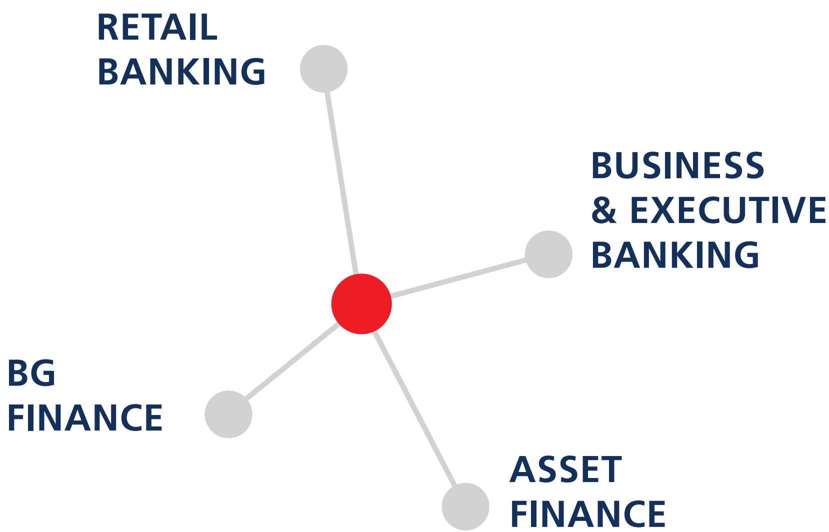
Capital adequacy maintained in line within regulatory requirements







Business review

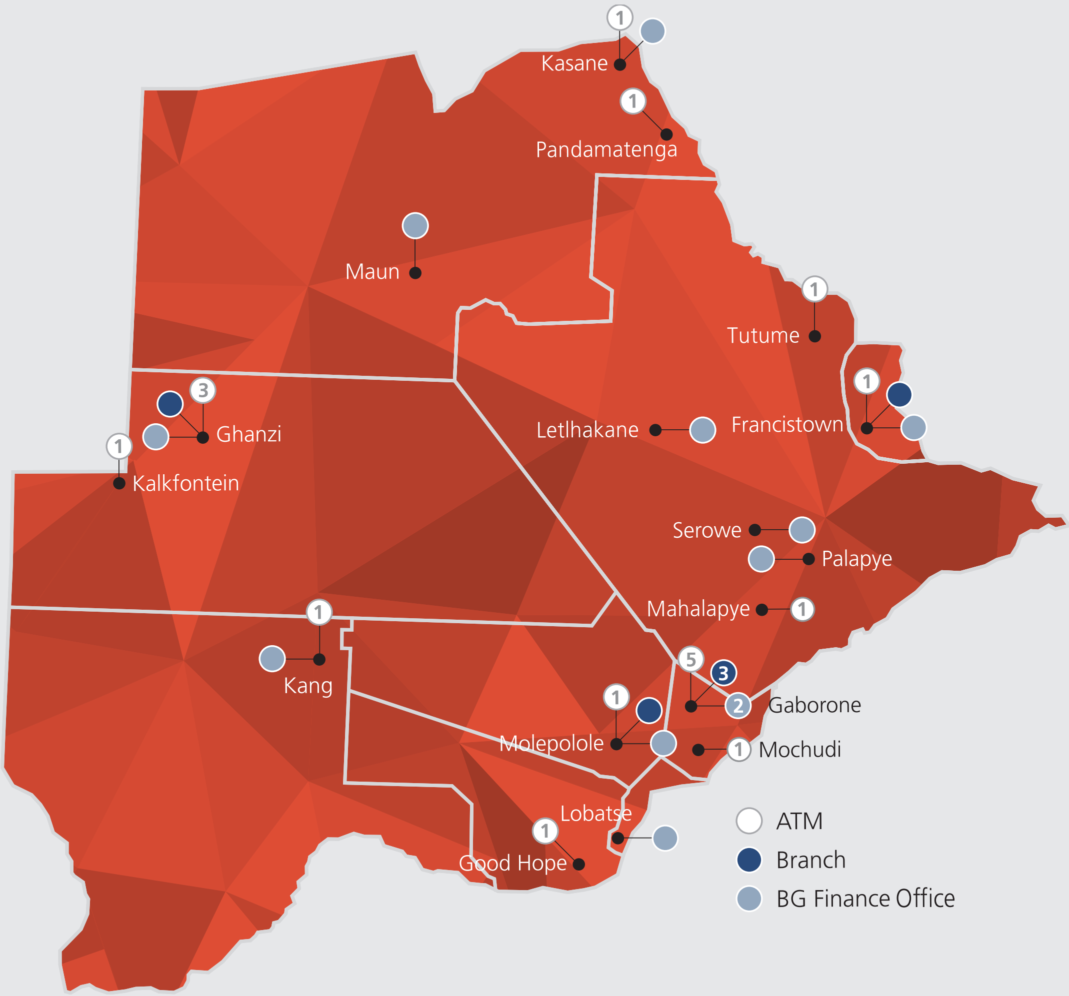


Guided by its core values of teamwork, excellence, learning, passion, integrity and innovation Bank Gaborone is continuously pursuing its vision to become the preferred bank in Botswana.

The bank intends to play a meaningful role in the development of the economy and the communities in which it operates.

Bank Gaborone continues to strengthen relations with its customers and stakeholders by offering products and services that are relevant to them and partner with communities in which it operates to add sustainable value.

Bank Gaborone
branch network



Head Office location

Bank Gaborone operates from its spacious and accessible Mall Branch situated on Plot No. 5129, Queens Road, The Mall.

6 Branches

Airport Junction Mall, Main Mall, Game City Mall, Mafenyatlala Mall in Molepolole, Galo Mall in Francistown and Ghanzi.

11 BG Finance offices

Mall, Molepolole, Francistown, Ghanzi, Lobatse, Kasane, Maun, Serowe, Palapye, Letlhakane and Rail Park.

18 ATMs

Business review
Retail banking

2013/2014 performance highlights

- BG continues to excel in customer service. Consumer Watchdog commended Bank Gaborone by honouring its staff members for exceptional service.
- Servicing of mortgage and vehicle asset finance is now done in all branches, and the mortgage loan book balance grew by 45%.
- In terms of value, youth accounts have doubled in growth.
- The number of merchant ATMs has increased.
- Internal control/regulation compliance.

Challenges

- A highly competitive commercial bank market and the entry of new commercial banks.
- An over commitment of the personal market.

Business unit scope

Retail banking forms personal relationships that are flexible enough to give clients superior service (rated no. 1 in Botswana by the 2013 KPMG customer survey) with integrity, standing out as market specialists. Retail banking is also commited to responsible selling and not over-committing any client and ensuring client affordability.

Business performance

Retail banking has changed its approach to focus more on secured lending. To that end, three mortgage campaigns were held to grow the mortgage book, resulting in a growth of 45%. All branches and the Specialist finance division worked together to make this possible.

Retail banking continues to service the growing individual and commercial market with its customer-centric approach.

Looking forward

Retail banking intends to further develop its potential to:

- further grow its footprint by continuing to roll out new branches and ATMs at branches and merchants;
- launch credit ease, which will increase efficiency in the loan process, thus decreasing the turnaround time;
- integrate the bank's main branches with BG Finance outlets, with the aim of increased cross-selling and overall sales;
- enhance Tobetsa functions to include paying for utility bills; and
- introduce all mobile networks and DSTV payments through Tobetsa.

Business review
Business & executive banking

2013/2014 performance highlights

- Growth in market share.
- Growth in assets and liabilities.
- Stronger client relationships.

Business unit scope

The Business & executive banking division provides products and services to the business banking and individual niche markets. The division considers itself as business partner and trusted advisor in clients' business operations and offers one stop banking. Its relationship teams comprise skilled individuals with a passion for client service, which is a key differentiator in the market.

Business performance

Despite a downturn in economic activity, the Business & executive banking division performed relatively well during the past financial year. It has achieved its targets and managed to grow market share. It has strengthened its relationship with clients and will continue to do so during the coming financial year. Its client-centric approach towards customers and prospective customers remains its key competitive advantage.

The main focus areas included:

- growth in the asset book;
- growth in the liability book;
- client acquisitions; and
- credit risk management.

Looking forward

The division intends to further develop its potential to:

- help Bank Gaborone to become the bank of choice in the Botswana market by being committed to superior client service;
- keep developing to become and remain the business partner of choice; and
- remain committed to 'grow together' with clients and prospective clients.

Business review
Specialist finance

2013/2014 performance highlights

- The mortgage loan book resulted in 45% growth in the year 2013 – 2014.
- The VAF book surpassed the set target for the year 2013 – 2014.

Challenges

- The highly competitive commercial bank market and the entry of new commercial banks.
- An over-commitment of the personal market.
- High loan settlements during 2013 – 2014 (VAF).

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 the loan book;
- cross selling; and
- targeting scheme participants.

Looking forward

Asset finance intends to further develop its potential by:

- maintaining partnerships with property developers, estate agents, dealerships and lawyers;
- introducing asset finance sales campaigns;
- offering competitive rates; and
- enhancing its loan processes, thus decreasing turnaround time.

Business review
BG Finance

2013/2014 performance highlights

- Business sourcing – New pay points (e.g. Motor Centre, Statistics Botswana and Broadway).
- Market penetration – Of the total sales, 72% were new loans with the difference being top-ups.

Challenges

- New entrants in the market.

Business unit scope

To satisfy customers' financial needs including advisory, lending and maintaining healthy and mutually beneficial long term relationships. BG Finances' main mandate provides unsecured lending under non-guaranteed schemes. A Salary Deduction Agreement is secured from source.

- BG Finance is a micro lending division of Bank Gaborone.
- The BG Finance branch network extends 12 branches countrywide.
- BG Finance services extend to central government, local government, parastatals and the private sector.

The product offering of BG Finance includes:

- deposit accounts (cross-selling);
- insurance products (cross-selling);
- general financial advice.

Business performance

There has been a steady growth in the unsecured lending market.

The main focus areas included:

- customer service and quick turnaround time on applications;
- cost control in all areas of operation;
- Coretalk, which involved sourcing new name lists and adding to sms communication; and
- staffing, to get the right balance to induce productivity in all branches.

Looking forward

BG Finance intends to further develop its potential to expand its footprint to stable market areas like Selebi, Phikwe, Masunga and Shakawe.

Business review
SME banking

2013/2014 performance highlights

- The total cumulative approvals for the year amounted to P60.887 million.
- 48% of the total approvals were overdraft, 26% were commercial loans and 6% VAF and guarantees.
- 41% of the total book secured by purchase orders, 56% by property and 3% unsecured and secured by inward bank guarantee.

Challenges

- Poor recordkeeping by SMMEs resulting in failure to produce annual financial statements on time to enable us to undertake reviews on time, which lead to an increase in irregular account.
- Limitations of branch representation in the villages, which makes it difficult to market to clients operating in those villages.

Business unit scope

The unit provides overdrafts, asset finance and loans to small businesses. The unit facilitates credit and the book is maintained at various branches.

Our main focus areas included:

- financing government purchase orders through a 120 day overdraft facility; and
- financing government contracts through short-term funding whereby the expiry/maturity date is tied to the expiry of the contract.

Looking forward

We intend to further develop our potential to:

- market the purchase order and contract funding solutions to the clients operating in the Francistown area and other villages. This is convenient for both the customer and Bank Gaborone as purchase order customers need not migrate their bank accounts to Bank Gaborone; and
- collaborate with Smartswitch to develop a product which can benefit Smartswitch retailers.

Business review
Treasury

2013/2014 performance highlights

- The deposit book has grown by 18% from P2,366 million to P2,802 million.
- Non-interest income has grown by 24% from P7,469 million to P9,249 million.
- Interest income has fellen by 16% from P24,600 million to P20,759 million.

Challenges

- Dependency on corporate clients who always want to be quoted competitive rates, thus squeezing our margins.
- In August and December 2013, the Central Bank reduced bank rates by a cumulative 1%. This had a negative impact on the Bank of Botswana Certificate (BoBC) returns. The Central Bank also gradually continued to reduce the BoB Certificates offered in the market.
- A high rise in the cost of funding due to the spike in interest rates offered for the deposits.
- Volumes in Forex transactions have been negatively affected by competitive pricing, offering same day value and applying no fees and commissions.
- We are still unsuccessfully trying to open nostro accounts.

Business unit scope

Treasury plays a very important role in the bank by managing the bank's capital. It strives to maximise the company's liquidity and mitigating its operational, financial and reputational risk by abiding by the Central Bank's requirements. Some of the products rendered include:

- foreign exchange and services to facilitate cross-border operations, e.g. spot transactions; and
- money market products such as fixed deposits, call accounts, foreign currency accounts and treasury bills.

Although Treasury is the distribution channel, the products are also available through retail branches and other business units.

Business performance

Treasury's main focus areas included:

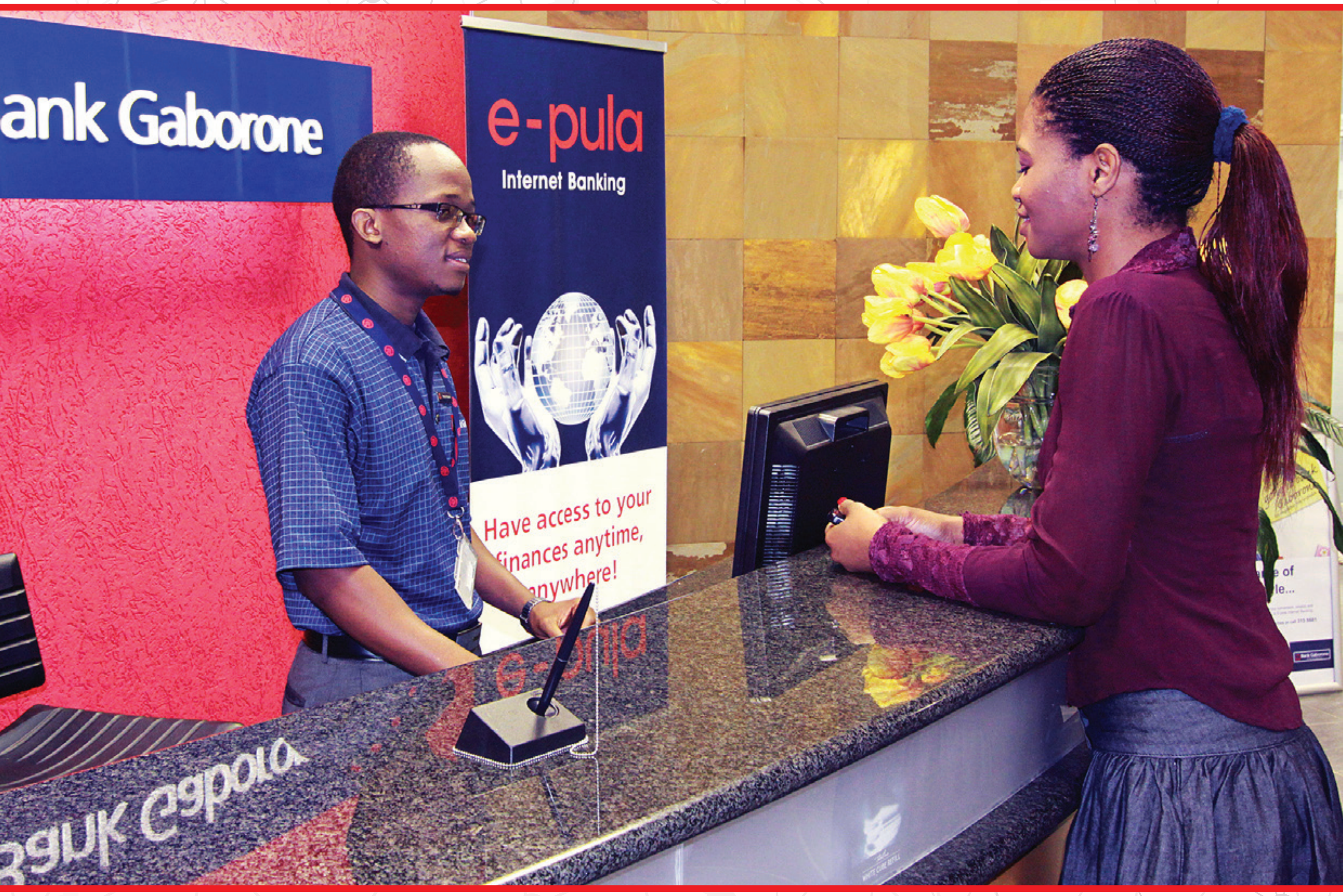
- liquidity, which is being managed efficiently as liquidity ratios, loans to deposit ratios and day-to-day obligations have been maintained satisfactory;
- the continued steady growth of the clientele base and an improvement in the uptake of other banks' products; and
- a slight improvement in Forex margins with the pula strengthening against the South African rand, which ZAR is the major trading currency, while weakening against most major currencies.

Looking forward

Treasury intends to further develop its potential to:

- grow the bank's client base to increase market share, both on money market and Forex, with the minimum resources at its disposal;
- help the bank to grow the retail book by offering better interest rates on savings accounts;
- aggressively market for investments between P1 million and P5 million; and
- increase Forex turnover by encouraging SMME clients to transact with Bank Gaborone.

Come Bank with Us
and experience Great Service



Bank Gaborone celebrated for great customer service

Bank Gaborone staff member honoured for exceptional service

If the bank is to form and sustain formidable relations, compromising service is not an option. Bank Gaborone continues to dedicate itself to providing the best customer service it can.

This can be witnessed by the role staff plays in achieving this goal. Consumer Watchdog, which is a company dedicated to improving service and campaigning for consumer rights in Botswana, honoured Ntombizodwa Mbulawa, a credit officer at Game City branch in Gaborone, for exceptional customer service at its annual conference. Ntombizodwa's honour was informed by an extensive national survey carried out by Consumer Watchdog and she is one of only two people in the banking industry to have received this accolade.

Ntombizodwa shares a moment with former President Festus Mogae and her proud Manager Nicky Kgomotso.

Business review
Operations support

As the sun sets on a very challenging 2013/14 financial year, we reflect on lessons learnt from our successes and failures and look forward to the financial year that lies ahead.

The past financial year has certainly been a very busy one for the bank and for the Operations support business unit.

Unit scope

The core deliverables of the unit remained focused on:

- the cash centre;
- the central processing centre;
- system support;
- the projects Office;
- business process management; and
- administrative support.

Operations support has attended to some internal restructuring in several departments in order to improve service delivery to customers. Restructured departments include System support, the Projects office, Administration and Processing services. There were several training interventions with staff that had attended training in Namibia, Zambia and South Africa. The unit also embarked on the group talent management initiative.

Operations support has taken on more projects than in any previous year (31 in total) which included group initiatives such as Creditease, Gricaf and several internal projects with excellent progress made.

Highlights for the past financial year include the:

- completion of the construction of the new Kang Agency branch;
- installation of the new UPS (uninterrupted power supply) solution at head office;
- installation of a new higher capacity generator at head office;
- completion of integration to the Bank of Botswana's new cash management centre;
- relocation of the BG Finance branch in Palapye;
- attainment of Payment Card Industry Data Security Standards (PCI DSS) and Euro Master Card and Visa (EMV) across the ATM network; and
- upgrade of the LAM (loan automation system).

Looking forward

In terms of the year ahead, the focus will be on the completion of current projects which include (amongst others) the:

- completion of the new business continuity site and training centre;
- upgrading of the BG Finance branch in Palapye to a Bank Gaborone agency branch;
- attainment of PCI DSS compliance;
- integration into the new Botswana Automated Clearing House (BACH);
- implementation of the group risk framework and anti-money laundering projects;
- launching of e-statements and the bulk processing system; and
- issuing of EMV.

The Operations support unit looks forward to another exciting year in which it can continue contributing to making Bank Gaborone Botswana's bank of choice through providing "great service, great service, great service".

Business review
Human resources

Our people. Our choice.

The bank continues to grow, which opens growth opportunities for its people. For the financial year ending June 2014, the staff complement has grown from 269 in June 2013 to 283. The bank endeavours to attract and develop competent human resources to ensure efficient service delivery in all operations. As a result, building a high performance culture a main priority, therefore a balance scorecard and performance contracts are used as tools to identify talent and potential, supporting learning and development as well as rewarding excellence.

As a way of valuing its employees, Bank Gaborone affirms its commitment to ensure fair labour practices, therefore it continues to enjoy a fairly peaceful employee relations climate.

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

The bank highly values skills development and has focused on this area over the period in terms of training interventions by delivering a broad skills space, using both in-house and external trainers. The bank's trainers, training modules and the training facility are all Botswana Qualifications Authority (BQA) accredited, thus enabling the bank to effectively make use of the training levy for the development of the workforce.

The bank plays a role in empowering young Batswana professionals by offering them employment through its graduates' development programme where graduates without any work experience are strategically engaged and exposed to basic banking over a one-year period.

In addition the bank supports the government's skills development initiative through the internship programme, from which it has absorbed 22 out of 35 interns to permanent employment. This translates to 62% of the total interns being placed with the bank.

Bank Gaborone continues to value skills development, hence the strategy towards talent management and succession planning, which facilitates identifying internal and external talent for leadership and other key positions. Furthermore, this provides retention through effective recruitment and placement 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, ensuring that the bank remains future fit.

Corporate social responsibility

Bank Gaborone has continued to create and support initiatives which are in consonance with both its policy on corporate social responsibility and other projects, which always remain on the bank's agenda. During the year under review, the corporate social responsibility undertakings were aimed at youth-focused organisations. Bank Gaborone has also taken certain initiatives upon itself, such as fighting cancer and diabetes. Health indicators suggest that these two illnesses are becoming a growing concern in Botswana. As the bank grows, it intends to further strengthen its relations with stakeholders in order for its donations and sponsorships to reach out to more communities.

Bank Gaborone Diabetes Apple Project

Not only does the bank pride itself with contributing to the community, it is also seeking innovative ways to involve the community in the process. Partnering with both the Diabetes Association and retail giant, Spar, the Diabetes Apple Project became the first fundraiser of its kind. Bank staff sold apples to the public to raise funds, which did more than only raising funds by also promoting a healthy lifestyle by encouraging the public to eat healthy foods. The bank, together with its partner beneficiary, the Diabetes Association of Botswana, held a walk coupled with testing the public for diabetes in order to raise awareness of the disease.

Funds for the project were handed over to the Diabetes Association of Botswana by the minister of health, the Honourable Minister Reverend Dr John Seakgosing. The Diabetes Association of Botswana has remained a constant on the bank's corporate social responsibility calendar since 2012 when the association was a beneficiary of funds raised at the 2012 Charity Golf Day.

Corporate social responsibility

Youth sports events

Haskins Gaborone Regional Youth League

Aligning itself with its agenda to assist youth-focused initiatives, the bank sponsored the Haskins Gaborone Regional Youth League, which is a football tournament aimed at developing players from disadvantaged backgrounds. The bank sponsored an under 15 team, called Smoden from Mogoditshane.

North vs South Under 13 Soccer Tournament

The bank sponsored the football tournament of private primary schools from the north and south of Botswana. The initiative is aimed at developing sports talents from both the northern and southern region of Botswana.

Projects funded by Bank Gaborone

- Botswana Society for the Prevention of Cruelty to Animals (BSPCA) Golf Day
- Inter-church Sports Ministry Sponsored Walk
- Lady Khama Charity Trust
- Phakalane Golf Estate Hotel Resort and Distell Botswana Charity Golf Day
- Son of the Soil
- Thornhill Primary School Golf Day
- Time Adventure Challenge
- UB Foundation Golf Day

Annual financial statements

for the year ended 30 June 2014

Contents

Statement of responsibility by the board of directors

for the year ended 30 June 2014

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the company at the end of the financial year; the net income and cash flow 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, play 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 45 to 99, 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 a 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 43.

The financial statements, set out on pages 45 to 99, were authorised and approved for issue by the board of directors on 2 September 2014 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 2014

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 subcommittees 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 constitute 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.

Corporate governance statement and risk report

for the year ended 30 June 2014

Board leadership and composition (continued)

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.

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							Independent non-executive
M Mothibatsela	✓	4					✓	4 Chair	Independent non-executive
R Tatedi	✓	1							Independent non-executive
T Prinsloo	✓	3							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.

Corporate governance statement and risk report

for the year ended 30 June 2014

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

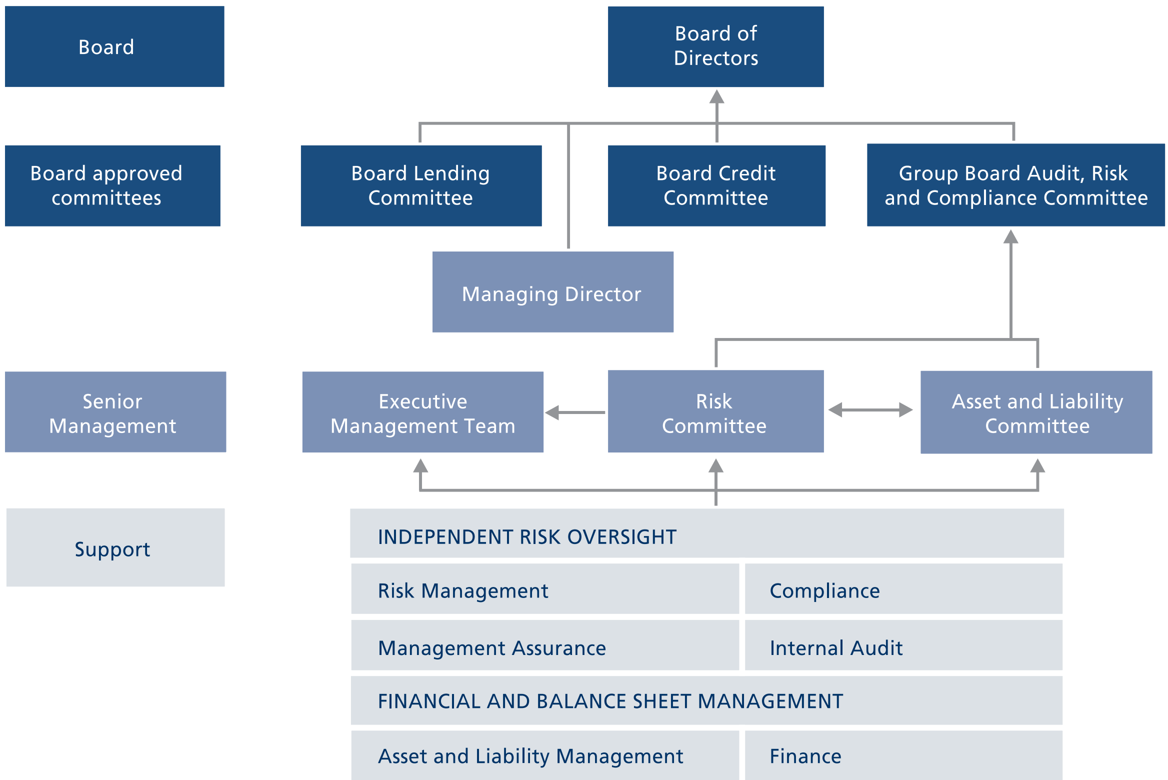
The board is ultimately accountable for any financial loss or reduction in shareholders value, and therefore has a duty to make the necessary enquiries to ensure that the requisite systems, practices and culture are in place to manage all risks to which the company is exposed. These risk management / control responsibilities have primarily been delegated to the group Board audit, risk and compliance committee (BARC), a subcommittee 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.

Corporate governance statement and risk report

for the year ended 30 June 2014

2. Risk management (continued)

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 the risk manager who reports

Corporate governance statement and risk report

for the year ended 30 June 2014

2. Risk management framework (continued)

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.

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 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.

Corporate governance statement and risk report

for the year ended 30 June 2014

3. Internal control (continued)

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 2014 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 2014 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.

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
Consulting fees including Tax advice	66
Total	**66**

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 43.

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

Report on the financial statements

We have audited the annual financial statements of Bank Gaborone Limited, which comprise the statement of financial position as at 30 June 2014, and the statements 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 45 to 99.

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, the financial position of Bank Gaborone Limited as at 30 June 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Individual practising member: A.S. Edirisinghe
Membership number: 20030048

Gaborone
3 November 2014

Directors' report

for the year ended 30 June 2014

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, it also provides international banking services through direct liaison with financial centers 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 P21,704,000 (2013: P27,393,000). Full details of the financial results of the bank are set out on pages 45 to 99.

3. Stated capital

During the year, the bank issued Nil (2013 - Nil) ordinary shares.

4. Holding company and ultimate holding company

The bank is a subsidiary of Capricorn Investment Holdings Botswana Limited, 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		**Appointed**
P C G Collins	Chairman	
J J Swanepoel	Vice-chairman	
P K Balopi		
M Mothibatsela		
R Tatedi		26 July 2013
T Prinsloo	Alternative to J J Swanepoel	
Executive		
André Barnard	Managing director	

Mr Jeanne-Pierre van der Gryp was the secretary of the company during the year under review. The business and postal addresses of the company secretary are:

Plot 50371 Fairground Office Park Gaborone	Private Bag 00325 Gaborone Botswana

Statement of comprehensive income

for the year ended 30 June 2014

	Notes	2014 P'000	2013 P'000
Interest and similar income	5	290,462	287,056
Interest and similar expenses	5	(156,178)	(154,470)
Net interest income		134,284	132,586
Impairment charges on loans and advances	6	(16,666)	(8,233)
Net interest income after loan impairment charges		117,618	124,353
Fee and commission income	7	28,687	23,142
Net trading income	8	8,056	6,529
Other operating income	9	4,207	3,728
Fee and commission expense	11	(9,119)	(7,087)
Operating expenses	12	(122,259)	(116,155)
Profit before income tax		27,190	34,510
Income tax expense	13	(5,486)	(7,117)
Profit for the year		21,704	27,393
Other comprehensive income		-	-
Total comprehensive income for the year		21,704	27,393

Statement of financial position

for the year ended 30 June 2014

	Notes	2014 P'000	2013 P'000
ASSETS			
Cash and balances with the Central Bank	14	289,764	276,458
Bank of Botswana Certificates	15	649,268	529,514
Due from other banks	16	73,801	239,892
Loans and advances to staff	15	70,280	53,761
Loans and advances to customers	17	2,521,144	2,128,388
Other assets	18	38,282	68,010
Intangible assets	19	10,196	9,905
Property, plant and equipment	20	18,092	18,132
Deferred tax asset	26	405	50
Total assets		3,671,232	3,324,110
LIABILITIES			
Due to other banks	21	3,387	2,301
Deposits from customers	23	3,244,850	2,885,893
Other liabilities	25	66,977	97,429
Current tax liability		1,054	227
Debt securities in issue	22	100,000	100,000
Total liabilities		3,416,268	3,085,850
EQUITY			
Stated capital	28	175,000	175,000
Non-distributable reserves	29	1,467	750
Retained earnings		78,497	62,510
Total shareholders' equity		254,964	238,260
Total equity and liabilities		3,671,232	3,324,110

Statement of changes in equity

for the year ended 30 June 2014

	Notes	Stated capital P'000	Share-based reserve P'000	Credit risk reserve P'000	Retained earnings P'000	Total equity P'000
For the year ended 30 June 2013						
Balance at 1 July 2012		175,000	750	-	37,068	212,818
Comprehensive income		-	-	-	-	-
Profit for the year		-	-	-	27,394	27,394
Transactions with owners				-		
Dividend paid	**35**	-		-	(1,952)	(1,952)
Balance at 30 June 2013		175,000	750	-	62,510	238,260
For the year ended 30 June 2014						
Balance at 1 July 2013		175,000	750	-	62,510	238,260
Comprehensive income		-	-		-	-
Profit for the year		-	-		21,704	21,704
Transactions with owners		-	-		-	-
Dividend paid	**35**	-	-		(5,000)	(5,000)
Transfer to other reserve				717	(717)	
Balance at 30 June 2014		175,000	750	717	78,497	254,964

Statement of cash flows

for the year ended 30 June 2014

	Notes	2014 P'000	2013 P'000
Cash flows from operating activities			
Interest receipts		290,462	287,056
Interest payments		(156,178)	(154,470)
Commission and fee receipts		37,895	30,251
Commission paid		(9,119)	(7,087)
Amounts recovered during the year		1,200	596
Cash payments to employees and suppliers		(115,685)	(108,444)
Cash generated by operations	31	48,575	47,902
Income taxes paid	32	(4,783)	(7,334)
Cash flows from operating profits before changes in operating assets and liabilities		43,792	40,568
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(426,112)	(239,018)
Net decrease in other assets		29,728	(51,273)
Net increase in deposits from customers		358,957	639,227
Net decrease in other liabilities		(33,500)	44,979
Net cash flows (utilised in) / generated from operating activities		(27,135)	434,483
Cash flows from investing activities			
Additions to property, plant and equipment	20	(4,702)	(3,224)
Proceeds from sale of property, plant and equipment		20	-
Additions to intangible assets	19	(3,174)	(4,857)
Dividends received		2,826	2,912
Net cash utilised in investing activities		(5,030)	(5,169)
Cash flows from financing activities			
Dividends Paid		(1,952)	-
Net cash flows generated from financing activities		(1,952)	-
Net (decrease) / increase in cash and cash equivalents		(34,117)	429,314
Cash and cash equivalents at beginning of year		1,043,563	614,249
Cash and cash equivalents at end of year	33	1,009,446	1,043,563

Notes to the financial statements

for the year ended 30 June 2014

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 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The bank does not prepare consolidated financial statements as its immediate parent company, Capricorn Investments Holding Botswana Limited which is a company registered and domiciled in Botswana prepares consolidated financial statements.

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 Standards and interpretations issued affecting amounts reported and disclosures in the current year

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 and those that prepare financial statements in accordance with US GAAP.

IFRS 13, 'Fair value measurement'
IFRS 13, 'Fair value measurement', 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. This did not impact on the group's financial statements.

Notes to the financial statements

for the year ended 30 June 2014

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
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 2018
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 have 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 2018
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 2018. The original effective date was for annual periods beginning on or after 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 2018
Amendments to IAS 32 – 'Financial instruments: Presentation' 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 statement of financial position. 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

for the year ended 30 June 2014

1.2.2 Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities The amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made in IFRS 12 to introduce disclosures that an investment entity needs to make.	Annual periods commencing on or after 1 January 2014
Amendment to IAS 39 on novation of derivatives The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. Similar relief will be included in IFRS 9, 'Financial instruments'.	Annual periods commencing on or after 1 January 2014
IFRS 14 - 'Regulatory deferral accounts' The IASB has issued IFRS 14, 'Regulatory deferral accounts' an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body.	Annual periods commencing on or after 1 January 2016
Amendment to IAS 19 'Employee benefits' regarding defined benefit plan. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.	Annual periods commencing on or after 1 July 2014
Amendments to IAS 36, 'Impairment of assets' These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.	Annual periods commencing on or after 1 January 2014
IFRIC 21 – 'Accounting for levies' IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised.	Annual periods commencing on or after 1 January 2014

Notes to the financial statements

for the year ended 30 June 2014

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:

The bank adopted IFRS 12,' Disclosure of interests in entities' on 1 July 2013.The bank has also adopted IAS 19 (revised 2011), 'Employee benefits' on 1 July 2013. The new accounting policies did not have a significant impact on the annual financial statements (refer to note 1.3.1) other than additional disclosure required by IFRS 7, IFRS 12 and IFRS 13. These disclosures were incorporated in various notes to the annual financial statements.

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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

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.

Notes to the financial statements

for the year ended 30 June 2014

2.2.1 Financial assets (continued)

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 subcategories: 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 expenses 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 to customers, due from other banks, cash and balances with the Central Bank and other assets are classified in this category.

Notes to the financial statements

for the year ended 30 June 2014

2.2.1 Financial assets (continued)

iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

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 bank'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.

Financial liabilities are initially recognised at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred, for all financial liabilities not carried at fair value through profit or loss.

i) At amortised cost

The liability is subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the liability 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.

Notes to the financial statements

for the year ended 30 June 2014

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 off-set and the net amount reported in the statement of financial position when there is a legally enforceable right to off-set 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

Notes to the financial statements

for the year ended 30 June 2014

2.2.6 Derivative financial instruments and hedge accounting (continued)

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.

Notes to the financial statements

for the year ended 30 June 2014

2.2.6 Derivative financial instruments and hedge accounting (continued)

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 bank about:

(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

Notes to the financial statements

for the year ended 30 June 2014

2.4.1 Assets carried at amortised cost (continued)

(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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in 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

All 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.

Notes to the financial statements

for the year ended 30 June 2014

2.4.1 Assets carried at amortised cost (continued)

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 Financial 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

Certain of the bank's loans would have been past due if their terms had not been renegotiated.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. At 30 June 2014, there were no such assets.

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

2.5 Intangible assets

2.5.1 Computer software and development costs

Costs associated with maintaining computer software programmes 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 the bank are recognised as intangible assets when:

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for the year ended 30 June 2014

2.5.1 Computer software and development costs (continued)

- 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.

The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

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.

Notes to the financial statements

for the year ended 30 June 2014

2.6 Property, plant and equipment (continued)

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 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.

Bank is the lessor

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

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for the year ended 30 June 2014

2.10 Cash and cash equivalents

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

Provisions for restructuring costs and legal claims are recognised when:

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

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 future premium 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.

Notes to the financial statements

for the year ended 30 June 2014

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.

Notes to the financial statements

for the year ended 30 June 2014

2.14 Share-based payments (continued)

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.

IFRS 2 requires an entity to measure the fair value 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 an 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.

Notes to the financial statements

for the year ended 30 June 2014

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.

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

Notes to the financial statements

for the year ended 30 June 2014

2.16.3 Fee and commission income (continued)

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 programs. Income is brought to account on the effective commencement or renewal dates of the related insurance program. 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.

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.

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

Notes to the financial statements

for the year ended 30 June 2014

3 Financial risk management

Assuming financial risks is 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 risks are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies is 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 subcommittee of ALCO, the Interest Rate subcommittee, was established. The Interest Rate committee review the economic environment and recommend 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.

Notes to the financial statements

for the year ended 30 June 2014

3 Financial risk management (continued)

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 loans, 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.

Notes to the financial statements

for the year ended 30 June 2014

3.1.1 Risk limit control and mitigation policies (continued)

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.

Some other specific control and mitigation measures are outlined below:

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;
- deposits with any registered financial institution and ceded to the bank;
- life assurance policies 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

Notes to the financial statements

for the year ended 30 June 2014

3.1.1 Risk limit control and mitigation policies (continued)

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 nor 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, limit 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 are 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 **P104.65 million** (2013: P43.59 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:

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for the year ended 30 June 2014

3.1.2 Impairment and provisions (continued)

	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 2014						
Individually impaired loans	16,889	38,219	31,367	13,140	5,033	104,648
Fair value of collateral	(16,688)	(37,067)	(28,431)	(8,160)	(4,722)	(95,068)
Total	201	1,152	2,936	4,980	311	9,580
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

Loans and advances are summarised as follows:

	2014		2013	
	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	2,281,098	73,801	2,001,609	239,892
Past due but not impaired	174,137	-	117,178	-
Individually impaired	104,648	-	43,589	-
Gross	2,559,883	73,801	2,162,376	239,892
Less: allowance for impairment	(38,739)		(33,988)	-
Net	2,521,144	73,801	2,128,388	239,892

Notes to the financial statements

for the year ended 30 June 2014

3.1.2 Impairment and provisions (continued)

a) Loans and advances neither past due nor impaired

	Article finance P'000	Commercial loans P'000	Mortgage loans P'000	Individual loans P'000	Overdrafts P'000	Total P'000
As at 30 June 2014	168,672	558,549	928,840	403,376	221,662	2,281,099
As at 30 June 2013	191,350	475,223	658,905	493,081	183,050	2,001,609

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:

	2014 P'000	2013 P'000
Loans granted within the last 12 months, with no history of default	660,058	635,237
Loans granted within the last 12 months, with minor history of default	257,680	222,562
Loans granted prior to the last 12 months, with no history of default	575,036	407,887
Loans granted prior to the last 12 months, with minor history of default	788,325	735,923
	2,281,099	2,001,609

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.

30 June 2014	Article finance P'000	Commercial loans P'000	Mortgage loans P'000	Individual loans P'000	Overdrafts P'000	Total P'000
Past due up to 30 days	15,335	37,209	59,344	7,846	-	119,734
Past due 30 - 60 days	4,696	10,170	21,132	3,738	-	39,737
Past due more than 60 days	4	1		14,662	-	14,666
Total	20,035	47,380	80,476	26,246	-	174,137

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for the year ended 30 June 2014

3.1.2 Impairment and provisions (continued)

30 June 2013	Article finance P'000	Commer-cial loans P'000	Mortgage loans P'000	Individual loans P'000	Overdrafts P'000	Total P'000
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

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:

30 June 2014						
Past due up to 30 days	-	-	-	-	-	0
Past due 30 - 60 days	-	-	-	-	-	0
Past due up to 60 - 90 days	2,207	3,704	7,829	1,706	2,980	18,426
Past due 91 - 180 days	2,015	4,437	9,570	2,797	2,050	20,869
Past due 180 days	12,667	30,078	13,968	8,637	3	65,353
Total	16,889	38,219	31,367	13,140	5,033	104,648

30 June 2013						
Past due up to 30 days	56	-	487	1,062	-	1,605
Past due 30 - 60 days	0	-	136	-	-	136
Past due up to 60 - 90 days	278	8,344	6,857	274	-	15,753
Past due 91 - 180 days	715	1,053	2,008	1,991	1,336	7,103
Past due 180 days	2,756	5,136	7,619	3,481	-	18,992
Total	3,805	14,533	17,107	6,808	1,336	43,589

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

Notes to the financial statements

for the year ended 30 June 2014

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 is as follows:

	Carrying amount	
Nature of assets	**2014 P'000**	**2013 P'000**
Movable property	391	873

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:

	2014			
	Exposure P'000	**Impairment P'000**	**Risk-weighted amounts P'000**	**Written off P'000**
Counterparties				
Corporate	372,884	1,153	372,884	2,038
Retail	478,463	6,058	478,463	1,691
Residential mortgage properties	642,397	470	321,199	-
Commercial real estate	343,474	873	171,737	706
Others	722,665	1,026	836,722	7,480
	2,559,883	9,580	2,181,005	11,915

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.

Notes to the financial statements

for the year ended 30 June 2014

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	Finacial 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 2014						
Agriculture and forestry	-	-	-	126,660	-	126,660
Fishing	-	-	-	-	-	-
Mining	-	-	-	1,267	-	1,267
Manufacturing	-	-	-	13,774	-	13,774
Building and construction	-	-	-	28,438	-	28,438
Electricity, gas and water	-	-	-	446	-	446
Trade and accommodation	-	-	-	577,736	-	577,736
Transport and communication	-	-	-	17,759	-	17,759
Finance and insurance	-	-	73,801	426	-	74,227
Real estate and business services	-	-	-	343,474	-	343,474
Government	278,947	649,268	-	97,743	-	1,025,958
Individuals	-	-	-	1,335,477	-	1,335,477
Other	10,817	-	-	16,683	38,282	65,782
	289,764	649,268	73,801	2,559,883	38,282	3,610,998
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	-	-	-	632,872	-	632,872
Other	13,359	-	-	20,323	68,010	101,692
	276,458	529,514	239,892	2,162,376	68,010	3,276,250

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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 2014					
ASSETS					
Loans and advances to customers	-	-	-	-	-
Loans and advances to banks	37,413	21,847	625	5,018	64,902
Total financial assets	37,413	21,847	625	5,018	64,902
LIABILITIES					
Deposits from customers	36,956	21,491	527	5,777	64,752
Total financial liabilities	36,956	21,491	527	5,777	64,752
Net financial position	456	356	98	(760)	151
As at 30 June 2013					
Total financial assets	74,953	12,027	711	7,710	95,401
Total financial liabilities	74,301	10,350	525	5,607	90,783
Net financial position	652	1,677	186	2,103	4,618

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for the year ended 30 June 2014

3.2.2 Foreign exchange risk (continued)

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 2014 P'000	2013 P'000
Currency		
US Dollar / Botswana Pula	16	23
Euro / Botswana Pula	12	59
British Pound / Botswana Pula	3	7
South African Rand / Botswana Pula	(27)	74

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

As at 30 June 2014	P'000 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
ASSETS							
Cash and balances with the Central Bank	289,764	-	-	-	-	-	289,764
Bank of Botswana Certificates	500,000	149,268				-	649,268
Due from other banks	73,801	-	-	-	-	-	73,801
Loans and advances to customers	29,878	5,589	25,329	414,565	2,084,523	-	2,559,883
Loans and advances to staff	43	7	87	11,761	59,694	-	71,593
Other assets	-	-	-	-	-	38,282	38,282
Total assets	893,486	154,864	25,416	426,326	2,144,217	38,282	3,682,591

Notes to the financial statements

for the year ended 30 June 2014

3.2.3 Interest rate risk (continued)

As at 30 June 2014	P'000 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
LIABILITIES							
Due to other banks	3,387	-	-	-	-	-	3,387
Debt securities in issue	-	-	-	50,000	50,000	-	100,000
Deposits from customers	1,622,885	1,193,388	395,700	32,876	-	-	3,244,849
Other liabilities	-	-	-	-	-	68,032	68,032
Total liabilities	1,626,272	1,193,388	395,700	82,876	50,000	68,032	3,416,268
Interest sensitivity gap	(732,786)	(1,038,524)	(370,284)	343,450	2,094,217	(29,750)	266,323
Cumulative interest sensitivity gap	(732,786)	(1,771,310)	(2,141,594)	(1,798,144)	296,073	266,323	-
As at 30 June 2013							
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	-

Effect on net interest income arising from the following shift in yield curve:	2014 P'000	2013 P'000
100 basis points increase	7,525	5,652
100 basis points decrease	(7,525)	(5,652)

The following interest-rate sensitivity is based on the effect of changes to the interest rate as a percentage of total shareholders equity:	2014	2013
100 basis points increase	3%	2%
100 basis points decrease	-3%	-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.

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3.3 Liquidity risk (continued)

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.

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 they do not reconcile to the values reflected on the statement of financial position:

As at 30 June 2014	P '000 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
FINANCIAL ASSETS						
Cash and balances with Central bank	289,764	-	-	-	-	289,764
Bank of Botswana Certificates	500,000	150,000				650,000
Due from other banks	73,801	-	-	-	-	73,801
Loans and advances to customers	271,314	86,154	387,693	2,067,697	556,873	3,369,731
Loans and advances to staff	781	1,562	7,030	37,495	64,671	111,539
Other assets	38,282	-	-	-	-	38,282
Total assets (contractual maturity dates)	1,173,942	237,716	394,723	2,105,192	621,544	4,533,117
FINANCIAL LIABILITIES						
Due to other banks	3,387	-	-	-	-	3,387
Debt securities in issue	157	470	1,568	57,711	51,737	111,643
Deposits from customers	1,279,551	1,189,491	409,326	365,568	-	3,243,936
Other liabilities	66,977	-	-		-	66,977
Total liabilities (contractual maturity dates)	1,350,072	1,189,961	410,894	423,279	51,737	3,425,943
Liquidity sensitivity gap	(176,130)	(952,245)	(16,171)	1,681,913	569,807	1,107,174
Cumulative liquidity sensitivity gap	(176,130)	(1,128,375)	(1,144,546)	537,367	1,107,174	-
As at 30 June 2013						
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	-

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for the year ended 30 June 2014

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.

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.

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for the year ended 30 June 2014

3.4 Fair values of financial assets and liabilities (continued)

ix) Trade receivables and payables

The nominal value less impairment provision of trade receivables and payables is 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.

Assets and liabilities measured at fair value	Level 1 P '000	Level 2 P '000	Total P '000
As at 30 June 2014			
Bank of Botswana Certificates		649,268	649,268
Loans and advances to staff	-	70,280	70,280
Financial assets at fair value through profit or loss	-	719,548	719,548
As at 30 June 2013			
Financial assets at fair value through profit or loss	-	583,275	583,275

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for the year ended 30 June 2014

3.5 Classification of financial instruments

Financial assets and liabilities are classified as follows:

As at 30 June 2014	Fair value though profit or loss P '000	Loans and receivables P '000	Total P '000
FINANCIAL ASSETS			
Cash and balances with the Central Bank	-	289,764	289,764
Bank of Botswana Certificates	649,268	-	649,268
Due from other banks	-	73,801	73,801
Loans and advances to customers	-	2,521,144	2,521,144
Loans and advances to staff	70,280		70,280
Other assets	-	38,282	38,282
	719,548	2,922,991	3,642,539

As at 30 June 2014	Other financial liabilities P '000	Total P '000
FINANCIAL LIABILITIES	3,387	3,387
Due to other banks	100,000	100,000
Debt securities in issue	3,244,850	3,244,850
Deposits from customers	66,977	66,977
Other liabilities	3,415,214	3,415,214

Credit commitments	2014 P '000	2013 P '000
Guarantees	99,331	81,568
Loan commitments and other credit related liabilities	191,428	198,343
	290,759	279,911

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for the year ended 30 June 2014

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 2014 and 2013. During those two years the bank complied with all of the externally imposed capital requirements to which it is subject to. Other reserves and portion of general provisions relating to instalment loans were excluded from capital adequacy ratio calculation.

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for the year ended 30 June 2014

3.6 Capital management (continued)

	2014 P '000	2013 P '000
Tier 1 capital		
Stated capital	175,000	175,000
Retained earnings	78,497	62,510
Total qualifying Tier 1 capital	253,497	237,510
Tier 2 capital		
Debt security in issue	100,000	100,000
Collective impairment allowance	22,708	22,889
Total qualifying Tier 2 capital	122,708	122,889
Total regulatory capital	376,205	360,399
Risk-weighted assets:		
On-balance sheet	2,181,005	1,804,847
Off-balance sheet	19,549	51,240
Total risk-weighted assets	2,200,554	1,856,087
Return on assets ratio	0.59%	0.89%
Return on equity ratio	8.51%	11.50%
Capital adequacy ratio	17.10%	19.42%
Core capital ratio	67.38%	65.90%

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for the year ended 30 June 2014

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 comprise 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.

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for the year ended 30 June 2014

		2014 P '000	2013 P '000
5	**Net interest income**		
	Interest and similar income		
	Loans and advances	271,737	262,456
	Cash and short-term funds	18,725	24,600
		290,462	287,056
	Interest and similar expenses		
	Banks and customers	150,251	146,960
	Other borrowed funds	5,927	7,510
		156,178	154,470
6	**Impairment charges on loans and advances**		
	Increase in specific impairment	7,975	5,065
	Increase in portfolio impairment	9,891	3,764
	Amounts recovered during the year	(1,200)	(596)
		16,666	8,233
7	**Fee and commission income**		
	Transaction and related fees	21,622	17,220
	Loan administration fee	7,065	5,922
		28,687	23,142
8	**Net trading income**		
	Net foreign exchange gains and losses from trading assets	8,056	6,529
		8,056	6,529
9	**Other operating income**		
	Other operating income includes:		
	Dividend income	3,055	3,148
	Commission income	341	504
	Others	811	76
		4,207	3,728

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for the year ended 30 June 2014

		2014 P '000	2013 P '000
10	**Staff costs**		
	Wages and salaries	57,992	55,097
	Share options granted to directors and employees	-	-
	Staff training	944	1,063
	Fair value adjustment to staff loans	(1,037)	509
	Pension costs – defined contribution plan (note 27)	3,950	3,319
		61,849	59,988
11	**Fee and commission expense**		
	Commission and profit share expense	9,119	7,087
		9,119	7,087
12	**Operating expenses**		
	Expenses by nature		
	Advertising and marketing	3,917	4,208
	Amortisation charge of intangible assets	2,883	2,323
	Auditor's remuneration		
	– Audit fees	1,316	1,423
	– Fees for other services	395	174
	Courier and postage charges	1,563	1,367
	Depreciation and impairment of property, plant and equipment	4,728	4,879
	Directors' emoluments		
	– Non-executive directors	1,296	925
	Donations	54	92
	Insurances	1,120	827
	Losses, penalties and fines	1,159	14
	Office expenses	320	312
	Operating lease rentals – immovable property	11,848	10,620
	Other expenses	11,162	11,002
	Professional services	1,010	1,327
	Repairs and maintenance	2,338	1,991
	Staff costs (Note 10)	61,849	59,988
	Stationery and printing	1,589	1,636
	Security	1,068	1,094
	Technology costs	7,142	6,603

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		2014 P '000	2013 P '000
12	**Operating expenses (continued)**		
	Telephone and fax	2,367	2,198
	Travel and entertainment	1,865	2,023
	Water, electricity and rates and taxes	1,270	1,129
		122,259	116,155
13	**Income tax expense**		
	Current tax	5,841	7,354
	– Current year	5,486	7,060
	– Current year – WHT on dividends received	229	236
	– Prior year – underprovision	126	58
	Deferred tax	(355)	(237)
	– Current year	(355)	(237)
	– Prior year	-	-
		5,486	7,117
	The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:		
	Profit before tax	27,190	34,510
	Tax calculated at a tax rate of 22% (2013: 22%)	5,982	7,592
	Income not subject to tax	(900)	(692)
	Expenses not deductible for tax purposes	49	78
	Prior year expense allowed in current year	-	(155)
	Prior year under provision	126	58
	WHT on dividends received	229	236
	Income tax expense	5,486	7,117
	Effective tax rate	20.2%	20.6%
14	**Cash and balances with the Central Bank**		
	Cash and bank balances	10,817	13,359
	Mandatory reserve deposits with the Central Bank	278,947	263,099
	Included in cash and cash equivalents	289,764	276,458

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.

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		2014 P '000	2013 P '000
15	**Financial assets at fair value through profit or loss**		
	Bank of Botswana Certificates	649,268	529,514
	Loans and advances to staff	70,280	53,761
		719,548	583,275

The above financial assets 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 the Bank of Botswana for a term of two weeks and three months. These securities are carried at fair value with the Bank of Botswana. Bank of Botswana Certificates with a nominal value of P150,000,000 (2013: P150,000,000) are pledged as securities with the Bank of Botswana.

		2014 P '000	2013 P '000
16	**Due from other banks**		
	Placement with other banks	73,801	239,892

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

		2014 P '000	2013 P '000
17	**Loans and advances to customers**		
	Overdrafts	230,198	184,385
	Commercial loans	647,201	529,984
	Mortgages	1,044,654	715,647
	Article finance	205,483	209,030
	Individual loans	432,347	523,330
	Gross loans and advances	2,559,883	2,162,376
	Less:		
	Specific impairment	(9,580)	(7,165)
	Portfolio impairment	(29,159)	(26,823)
		2,521,144	2,128,388

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		2014 P '000	2013 P '000
17	**Loans and advances to customers (continued)**		
	The effective interest rate for the portfolio is 10.78% p.a (2013: 11.96% p.a).		
	Movement in impairment for the bank is as follows:		
	Balance at the beginning of the year	33,988	35,844
	Provision for loan impairment	17,866	8,829
	Bad debt written off recovered	(1,200)	(586)
	Amounts written off during the year as uncollectible	(11,915)	(10,099)
	Balance at the end of the year	38,739	33,988

	2014		2013	
	P '000	%	P '000	%
Maturity analysis of loans and advances to customers for the bank was as follows:				
Repayable within 1 month	262,804	10.3	238,820	9.6
Repayable after 1 month but within 3 months	100,281	3.9	70,560	3.3
Repayable after 3 months but within 6 months	127,913	5.0	99,913	4.7
Repayable after 6 months	2,068,885	80.8	1,753,083	82.4
	2,559,883	100.0	2,162,376	100.0

		2014 P '000	2013 P '000
	The loans and advances to customers include instalment finance receivables which may be analysed as follows:		
	Repayable within 1 year	31,776	115,770
	Repayable after 1 year but within 5 years	172,811	93,132
	Repayable after 5 years	896	128
	Net investment in instalment finances	205,483	209,030
	Gross finance lease investment at statement of financial position date	226,487	228,624
	Less : Future unearned finance income	(21,004)	(19,594)
	Present value of minimum lease payments receivable	205,483	209,030
18	**Other assets**		
	Accounts receivable and prepayments	1,708	1,678
	Clearing accounts	31,730	60,942
	Inter-group company loans (Note 35.3)	4,844	5,390
		38,282	68,010

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		Work in progress P '000	Computer software P '000	Total P '000
19	**Intangible assets**			
	Year-end - 30 June 2014			
	Cost			
	Cost at 1 July 2013	1,724	18,943	20,667
	Additions	3,156	552	3,708
	Transfer	(353)	353	-
	Adjustments	(534)	-	(534)
	Cost at 30 June 2014	3,993	19,848	23,841
	Amortisation			
	Amortisation and impairment at 1 July 2013	-	10,762	10,762
	Amortisation charge for the year	-	2,883	2,883
	Amortisation and impairment at 30 June 2014	-	13,645	13,645
	Net book value at 30 June 2014	3,993	6,203	10,196
	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 2011	-	10,762	10,762
	Amortisation and impairment at 30 June 2013	-	10,762	10,762
	Net book value at 30 June 2013	1,724	8,181	9,905

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

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for the year ended 30 June 2014

		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 2014						
	Cost						
	Cost at 1 July 2013	2,624	246	11,122	981	21,760	36,733
	Additions	1,037	925	1,885	119	736	4,702
	Transfers	(83)	-	9	-	74	-
	Disposals	-	-	-	(62)	(18)	(80)
	Cost at 30 June 2014	3,578	1,171	13,016	1,038	22,552	41,355
	Depreciation and impairment						
	Accumulated depreciation at 1 July 2013	-	156	7,110	428	10,907	18,601
	Charge for the year	-	73	1,759	176	2,720	4,728
	Depreciation on disposals	-	-	-	(57)	(9)	(66)
	Accumulated depreciation at 30 June 2014	-	229	8,869	547	13,618	23,263
	Net book value at 30 June 2014	3,578	942	4,147	491	8,934	18,092
	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 2012	2,624	90	4,012	553	10,853	18,132

Notes to the financial statements

for the year ended 30 June 2014

		2014 P'000	2013 P'000
21	**Due to other banks**		
	Current account	3,359	2,298
	Borrowings from other banks	28	3
		3,387	2,301
22	**Debt securities in issue**		
	Balance as at 1 July	100,000	100,000
	Issued during the year	-	-
	Balance as at 30 June	100,000	100,000
	BIFM Capital Fund Proprietary Limited	50,000	50,000
	Fleming Proprietary Limited	50,000	50,000
		100,000	100,000

The debt security of P50,000,000 issued to BIFM Capital Fund Proprietary Limited bears interest at a variable rate equivalent to a three-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 issued to Fleming Proprietary Limited bears interest at Bank of Botswana Certificate plus 1.6% per annum for the first five years plus a stepped up margin of 2.1% above the interest rate applicable to Bank of Botswana Certificate, 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.

		2014 P'000	2013 P'000
23	**Deposits from customers**		
	Current accounts	318,933	236,370
	Savings accounts	76,512	64,338
	Fixed deposits	2,482,062	2,237,899
	Demand deposits	320,792	303,946
	Notice deposits	46,551	43,340
		3,244,850	2,885,893

Notes to the financial statements

for the year ended 30 June 2014

		2014 P '000	2014 %	2013 P '000	2013 %
24	**Deposits from customers (continued)**				
	Maturity analysis within the customer current, savings and deposit account portfolio for the bank were as follows:				
	Withdrawable on demand	710,633	21.9	798,685	27.7
	Maturing within 1 month	257,832	7.9	402,680	14.0
	Maturing after 1 month but within 12 months	2,269,813	70.0	1,671,776	57.9
	Maturing after 12 months	6,572	0.2	12,752	0.4
		3,244,850	100.0	2,885,893	100.0

		2014 P'000	2013 P'000
25	**Other liabilities**		
	Accounts payable and other accruals	22,816	27,175
	Inter company balances (Note 35.3)	6,336	2,038
	Clearing, settlement and internal accounts	37,825	68,216
		66,977	97,429
26	**Deferred income tax asset**		
	Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 22% (2013: 22%).		
	The movement on the deferred income tax account is as follows:		
	Balance as at 1 July	(50)	187
	Income statement credit	(355)	(237)
	Balance as at 30 June	(405)	(50)
	Deferred income tax asset is attributable to the following item:		
	Accelerated tax depreciation and amortisation	(173)	274
	Share-based payment	(165)	(165)
	Fixed escalation operating lease accrual	(67)	(159)
		(405)	(50)

Notes to the financial statements

for the year ended 30 June 2014

27 Post-employment benefits

Medical aid scheme

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

Pension schemes

All Botswana citizens 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 11% 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.

		2014 P'000	2013 P'000
28	**Stated capital**		
	Balance as at 1 July	175,000	175,000
	Shares issued during the year	-	
	Balance as at 30 June	175 000	175 000
	Stated capital at year end comprise of 175,000,000 (2013: 175,000,000) ordinary shares.		
29	**Non-distributable reserves**		
	Share-based compensation reserve		
	Balance as at 1 July	750	750
	Acquired during the year	-	-
	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).		
	Credit risk reserve		
	Balance as at 1 July	-	-
	Acquired during the year	717	-
	Balance as at 30 June	717	-
	Total non-distributable reserves as at 30 June 2014	1,467	750

Notes to the financial statements

for the year ended 30 June 2014

		2014 P'000	2013 P'000
30	**Contingent assets, liabilities and commitments**		
	Capital commitments	30,837	20,815
	Letters of credit and liabilities under guarantees	290,759	201,260
	Operating lease commitments:		
	Office premises		
	– Not later than 1 year	10,911	10,259
	– Later than 1 year but not later than 5 years	27,097	27,720
	– Later than 5 years	505	-
		38,513	37,979
	Funds to meet these commitments will be provided from own resources.		
31	**Cash generated by operations**		
	Profit before income tax	27,190	34,511
	Dividends received	(3,055)	(3,148)
	Adjusted for non-cash items:		
	– Depreciation, amortisation and impairment	7,611	7,201
	– Fair value adjustment on staff loan through profit or loss	(1,037)	509
	– Impairment losses on loans and advances	17,866	8,829
		48,575	47,902
32	**Income taxes paid**		
	Amounts payable as at 1 July	226	539
	Current tax charged to profit or loss	5,486	7,021
	Under provision from prior year	126	-
	Amounts payable as at 30 June	(1,055)	(226)
		4,783	7,334
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 the Central Bank (note 14)	289,764	276,458
	Treasury Bills and Government Stock with a maturity of less than 90 days (note 15)	649,268	529,514
	Placement with other banks (note 16)	73,801	239,892
	Balances from other banks (note 21)	(3,387)	(2,301)
		1,009,446	1,043,563

Notes to the financial statements

for the year ended 30 June 2014

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	Purchases
	P	Number of shares	P	Number of shares	Number of shares
Granted	4.45	838,700	4.13	286,550	1,125,250
Forfeited	3.98	(125,566)	4.86	(10,300)	(135,866)
Exercised	3.70	(30,834)	3.57	(137,930)	(168,764)
At 30 June 2014	4.57	682,300	4.64	138,320	820,620
At 30 June 2013	4.30	592,600	4.26	141,545	734,145

Interest-free loan

Out of the 838, 700 shares purchased, 30,834 have vested to date while 125,566 shares have been forfeited as a result of employess electing to exit the scheme. No transaction costs resulted from the forfeited shares.

Cash shares

Out of the 286,550 shares purchased, 137,930 have vested at a 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.

Notes to the financial statements

for the year ended 30 June 2014

34 Share-based payments (continued)

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

			2014	
Grant date	**Expiry date**	**Purchase price per share**	**Shares**	
		P	**Interest-free loan**	**Cash**
19 March 2010	2017	3.57	170,000	0
5 July 2011	2019	3.96	-	20,000
19 October 2011	2020	4.06	70,000	13,750
8 November 2011	2020	3.87	-	16,000
12 December 2012	2021	4.86	286,200	59,570
12 December 2013	2022	5.86	156,100	29,000
			682,300	138,320

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.

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 Limited	Subsidiary of CIH (Namibia)	Consulting services
Penrich Employee Benefits Proprietary Limited	Subsidiary of CIH (Botswana)	Support services
Penrich Insurance Brokers Proprietary Limited	Subsidiary of CIH (Botswana)	Consulting services
Peo Micro Proprietary Limited	Subsidiary of CIH (Botswana)	Consulting services
Capricorn Investment Holdings (Botswana) Proprietary Limited	Holding Company	Consulting services
Capricorn Investment Holdings (Namibia) Proprietary Limited	Ultimate Holding Company	Guarantees
BG Insurance Agency Proprietary Limited	Subsidiary	Dividends

Notes to the financial statements

for the year ended 30 June 2014

		2014 P'000	2013 P'000
35.1	*Income received from related parties*		
	Penrich Insurance Brokers Proprietary Limited	86	80
	BG Insurance Agency Proprietary Limited	3,055	3,148
	Key management personnel	622	375
35.2	*Expenses paid to related parties*		
	Bank Windhoek Limited	3,609	1,489
	Capricorn Investment Holdings (Botswana) Proprietary Limited	215	2,904
	Bank Windhoek Holdings Limited	709	-
	Penrich Employee Benefits Proprietary Limited	804	804
	Penrich Insurance Brokers Proprietary Limited	201	273
	Key management personnel	10,089	10,162
35.3	*Receivable / (Payable) to related parties*		
	Penrich Insurance Brokers Proprietary Limited	37	1,531
	Peo Micro Proprietary Limited	9	16
	Penrich Employees Benefit Proprietary Limited	44	(314)
	Capricorn Investment Holdings (Botswana) Limited (including dividend payable)	(4,096)	(1,604)
	Bank Windhoek Holdings Limited	(1,520)	-
	Bank Windhoek Limited	(720)	(120)
	BG Insurance Agency Proprietary Limited	4,754	3,843
	Key management personnel	7,606	4,290
35.4	*Directors emoluments*		
	Refer to note 12.	1,296	925
35.5	*Dividends paid*		
	Capricorn Investment Holdings (Botswana) Ltd	5,000	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 cash flows from operating activities, cash flows from financing activities and cash and cash equivalents. This reallocation had no impact on the measurements in terms of IAS 39: Financial instruments: Recognition and measurement.

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