Annual Report 2009

Bank Gaborone
Growing together.

Contents

The directors herewith submit their report with the annual financial statements of the Bank for the year ended 30 June 2009.

1. General review

Bank Gaborone Limited conducts business as a registered bank and provides comprehensive banking services to its clients in Botswana. Although Bank Gaborone is an autonomous Botswana company the bank also provides international banking services through direct liaison with financial centres and institutions worldwide.

2. Financial results and dividends

Profit after tax was P2 428 000 (2008: P1 860 000). Full details of the finacial results of the Bank are set out on pages 8 to 49.

3. Stated capital

During the year, the Bank issued 36 250 000 ordinary shares at P1.0067 per share. Refer to note 24 for further details.

4 Holding company and ultimate holding company

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

5. Directors and company secretary

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

Non-executive

J C Brandt	Chairman
J J Swanepoel	Vice-Chairman
PC Collins	
JLJ van Vuuren	

Executive

Andre Barnard	Managing Director

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

Bank Gaborone	Private Bag 00325
Queens Street	Gaborone
Gaborone	Botswana

6. Subsequent events

No matters which are material have, occurred between the balance sheet date and the date of approval of the financial statements, which require adjustment to the financial statements. Subsequent to the balance sheet date the bank issued long term notes amounting to P50m qualifying for Tier 2 capital on 29 August 2009.

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

To enable the directors to meet these responsibilities:

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

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

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

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

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

The financial statements, presented on pages 8 to 49, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with the provisions of the Botswana Companies Act, 2003 and the Banking Act, 1995.

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

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report is presented on pages 6 - 7.

The financial statements were authorised and approved for issue by the board of directors on 21 September 2009 and are signed on their behalf:

PCG Collins	A Barnard
Director	Managing Director

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

1. Board of directors

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

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

Non-executive directors

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

Executive directors

Being involved with the day-to-day business activities of the bank, these directors are responsible for ensuring that decisions, strategies, and views of the board are implemented.

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

Company Secretary

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

2. Board Audit and Risk committee

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

3. Board Human resources committee

The purpose of the board human resources committee is to ensure that the organisation is appropriately staffed in terms of skills levels and ethnic diversity and to meet the challenges of the future; programmes related to this are ratified by the committee. In addition, the committee ensures that management and staff is remunerated appropriately and that the remuneration scales, including incentive and share schemes, and conditions of employment of these subsidiaries, are market related.

4. Board Nominations and remuneration committee

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

5. Board credit and lending committees

The board credit and lending committees of Bank Gaborone Ltd monitor the granting and management of credit, especially with regard to large exposures. Refer to note 3.1 of the financial statements for further details.

6. Internal control system

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

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

Corrective action is taken to address control deficiencies and other opportunities for improving the systems as they are identified.The board of directors, operating through the audit committee, provide oversight of the financial reporting process.

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

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

7. Risk Management

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

7.1 Financial Risk Management

Financial risk management is dealt with in the financial statements in note 3.

7.2 Asset and Liability Management

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

7.3 Operational Risk

Operational risks are non-speculative by nature and have no potential for showing profit. These include losses through fraud, theft, corruption or any other occurrences. The bank guards against these risks through, amongst others, sound systems and strong internal control procedures, intervention of an active audit and risk committee and a human resources committee which determines staff policy and remuneration levels. In addition insurance policies cover the bank's assets as well as liabilities against fraud and error.

8. Internal audit

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bank Gaborone Limited, set out on pages 8 to 50, which comprise the balance sheet as at June 30, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

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

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Bank Gaborone Limited as of June 30, 2009, and of their financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

13 November 2009
GABORONE

CERTIFIED PUBLIC ACCOUNTANTS

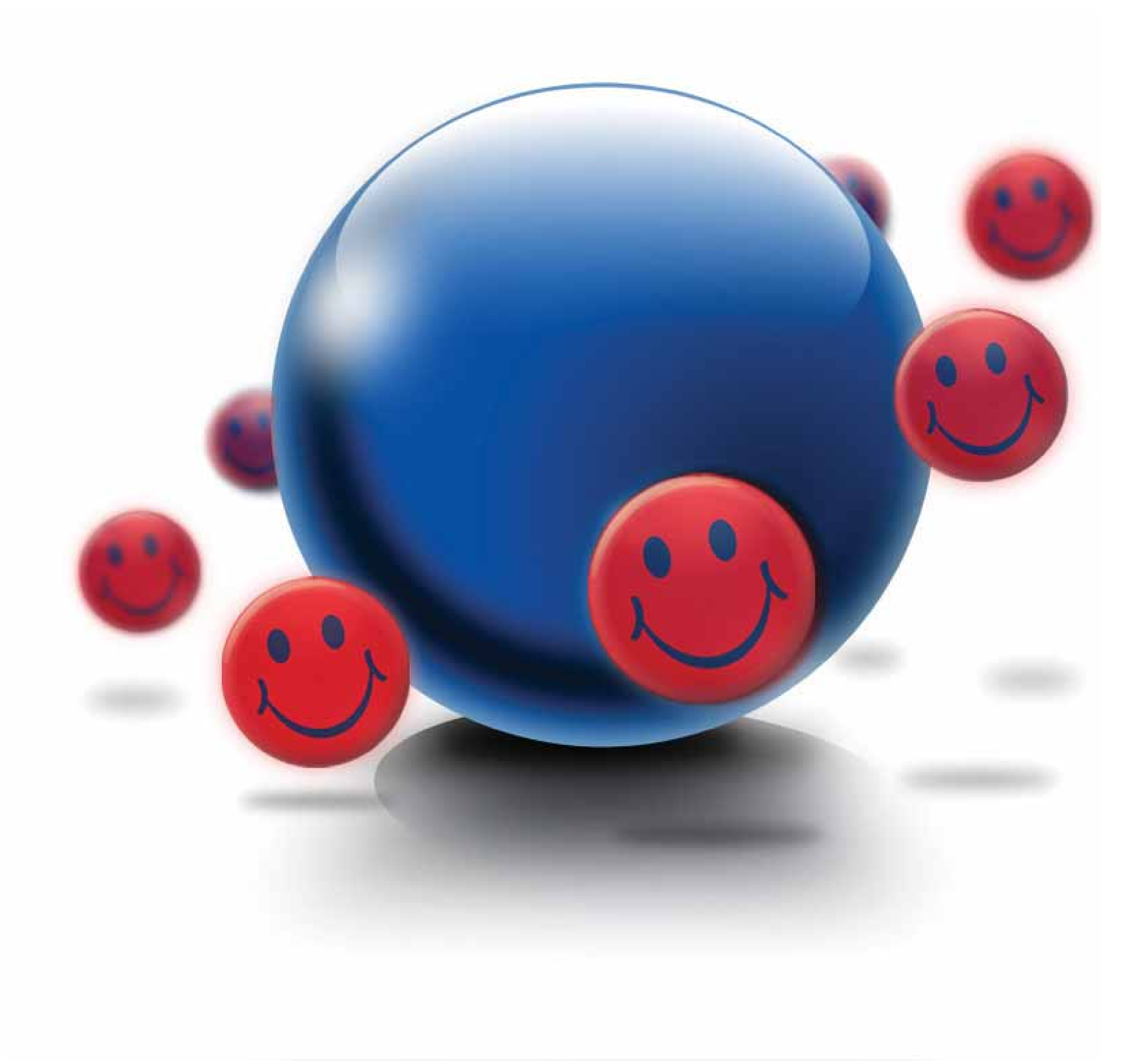
Bank Gaborone

	Notes	2009 P'000	2008 P'000
Interest and similar income	5	147,763	90,158
Interest expense and similar charges	5	(86,145)	(40,570)
Net interest income		61,618	49,587
Fee and commission income	6	7,249	2,644
Net trading income	7	3,341	3,181
Other operating income	8	565	661
Impairment losses on loans and advances	11	(13,891)	(6,267)
Administrative expenses	9	(32,898)	(19,050)
Other operating expenses	10	(22,932)	(28,094)
Profit before income tax		3,052	2,662
Income tax expense	12	(624)	(801)
Profit for the year		2,428	1,861

Assets	Notes	2009 P'000	2008 P'000
Cash and balances with central bank	13	43,226	22,075
Financial assets designated at fair value through profit and loss	14	220,220	118,278
Loans and advances to banks	15	33,384	15,643
Loans and advances to customers	16	703,244	436,554
Other assets	19	24,816	24,926
Current tax asset		62	212
Property, plant and equipment	17	12,224	9,663
Intangible assets	18	9,027	3,025
Total assets		1,046,203	630,376
Liabilities			
Deposits from banks	20	-	3,872
Deposits from customers	21	899,595	527,417
Other liabilities	22	37,046	31,156
Deferred tax liability	23	1,049	537
Total liabilities		937,690	562,982
Equity			
Stated capital	24	103,406	64,715
Distributable reserves		5,107	2,679
Total shareholder's equity		108,513	67,394
Total equity and liabilities		1,046,203	630,376

	Notes	Stated capital P'000	Retained earnings P'000	Total equity P'000
For the year ended 30 June 2008				
Balance at 1 July 2007		54,725	818	55,543
Profit for the year		-	1,861	1,861
Shares issued during the year	24	9,990	-	9,990
Balance at 30 June 2008		64,715	2,679	67,394
For the year ended 30 June 2009		-		
Balance at 1 July 2008		64,715	2,679	67,394
Profit for the year			2,428	2,428
Shares issued during the year	24	38,691	-	38,691
Balance at 30 June 2009		103,406	5,107	108,513

	Notes	2009 P'000	2008 P'000
Cash flows from operating activities			
Interest and discount receipts		147,763	90,158
Interest payments		(86,145)	(40,570)
Commission, fees and and other income receipts		11,155	6,486
Cash payments to employees and suppliers		(52,792)	(45,199)
Cash generated by operations	27	19,981	10,875
Income tax refund	28	37	85
Cash inflow from operating activities before changes in operating assets and liabilities		20,018	10,960
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(280,581)	(245,526)
Net (decrease) / increase in other assets		110	(14,732)
Net increase in amounts due to customers		372,178	338,489
Net increase in other liabilities		5,890	7,468
Net (decrease) / increase in amounts due to other banks		(3,872)	3,872
Net cash generated from operating activities		**113,743**	**100,531**
Cash flows from investing activities			
Additions to property, plant and equipment	17	(4,606)	(6,966)
Additions to intangible assets	18	(7,028)	(799)
Proceeds on asset disposal		34	-
Net cash utilised in investing activities		(11,600)	(7,765)
Cash flows from financing activities			
Issue of shares	24	38,691	9,990
Net cash generated from financing activities		38,691	9,990
Net increase in cash and cash equivalents		140,834	102,756
Cash and cash equivalents at beginning of year		155,996	53,240
Cash and cash equivalents at end of year	29	296,830	155,996



1 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.

1.1 Basis of presentation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2 Standards and interpretations issued

a) Standards and interpretations effective

Effective date

Amendment to IAS 39 and IFRS 7 — 01 July 2008

Amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets

The amendments introduces the possibility of reclassifications for certain financial assets previously classified as 'held for trading' or 'available for sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification

b) Interpretations effective in 2009 but not relevant to the company

IFRIC 12 Service Concession Arrangements

IFRIC 12 addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. — 01 January 2008

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. — 01 July 2008

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction IFRIC 14 provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.	01 January 2008

c) New standards, amendments and interpretations, that are applicable to the company, which are not effective yet

IAS 1 Presentation of Financial Statements - Revised The changes made to IAS 1 are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a Bank's equity resulting from transactions with owners in their capacity as owners separately from 'non-owner' changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles are not mandatory for use in financial statements.	Annual periods commencing on or after 1 January 2009
Amendment to IAS 32 and IAS 1 Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial statements - Puttable Financial Instruments and Obligations Arising on Liquidation The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments.	Annual periods commencing on or after 1 January 2009

d) New standards, amendments and interpretations which are not effective yet and not relevant for the bank's operation

IAS 23 Borrowing Costs – Amendment The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.	Annual periods commencing on or after 1 January 2009
IFRS 8 Operating segments IFRS 8 requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. The Standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.	Annual periods commencing on or after 1 January 2009

IAS 27 Consolidated and Separate Financial Statements – Revised IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.	Annual periods commencing on or after 1 July 2009.
IFRS 3 Business Combinations – Revised The new standard continues to apply the acquisition method to business to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transactions costs will be expensed.	Annual periods commencing on or after 1 July 2009.
FRS 2 (Amendment), Share-based Payments - Vesting Conditions and Cancellations. The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.	Annual periods commencing on or after 1 January 2009

d) New standards, amendments and interpretations which are not effective yet and not relevant for the bank's operation

IAS 38 (Amendment), Intangible assets The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for shoe mail order catalogues when the company has access to the catalogues and not when the catalogues are distributed to customers, as is the company's current accounting policy.	Annual periods commencing on or after 1 January 2009
Amendments to IAS 39 Amendments to IAS 39 Financial Instruments: Recognition and Measurement Exposures Qualifying for Hedge Accounting The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.	Annual periods commencing on or after 1 January 2009
IFRIC 15 Agreements for the Construction of Real Estate IFRIC 15 addresses diversity in accounting for real estate sales. IFRIC 15 clarifies how to determine whether an agreement is within the scope of IAS 11 – Construction contracts or IAS 18 - Revenue and when revenue from construction should be recognised. The guidance replaces example 9 in the appendix to IAS 18.	01 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation IFRIC 16 provides guidance on identifying the foreign currency risks that qualify as a hedged risk (in the hedge of a net investment in a foreign operation). It secondly provides guidance on where, within a group, hedging instruments that are hedges of net investment in a foreign	01 October 2008

operation can be held to qualify for hedge accounting. Thirdly, it provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.

IFRIC 17 Distributions of Non-cash Assets to Owners 01 July 2009

IFRIC 17 applies to the accounting for distributions of non-cash assets (commonly referred to as *dividends in specie*) to the owners of the entity. The interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

IFRIC 18 Transfers of assets from customers 01 July 2009

IFRIC 18 clarifies the accounting treatment for transfers of property, plant and equipment received from customers. This Interpretation applies to agreements with customers in which the entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both.

2.1 Foreign currency translation

The financial statements are presented in Botswana Pula, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under trading income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2.2 Derivative financial instruments

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

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

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

2.3 Net interest income

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.4 Net fee and commission income

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

2.5 Net trading income

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

2.6 Revenue recognition

Refer to notes 2.3, 2.4 and 2.5 for revenue recognition in respect of interest income, fees and commission and trading income.

2.7 Financial assets

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

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

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, 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 method. Interest calculated using the effective interest method is recognised in the income statement.

Loans and advances are classified in this category.

(c) Held-to-maturity

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

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

(d) Available-for-sale

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

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

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Investments in equity instruments that do not have a quoted market and whose fair value cannot be reliably measured, is measured at cost. There were no financial assets classified as available-for-sale at the balance sheet date.

(e) Recognition

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

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.9 Sale and repurchase agreements

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

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

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Banks' grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

When a loan is 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 income statement.

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

(b) Assets carried at fair value

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

c) Renegotiated loans

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

2.11 Intangible assets

Computer software

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

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

Operating software	3 years
Application software	5 years

2.12 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement 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 balance sheet date.

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

2.13 Property in possession

Property in possession is included at the lower of cost or net realisable value, and are derecognised when the assets are sold to third parties.

2.14 Impairment of non-financial assets

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

2.15 Financial liabilities

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

(a) At amortised cost
The liability is recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, it is stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the liability using the effective interest method.

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

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

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

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

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

2.16 Leases

(a) Operating leases - in the books of the lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Bank are primarily operating leases.
The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

Leases of property, plant and equipment where the Bank retains substantially all the risks and rewards of ownership are classified as finance leases. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.17 Cash and cash equivalents

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

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

2.18 Provisions

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

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

2.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt 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. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history or past losses, supplemented by the judgement of Management.

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

2.20 Post-employment benefits

The Bank operates a defined contribution plan. The plan is funded through payments to trustee-administered funds. 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.

2.21 Deferred and current income tax

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

The principal temporary differences arise from depreciation of property, plant and equipment and tax losses carried forward. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, 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 related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.22 Stated capital

Stated capital consists of 103,406,000 (2008: 64,715,000) ordinary shares.

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

2.23 Dividend distribution

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

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

3 Financial risk management

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

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

Asset and Liability Committee (ALCO)

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

Board Credit Committee (BCC)

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

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

The Bank is exposed to the following significant risks:

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 balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk, together with large exposures, are monitored by the Board Credit and Lending Committees.

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 geographical and industry segments. Such risks are monitored on a monthly basis and are subject to an annual or more frequent review.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, except for a portion of personal lending where no such facilities can be obtained.

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

Some other specific control and mitigation measures are outlined below:

a) Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-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.

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

(b) Derivatives

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

(c) Master netting arrangements

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

(d) Credit-related commitments

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

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

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

	Maximum exposure	
	2009 P'000	2008 P'000
Cash and balances with central bank	43,226	22,075
Financial assets designated at fair value through profit and loss	220,220	118,278
Loans and advances to banks	33,384	15,643
Loans and advances to customers	703,244	436,554
Other assets	24,816	24,926
	1,024,890	617,476
Credit risk exposure relating to off-balance sheet items are as follows:		
Guarantees	45,166	4,489
Loan commitments and other credit related liabilities	8,588	26,638
At end of year	53,754	31,127

The above table represents a worse case scenario of credit risk exposure to the Bank at 30 June 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on gross carrying amounts as reported in the balance sheet.

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

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:
• Mortgage loans are backed by collateral;
• Impairment provision is maintained at below 3% of total advances;
• The Bank has sustained stringent selection processes upon granting loans and advances.

3.1.3 Impairment and provisioning policies

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

Loans and advances are individually assessed for impairment when they have been flagged as being past due more than 60 days. These assets, together with other financial assets are impaired according to the portfolio impairment policy as per note 2.10.

Also in terms of policy note 2.10, loans and advances not specifically impaired are collectively assessed. As the loans and advances to customers are ungraded, a general impairment is recognised for these loans and advances. The principle is based on recognising losses which are incurred but not yet reported. The primary driver of the calculation is the probability of default within the various products and is based on the historical performance of the loans and advances. Other factors considered and also based on historical performance, is the emergence period and the probability of default.

3.1.4 Loans and advances

Loans and advances are summarised as follows:

	2009 Loans and advances to customers P'000	Loans and advances to banks P'000	2008 Loans and advances to customers P'000	Loans and advances to banks P'000
Neither past due nor impaired	698,864	33,384	438,810	15,643
Past due but not impaired	4,550	-	1,341	-
Individually impaired	17,370	-	7,329	-
Gross	720,784	33,384	447,480	15,643
Less: allowance for impairment	(17,540)	-	(10,926)	-
Loans and advances after impairment	703,244	-	436,554	-

a) Loans and advances neither past due nor impaired

	Article finance P'000	Commercial loans P'000	Other P'000	Mortgage loans P'000	Total P'000
As at 30.06.2009	140,521	248,128	93,066	217,149	698,864
As at 30.06.2008	74,922	132,857	110,262	120,769	438,810

b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Tuesday, June 30, 2009	Article finance P'000	Commercial loans P'000	Other P'000	Mortgage loans P'000	Total P'000
Past due up to 30 days	578	164	21	107	870
Past due 30-60 days	553	45	2	150	750
Past due 60 days	2,160	134	117	519	2,930
Total	3,291	343	140	776	4,550
Fair value of collateral	1,974	343	-	776	3,093

Monday, June 30, 2008	Article finance P'000	Commercial loans P'000	Instalment finance P'000	Mortgage loans P'000	Total P'000
Past due up to 30 days	233	116	48	256	653
Past due 30-60 days	47	85	-	243	375
Past due 60 days	24	280	-	9	313
Total	304	481	48	508	1,341
Fair value of collateral	198	481	-	508	1,187

c) Loans and advances individually impaired

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

	Article finance P'000	Commercial loans P'000	Other P'000	Mortgage loans P'000	Total P'000
As at 30 June 2009					
Individually impaired loans	12,429	2,406	2,535	-	17,370
Fair value of collateral	9,942	717	472	-	11,131
As at 30 June 2008					
Individually impaired loans	2,086	2,481	546	2,216	7,329
Fair value of collateral	-	812	546	-	1,358

Collateral consists of property, plant and equipments and acceptable financial instruments. At year end the bank had collateral of P5,778,732 in re-possession.

Further information of the impairment allowance for loans and advances to customers is provided in notes 16.

d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. There were no renegotiated loans as at the year end.

3.1.5 Credit risk concentration by industry

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

	Cash and balances with central bank P'000	Financial assets designated at fair value through profit and loss P'000	Loans and advances to banks P'000	Loans and advances to customers P'000	Other assets P'000	Total P'000
As at 30 June 2009						
Agriculture	-	-	-	30,531	-	30,531
Mining	-	-	-	23,451	-	23,451
Manufacturing	-	-	-	27,323	-	27,323
Building and construction	-	-	-	44,282	-	44,282
Electricity, gas and water	-	-	-	3,693	-	3,693
Trade and accommodation	-	-	-	57,066	-	57,066
Transport and communication	-	-	-	6,541	-	6,541
Finance and insurance	-	-	33,384	926	-	34,310
Real estate and Business services	-	-	-	229,715	-	229,715
Government	43,226	220,220	-	19,630	-	283,076
Individuals	-	-	-	260,085	-	260,085
Other	-	-	-	-	24,816	24,816
	43,226	220,220	33,384	703,243	24,816	1,024,889
As at 30 June 2008						
Agriculture				14,709		14,709
Mining				5,113		5,113
Manufacturing	-	-	-	19,647	-	19,647
Building and construction	-	-	-	20,537	-	20,537
Electricity, gas and water	-	-	-	487	-	487
Trade and accommodation				28,367	-	28,367
Transport and communication	-	-	-	14,088	-	14,088
Finance and insurance	-	-	15,643	886	-	16,529
Real estate and Business services	-	-	-	144,275	-	144,275
Government	22,075	118,278	-	7,576	-	147,929
Individuals	-	-	-	180,869	-	180,869
Other	-	-	-		24,926	24,926
	22,075	118,278	15,643	436,554	24,926	617,476

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 includes comprehensive analysis of maturities, both from the advance and funding perspective.

3.2.2 Foreign exchange risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 30 June. Included in the table are the Bank's financial instruments at the carrying amounts, categorised by currency.

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

	US$	€	£	Other	Total
Assets					
Loans and advances to banks	3,139	1,109	27	2,182	6,457
Total financial assets	3,139	1,109	27	2,182	6,457
Liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	4,147	613	33	1,558	6,351
Total financial liabilities	4,147	613	33	1,558	6,351
Net on-balance sheet financial position	(1,008)	496	(6)	624	106
Credit commitments					
At 30 June 2008					
Total financial assets	14,462	1,162	-	19	15,643
Total financial liabilities	(7,737)	(626)	(387)	(3,793)	(12,543)
Net on-balance sheet financial position	6,725	536	(387)	(3,774)	3,100
Credit commitments	-	-	-	-	-

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

Currency		Effect on net profit 2009	Effect on net profit 2008
US Dollar/Botswana Pula	P'000	(35)	254
As a percentage of total Shareholders equity		-0.03%	0.4%
British Pounds/Botswana Pula	P'000	(0)	(13)
As a percentage of total Shareholders equity		0.00%	-0.02%
Euro Dollar/Botswana Pula	P'000	17	19
As a percentage of total Shareholders equity		0.02%	0.03%
Others/Botswana Pula	P'000	22	(130)
As a percentage of total Shareholders equity		0.02%	-0.19%

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

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

Assets	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Cash and balances with central bank	43,226	-	-	-	-	-	43,226
Financial assets at fair value through profit or loss	155,844	64,376	-	-	-	-	220,220
Loans and advances to banks	33,384	-	-	-	-	-	33,384
Loans and advances to customers	110,114	8,509	6,484	307,651	288,026	-	720,784
Other assets	-	-	-	-	-	24,816	24,816
Total assets	342,568	72,885	6,484	307,651	288,026	24,816	1,042,430
Liabilities							
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	512,568	338,728	47,366	3	930	-	899,595
Other liabilities	-	-	-	-	-	37,046	37,046
Total liabilities	512,568	338,728	47,366	3	930	37,046	936,641
Interest sensitivity gap	(170,000)	(265,843)	(40,882)	307,649	287,096	(12,230)	105,790
Cumulative interest sensitivity gap	(170,000)	(435,843)	(476,725)	(174,353)	112,743	100,513	-
As at 30 June 2008							
Interest sensitivity gap	(29,370)	(219,703)	(59,435)	195,091	181,609	10,127	78,319
Cumulative interest sensitivity gap	(29,370)	(249,073)	(308,508)	(113,417)	68,192	78,319	-

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

Sensitivity of net interest income

	2009	2008
Net interest arising from a shift in yield curves of +100 basis points (P'000)	1,251	1,819
As a percentage of total Shareholders equity	1%	3%
Net interest arising from a shift in yield curves of - 100 basis points (P'000)	(1,251)	(1,819)
As a percentage of total Shareholders equity	-1%	-3%

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

3.2.4 Liquidity risk

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

Liquidity risk analysis
As at 30 June 2009
Group

	Up to 1 month P '000	1-3 months P '000	3-12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Assets						
Cash and balances with central bank	43,226	-	-	-	-	43,226
Financial assets at fair value through profit or loss	155,844	64,376	-	-	-	220,220
Loans and advances to banks	33,384					33,384
Loans and advances to customers	127,611	28,640	112,706	281,226	170,601	720,784
Other assets	24,816	-	62	-	21,251	46,129
Total assets (contractual maturity dates)	384,881	93,016	112,768	281,226	191,852	1,063,743
Liabilities						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	512,568	338,728	47,366	3	930	899,595
Other liabilities	37,046	-	-	1,049	-	38,095
Total liabilities (contractual maturity dates)	549,614	338,728	47,366	1,052	930	937,690
Liquidity sensitivity gap	(164,733)	(245,712)	65,402	280,174	190,922	126,053
Cumulative liquidity sensitivity gap	(164,733)	(410,445)	(345,043)	(64,869)	126,053	-
As at 30 June 2008						
Liquidity sensitivity gap	(25,106)	(201,292)	(63,612)	177,925	190,405	78,320
Cumulative liquidity sensitivity gap	(25,106)	(226,398)	(290,010)	(112,085)	78,320	-

Off-balance sheet items
a) Loan commitments
The dates of the contractual amounts of the bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 26), are summarised in the table below.

b) Financial guarantees and other financial facilities

Financial guarantees (note 26), are also included below based on the earliest contractual maturity date.

c) Operating lease commitments

Where a bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in note 26, are summarised in the table below.

d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (note 26) are summarised in the table below.

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

At 30 June 2009	No later than 1 year P'000	1-5 years P'000	Over 5 year P'000	Total P'000
Loan commitments	8,588	-	-	8,588
Financial guarantees and other financial facilities	45,166	-	-	45,166
Operating leases	373	4,827	52,331	57,531
Capital commitments	3,015	-	-	3,015
	57,142	4,827	52,331	114,300
At 30 June 2008				
Loan commitments	26,638	-	-	26,638
Financial guarantees and other financial facilities	4,489	-	-	4,489
Operating leases	419	2,624	49,460	52,503
Capital commitments	2,750	2,920	-	5,670
	34,296	5,544	49,460	89,300

3.3 Fair values of financial assets and liabilities

Fair value estimation

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

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

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

	Carrying value		Fair value	
	2009 P'000	2008 P'000	2009 P'000	2008 P'000
Financial assets				
Cash and balances with central bank	43,226	22,075	43,226	22,075
Financial assets at fair value through profit or loss	220,220	118,278	220,220	118,278
Loans and advances to banks	33,384	15,643	33,384	15,643
Loans and advances to customers	703,243	436,554	703,243	265,926
Other assets	24,816	24,926	24,816	24,926
	1,024,889	617,476	1,024,889	446,848
Financial liabilities				
Deposits from banks	-	3,872	-	3,872
Deposits from customers	899,595	527,417	899,595	309,044
Other liabilities	37,046	31,156	37,046	31,443
	936,641	562,445	936,641	344,359
Off-balance sheet financial instruments				
Guarantees, acceptances and other financial facilities	45,166	4,489	45,166	3,837
Loan commitments	8,588	26,638	8,588	22,768
	53,754	31,127	53,754	26,605

a) Financial assets designated at fair value through profit or loss
Financial assets at fair values through profit or loss are designated by management at inception and comprise of Government debt securities. These investments are carried at cost, which approximates their fair value, due to their short-term nature.

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

c) Loans and advances to customers
The nominal value less impairment provision is assumed to approximate the fair value.

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

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

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

3.4 Categories of financial assets and liabilities

	2009 P'000	2008 P'000
Financial assets		
Cash and balances with central banks	43,226	22,075
Financial assets designated at fair value through profit and loss	220,220	118,278
Loans and advances		
Loans and advances to banks	33,384	15,643
Loans and advances to customers	703,244	436,554
Other assets	24,816	24,926
	1,024,890	617,476
Financial liabilities		
Deposits from banks	-	3,872
Deposits from customers	899,595	527,417
Other liabilities	37,046	31,156
	936,641	562,445

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:
-To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
-To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
-To maintain a strong capital base to support the development of its business.

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

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:

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.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 30 June 2009 and 2008. During those two years the Bank complied with all of the externally imposed capital requirements to which it is subject to.

	2009 P'000	2008 P'000
Tier 1 capital		
Stated Capital	103,406	64,715
Retained earnings	5,107	2,679
Total qualifying Tier 1 capital	108,513	67,394
Tier 2 capital		
Collective impairment allowance (refer note 16)	9,035	4,955
Total qualifying Tier 2 capital	9,035	4,955
Total regulatory capital	117,548	72,349
Risk-weighted assets:		
On-balance sheet	700,196	407,411
Off-balance sheet	22,583	4,489
Total risk-weighted assets	722,779	411,900
Capital adequacy ratio	16.3%	17.6%
Leverage capital ratio		

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

The Bank reviews its loans and advances portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

		Existing impairment provision	Impact on changes in roll rates		Impact on changes in recovery experience	
			+3%	-3%	+5%	-5%
Identified	P'000	6,239	93	(93)	848	(848)
Unidentified	P'000	11,301	3,208	(3,208)	-	-
		17,540	3,301	(3,301)	848	(848)

b) Residual values of assets are based on expected future circumstances measured at current prices.

		2009 P'000	2008 P'000
5.	**Net interest income**		
	Interest and similar income		
	Cash and short-term funds	22,348	11,524
	Loans and advances	125,415	78,634
		147,763	90,158
	Interest expense and similar charges		
	Banks and customers	86,145	40,570
	Other borrowed funds	-	-
		86,145	40,570
6.	**Net fee income**		
	Fee and commission income		
	Credit related and other fees	5,121	2,628
	Commissions	2,128	16
		7,249	2,644
7.	**Net trading income**		
	Net translation gains of trading assets	3,341	3,181
8.	**Other operating income**		
	Other operating income includes:		
	Management fees received (Note 30)	392	661
	Rental recoveries	173	-
	Management fees received	565	661
9.	**Administrative expenses**		
	Staff costs		
	Wages and salaries	25,847	14,590
	Staff training and transfer cost	444	856
	Pension costs - defined contribution plans	1,097	544
	Others	3,020	466
		30,408	16,456

	2009 P'000	2008 P'000
Other administrative expenses included:		
Auditor's remuneration		
- Audit fees	1,001	687
- Fees for other services	60	3
- Directors' emoluments for services as directors	110	610
- Management fees paid - related parties (Note 30)	1,319	1,294
	32,898	19,050
Number of employees	156	92

10. Other operating expenses

	2009 P'000	2008 P'000
Other operating expenses include:		
Professional services	591	127
Advertising and marketing	2,529	2,452
Depreciation (note 17 and 18)	3,038	1,945
Repairs and maintenance	196	133
Operating lease rentals - immovable property	7,110	5,051
Micro lending expenses	548	11,315
Other expenses	8,920	7,071
	22,932	28,094

11. Impairment losses

	2009 P'000	2008 P'000
Increase in specific impairment	7,545	4,922
Increase/(decrease) in portfolio impairment	6,346	1,345
	13,891	6,267

12. Income tax expense

	2009 P'000	2008 P'000
Current tax	112	-
Deferred tax (note 23)	512	801
	624	801

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2009 P'000	2008 P'000
Profit/loss before tax	3,052	3,194
Tax at the applicable rate of 25 % (2008: 25%)	763	799
Expenses disallowed for tax purposes	762	605
Tax allowed adjustments	(901)	(603)
Income tax expense	624	801

Further information regarding deferred tax is presented in note 23

The bank has ACT amounting to P265,879 (2008: P2,221,163) to offset against the withholding tax arising on any further dividends.

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

Tax year	P'000
2011	211,163
2014	44,715

As at 30 June 2008, assessable losses available for set-off against future taxable profits amounted to P2,037,791. At 30 June 2009, all available tax losses had been utilised.

13. Cash and balances with central bank

Cash in hand	3,828	1,907
Balances with central bank	39,398	20,168
	43,226	22,075

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

14. Financial assets designated at fair value through profit and loss

	2009 P'000	2008 P'000
Bank of Botswana Certificates	220,220	118,278
	220,220	118,278

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

Bank of Botswana Certificates with a nominal value of P42 000 000 (2008: P34 720 000) are pledged as securities with the Bank of Botswana.

An effective interest rate of 10.35% (2008: 11.49% to 12.05%) is applicable on Bank of Botswana Certificates.

15. Loans and advances to banks

	2009 P'000	2008 P'000
Loans and advances to other banks	33,384	15,643

The effective interest rate on loans and advances to other banks is 7.95% (2008: 12%).

16. Loans and advances to customers

	2009 P'000	2008 P'000
Overdrafts	109,924	51,730
Commercial loans	140,953	84,089
Mortgages	217,925	123,493
Article finance	156,241	77,312
Other	95,741	110,856
Gross loans and advances	720,784	447,480

Less: impairment		
Specific impairment	(6,239)	(5,971)
Portfolio impairment	(11,301)	(4,955)
	703,244	436,554

The effective interest rate for the portfolio is 16.2% (2008: 23.1%).

Movement in impairment for the Bank is as follows:

	Specific impairment P'000	Portfolio impairment P'000
Balance at 30 June 2007	1,049	5,944
Provision for loan impairment	4,922	1,345
Amounts written off during the year as uncollectable	-	(2,334)
Balance at 30 June 2008	5,971	4,955
Provision for loan impairment	7,545	6,346
Amounts written off during the year as uncollectable	(7,277)	-
Balance at 30 June 2009	6,239	11,301

The aggregate amount of non-performing loans on which interest was not being accrued amounted to P13 203 000 at 30 June 2009 (2008: P7 770 000). Accumulated unrecognised interest related to such loans amounted to P2 138 886 (2008: P203 594).

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

	2009 P'000	%	2008 P'000	%
Repayable within 1 month	127,611	17.7	55,514	12.4
Repayable after 1 month but within 3 months	28,640	4.0	890	0.2
Repayable after 3 months but within 12 months	112,706	15.6	3,214	0.7
Repayable after 12 months	451,827	62.7	387,862	86.7
	720,784	100.0	447,480	100.0

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

	2009 P'000	2008 P'000
Repayable within 1 year	66,260	1,862
Repayable after 1 year but within 5 years	89,966	70,504
Repayable after 5 years	15	4,946
Net investment in instalment finances	156,241	77,312

17. Property, plant and equipment

	Plant P'000	Computer and other equipment P'000	Vehicles P'000	Furniture and fittings P'000	Total P'000
Year ended - 30 June 2009					
Cost					
Cost at 1 July 2008	-	2,910	284	8,344	11,538
Additions	85	1,061	-	3,460	4,606
Disposals	-	-	(41)	-	(41)
30 June 2009	85	3,971	243	11,804	16,103
Depreciation					
Depreciation at 1 July 2008	-	792	71	1,012	1,875
Charge for the period	7	702	56	1,247	2,012
Disposals	-	-	(8)	-	(8)
30 June 2009	7	1,494	119	2,259	3,879
Net book value	78	2,477	124	9,545	12,224

	Computer and other equipment P'000	Vehicles P'000	Furniture and fittings P'000	Total P'000
Year ended - 30 June 2008				
Cost				
Cost at 1 July 2007	1,792	120	2,660	4,572
Additions	1,118	164	5,684	6,966
30 June 2008	2,910	284	8,344	11,538
Depreciation				
Depreciation at 1 July 2007	398	42	169	609
Charge for the period	394	29	843	1,266
30 June 2008	792	71	1,012	1,875
Net book value	2,118	213	7,332	9,663

18. Intangible assets

Year ended - 30 June 2009	Software development in progress P'000	Computer software P'000	Total P'000
Cost			
Cost at 1 July 2008	-	4,030	4,030
Additions	5,639	1,389	7,028
30 June 2009	5,639	5,419	11,058
Depreciation			
Depreciation at 1 July 2008	-	1,005	1,005
Charge for the period	-	1,026	1,026
30 June 2009	-	2,031	2,031
Net book value	5,639	3,388	9,027
Year ended - 30 June 2008			
Cost			
Cost at 1 July 2007	-	3,231	3,231
Additions	-	799	799
30 June 2008	-	4,030	4,030
Depreciation			
Depreciation at 1 July 2007	-	326	326
Charge for the period	-	679	679
30 June 2008	-	1,005	1,005
Net book value	-	3,025	3,025

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

19. Other assets

	2009 P'000	2008 P'000
Accounts receivable and prepayments	8,493	2,059
Intercompany balances (Note 30)	57	0
Clearing accounts	16,266	22,867
	24,816	24,926

	2009 P'000	2008 P'000
20. Deposits from banks		
Balances with other banks	-	3,872
21. Deposits from customers		
Current accounts	42,595	31,819
Savings accounts	9,056	5,518
Other deposits	847,944	490,080
	899,595	527,417
Following deposits have been pledged as security for facilities provided:		
Call deposits	42	1,475
Fixed deposits	791	0
Foreign deposits	204	0
Notice deposits	0	2,000
	1,037	3,475

The effective interest rate for the portfolio is 9.5% (2008: 10%).

Economic sector risk concentrations within the customer current, savings, deposit account portfolio for the Bank were as follows:

	2009 P'000	2009 %	2008 P'000	2008 %
Financial institutions	512,853	57	160,597	30
Companies	360,057	40	347,599	66
Individuals	26,685	3	19,221	4
	899,595	100	527,417	100

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

Withdrawable on demand	415,502	46.2	83,055	15.7
Maturing within 1 month	97,066	10.8	114,399	21.7
Maturing after 1 month but within 12 months	386,094	42.9	323,484	61.3
Maturing after 12 months	933	0.1	6,479	1.2
	899,595	100.0	527,417	100.0

	2009 P'000	2008 P'000
22 Other liabilities		
Creditors	12,841	9,428
Accruals	-	-
Clearing accounts	6,776	4,150
Sundry creditors	595	1,154
Internal accounts	16,834	16,424
	37,046	31,156

23 Deferred tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 25% (2008: 25%).

The movement on the deferred income tax account is as follows:		
Balance as at 1 July	537	(264)
Income statement charge	512	801
Balance as at 30 June	1,049	537
Deferred income tax liability is attributable to the following items:		
Deferred income tax liability		
Accelerated tax depreciation and amortisation	1,049	914
Deferred income tax asset		
Tax losses	-	378
Net deferred income tax liability	1,049	537

24. Stated capital

	2009 P'000	2008 P'000
Stated capital		
At 1 July	64,715	54,725
Shares issued	38,691	9,990
At 30 June	103,406	64,715

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

25. Retirement benefit obligations

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

25.2 Pension schemes
All full-time permanent employees are members of the Alexander Forbes Retirement Fund, a defined contribution plan, which has been registered in Botswana in accordance with the requirements of the Pension and Provident Funds Act. The fund is governed by the Pension and Provident Funds Act 1987.
Bank Gaborone Limited currently contributes 10% of basic salary to the fund whilst the members contribute 7%.

26. Contingent assets, liabilities and commitments

	2009 P'000	2008 P'000
Capital commitments		
Property, plant and equipment	2,092	2,920
Software and licences	923	2,750
	3,015	5,670
Operating lease commitments		
Office premises		
- Not later than 1 year	373	419
- Later than 1 year and not later than 5 years	4,827	2,624
- Later than 5 years	52,331	49,460
	57,531	52,503
Funds to meet these commitments will be provided from own resources.		
Letters of credit and liabilities under guarantees (Note 3.1.2)	53,754	31,127

27. Cash generated by operations

	2009 P'000	2008 P'000
Profit before income tax	3,052	2,661
Adjusted for non-cash items:		
- Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	3,038	1,945
- Provision for impairment losses	13,891	6,268
	19,981	10,874

28. Income tax paid

	2009 P'000	2008 P'000
Income tax paid is reconciled to the amounts disclosed in the income statement as follows:		
Amounts unpaid / (receivable as at 1 July)	(212)	(297)
Current tax charge	112	-
Amounts (unpaid) / receivable as at 30 June	63	212
	(37)	(85)

29. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:

	2009 P'000	2008 P'000
Cash and balances with central bank (note 13)	43,226	22,075
Loans and advances to banks (note 15)	33,384	15,643
Treasury bills and Government stocks (note 14)	220,220	118,278
	296,830	155,996

30. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions at market rates. Consequently no disclosure is made on the information in respect of these transactions with and balances arising from the ordinary course of business with related companies, directors and employees.

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

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

		2009 P'000	2008 P'000
30.1	**Payments made to related parties**		
	Capricorn Investment Holdings Limited: Consulting fees	652	945
	Bank Windhoek Limited: Consulting fees	341	51
	Cyan es (Pty) Ltd: Consulting fees	326	298
30.2	**Services rendered to related parties**		
	Penrich Insurance Brokers (Pty) Ltd	392	661
30.3	**Payable to related parties arising from services rendered**		
	Bank Windhoek Limited	-	3,523
	Penrich Employee Benefits (Note 19)	22	-
	Penrich Insurance Brokers (Pty) Ltd (Note 19)	42	-
	These loans are at normal commercial rates, repayable within sixty days.		
30.4	**Receivable from related parties arising from services rendered**		
	Bank Windhoek Limited	3,664	-
	Capricorn Investment Holdings Botswana (Note 19)	58	-
	PEO Micro (Pty) Ltd (Note 19)	63	-
	These loans are at normal commercial rates, repayable within sixty days.		
30.5	**Compensation paid to key management personnel**		
	Salaries and other short-term benefits	6,316	3,523
30.6	**Fixed assets acquired**		
	Penrich Employee Benefits (Pty) Limited	-	1,010

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

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