Bank of Baroda (Botswana) Limited
Annual financial statements
for the year ended 31 March 2022

General Information

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Commercial Banking
Directors	S Bagopi N N Mosimakoko [Resigned 02 January 2022] G Setume S K Singh M K Chary [Resigned 31 July 2021] S T Nlebgwa A Singh Joydeep Dutta Roy [Appointed 1 August 2021] Sanjay Joshi [Appointed 20 May 2022]
Registered office	Plot 50370 Acumen Park Fairgrounds Gaborone Botswana
Business address	Plot 14456 Kamushungo Road G West Industrial Gaborone Botswana
Holding company	Bank of Baroda incorporated in India
Auditors	Grant Thornton
Secretary	R K Accountants (Proprietary) Limited
Bank registration number	BW00000570268
Date of incorporation	17 August 2000
Currency	BWP

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Directors' Responsibilities and Approval

The directors are required in terms of the Banking Act (46:04) and Companies Act (42:01) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the bank's cash flow forecast for the year to 31 March 2023 and, in light of this review and the current financial position, they are satisfied that the bank has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the bank's annual financial statements. The annual financial statements have been examined by the bank's external auditors and their report is presented on pages 6 to 9.

The annual financial statements set out on pages 10 to 60, which have been prepared on the going concern basis, were approved by the board on 29 June 2022 and were signed on their behalf by:

Chairman
S Bagopi

Managing Director
S Joshi

Director's Report

The directors have pleasure in submitting their report on the annual financial statements of Bank of Baroda (Botswana) Limited for the year ended 31 March 2022.

Economic performance of Botswana witnessed growth in the year 2021 amid improved demand due to the containment measures for Covid-19 and opening of economy. This was made possible by the effective roll-out of COVID-19 vaccination programmes which helped contain the virus and boosted economic recovery. However, the pandemic took a turn in the second half of the year, with the emergence of a new variants, Omicron first detected in Botswana and South Africa in November 2021.

In the circumstances, global inflation increased from 3.2 percent in 2020 to 4.3 percent in 2021. In Botswana, real Gross Domestic Product (GDP) grew by 8.6 in the twelve months to September 2021, compared to a contraction of 7.3 % in the year to September 2020. The growth was mainly attributable to the Covid-19 pandemic containment measures in the year.

The Central Bank (Bank of Botswana) maintained an accommodative monetary policy stance during 2021 in view of the positive inflation outlook in the medium term. The Bank Rate was, maintained at 3.75 percent in 2021,to support economic activity.

1. Background

Bank of Baroda (Botswana) Limited was incorporated in Botswana on 17th August 2000 as a Company with limited liability under the Companies Act (CAP 42:01) and was licensed as a Commercial Bank on 06th September 2000 under Section 6 of the Banking Act, 1995. The Bank is wholly owned subsidiary of Bank of Baroda, India. It started its operations by opening its first branch at Acumen Park, Plot 50370, Fairgrounds, Gaborone, Botswana on 26th March 2001. The Bank had shifted to the existing premises at A.K.D. House, Lot 1108, The Main Mall, Gaborone in January 2005. The second branch of the Bank was opened at Francistown on 5th Dec.2007. The third branch of the Bank was opened at Gaborone Industrial Area (G-West) on 22.02.2013. Fourth branch of the Bank was opened at Palapye on 16-03-2020.

2. Activities

The Bank continues to be engaged in the business of commercial banking and provides a wide array of financial services.

3. Business performance

The business of the Bank reported positive growth of about 6.89 % during the year. The growth remain comparatively low to previous year due to lower growth in Credit and Term Deposits.

This year net profit of the Bank stood at P59.41 mn for the year as compared to P51.29 mn during the previous year showing a positive growth over last year mainly due to increase in interest income in Loans and advances, containment of impairment and controlling cost.

Asset Quality of the bank has improved during the year. The gross NPLs to total advances was 0.76 % as against 0.99 % in March 2021. Bank was able to arrest fresh NPLs and fresh NPLs were P 2.4 mn in the year.

Key financials during 2021-22

- The total business of the Bank grew by 6.89% during the year.
- The total deposit grew from P1807.30 MN to P1906.84 MN during FY 2021-22 up by 5.51%.
- Total CASA deposits increased by 4.87%.
- The total advances grew from P 1507.84 MN to P1640.71 MN during the FY 2021-22 up by 8.5%.
- CD ratio is 85.84 % as on 31 March 2022.
- Capital Adequacy ratio stood at 24.26 % against regulatory requirement of 12.50%
- The cost of deposits has decreased from 2.40% to 2.28% during the year.
- The yield on advances was at 7.55% as against 7.38 % last year.
- Net worth of the Bank as on 31 March 2022 is P442.26 MN.
- Business per employee has increased to P55.36mn as on 31.03.2022 from P55.25 MN on 31.03.2021.

Director's Report

- Gross profits of the Bank reported growth of 14.83% and reached to P75.43mn against last years figure of P65.69 MN.
- Net profit reported increased to P59.41 MN in 2021-22 from P51.29 MN in last year i.e. a growth of 15.83 %.
- Net Interest Margin was 4.22 % in the year as against 3.47% in 2021.
- The cost to income ratio has increased to 30.49 % against 28.80 % last year.
- Gross NPLs decreased from P14.29 mn to P12.56 mn, whereas the Net NPLs is P1.76 mn .
- Banks NPL provisions coverage ratio is 85.91 %.

Full details of the financial position, results of operations and cash flows of the bank are set out in these annual financial statements.

4. Regulatory Compliances

Capital Adequacy

With a capital adequacy ratio of 24.26% as at 31 March 2022 as against the regulatory requirement of 12.50%, the Bank is still comfortable and has the requisite risk-bearing capacity and keen on improving it further to expand its assets base.

Liquidity

Bank has been monitoring maintenance of liquidity ratio on daily basis and has been in compliance of the mandatory requirement of 10% comfortably.

Bank has also complied with the maintenance of CRR as stipulated by Bank of Botswana from time to time.

Reporting to FIA

Bank has complied with the reporting requirements of Financial Intelligence Agency (FIA) and Bank is reporting cash transactions and IFTs, EFTs to FIA as per their requirements.

Chairman | **Managing Director**

GrantThornton

Chartered Accountants

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Independent Auditor's Report

To the shareholders of Bank of Baroda (Botswana) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Baroda (Botswana) Limited (the Bank) set out on pages 10 to 58, which comprise the statement of financial position as at 31 March 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of, the financial position of the Bank as at 31 March 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Botswana Accountancy Oversight Authority registration number: FAP 005 2016 (Audit Firm of Public Interest Entity)
Botswana Institute of Chartered Accountants membership number: MeFBW11013 (Audit and Non-Audit)

Partners
Kalyanaraman Vijay (Managing), Aswin Vaidyanathan*, Madhavan Venkatachary*, Anthony Quashie, Sunny K Mulakulam*, Aparna Vijay* (*Indian)

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Offices in Gaborone & Francistown

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KEY AREA	WHY CONSIDERED SIGNIFICANT	OUR APPROACH
The assessment of allowance for losses on loans and advances	The credit impairment provision inherently contains a significant amount of estimation uncertainty especially with regard to identifying impaired loans and quantifying loan impairment because significant judgement is required of management regarding inputs into the calculation. To assess the amount of provisions for expected losses, the bank applies significant judgements considering past due history The calculation logic and its comprehensiveness depend on the Bank's management's judgement, thus this has been considered a significant matter.	Our audit procedures included considering the appropriateness of the loans and advances impairment provision. We assessed the adequacy and appropriateness of the methodology used by the Bank to identify loan impairments and calculate provisions on financial assets. Our audit response focused on the significant judgements, inputs used by management in their impairment calculation. We formed an independent view on levels of provisions required by examining available information (both external and internal). We developed our own assessment of the staging of loans and compared it to those classified by the bank and noted that the bank's categorisation of loans and advances into different stages after considering whether any loans were past due over an observation period and also considering the sector risk Using the information available, we calculated the probability of default, and the likely credit loss and compared it against the impairment charge as per the books and the management's workings. We noted that the overall ECL impairment provision determined by the bank was within an acceptable range.

Other information

The directors are responsible for the other information. The other information comprises the general information and Statement of Responsibilities by the Board of Directors and the supplementary information, which we obtained prior to the date of this auditor's report, and other sections of the annual report, which are expected to be made available to us after that date. Other information does not include the annual financial statements and our auditor's report thereon

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Firm of auditors of public interest entity
Practicing member : Madhavan Venkatachary(CAP 0017 2022
Gaborone
28 July 2022

Statement of Financial Position as at 31 March 2022

Figures in Pula thousand	Note	2022	2021
Assets			
Cash and cash equivalents	4	93,827	152,117
Balances with other banks	5	392,440	489,504
Financial assets - Investments	6	281,204	111,378
Loans and advances	7	1,585,846	1,450,351
Other assets	8	2,542	3,731
Right of use asset	9	7,641	10,443
Deferred tax	10	10	10
Property, plant and equipment	11	4,602	5,548
Total Assets		**2,368,112**	**2,223,082**
Equity and Liabilities			
Equity			
Stated capital	12	181,000	181,000
Retained income		261,258	210,901
		442,258	**391,901**
Liabilities			
Deposit due to customers	13	1,910,914	1,809,772
Other accruals and creditors	15	7,376	11,044
Lease liabilities	14	7,564	10,365
		1,925,854	**1,831,181**
Total Equity and Liabilities		**2,368,112**	**2,223,082**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Pula thousand	Note	2022	2021
Effective interest and similar income	16	124,014	107,581
Effective interest and similar expenditure	17	(41,472)	(40,182)
Net interest income		**82,542**	**67,399**
Non-interest income	18	22,985	26,555
Other operating gains (losses)	19	245	6
Movement in credit loss allowances	20	709	(266)
Other operating expenses		(30,345)	(28,003)
Profit before taxation		**76,136**	**65,691**
Income tax expenses	21	(16,730)	(14,400)
Profit for the year		**59,406**	**51,291**
Other comprehensive income		-	-
Total comprehensive income for the year		**59,406**	**51,291**

Statement of Changes in Equity

Figures in Pula thousand	Stated capital	Retained income	Total equity
Balance at 01 April 2020	**181,000**	**168,660**	**349,660**
Profit for the year	-	51,291	51,291
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**51,291**	**51,291**
Dividends	-	(9,050)	(9,050)
Total distributions to owners of company recognised directly in equity	**-**	**(9,050)**	**(9,050)**
Balance at 01 April 2021	**181,000**	**210,902**	**391,902**
Profit for the year	-	59,406	59,406
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**59,406**	**59,406**
Dividends	-	(9,050)	(9,050)
Total distributions to owners of company recognised directly in equity	**-**	**(9,050)**	**(9,050)**
Balance at 31 March 2022	**181,000**	**261,258**	**442,258**
Note(s)	12		

Statement of Cash Flows

Figures in Pula thousand	Note(s)	2022	2021
Cash flows from operating activities			
Cash generated from operations	23	47,505	23,132
Interest and similar income		(124,014)	(107,581)
Interest and similar expenditure		41,472	40,182
Interest received		122,911	105,869
Interest paid		(38,823)	(41,190)
Interest charges on lease liabilities		(732)	(323)
Income tax received/(paid)	24	(16,730)	(17,000)
Net cash from operating activities		**31,589**	**3,089**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(530)	(1,496)
Sale of property, plant and equipment	11	245	22
Net cash from investing activities		**(285)**	**(1,474)**
Cash flows from financing activities			
Lease payments		(2,801)	(3,079)
Dividends paid	25	(9,050)	(9,050)
Net cash from financing activities		**(11,851)**	**(12,129)**
Total cash movement for the year		**19,453**	**(10,514)**
Cash at the beginning of the year		752,999	765,983
Effect of exchange rate movement on cash balances		(4,981)	(2,470)
Total cash at end of the year	4	**767,471**	**752,999**

Accounting Policies

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements and the Banking Act (46:04).

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Pula, which is the bank's functional currency and rounded off to the nearest thousands.

These accounting policies are consistent with the previous period, except for the changes set out in note 2.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Revenue recognition

In making their judgement, management considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the bank had met all the performance obligations relating to non interest income.

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Fair value estimation

Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available.

Impairment testing

The bank reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

Impact of CoVID-19 Pandemic

The CoVID 19 pandemic has caused significant economic distress to the world as a whole and impacts the bank's provisioning under the IFRS 9 ECL requirements. The bank uses all reasonable and supportable information that is available to it without undue cost or effort when applying IFRS 9, instead of relying on some mechanistic criterion (for example, treating payment holidays as automatic evidence of a significant increase in credit risk) to determine movements in ECL.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The bank recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the bank to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset 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.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Accounting Policies

1.3 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Leasehold property	Straight line	Over the lease period
Office equipments	Straight line	4-10 years
Furniture and fixtures	Straight line	6-10 years
Motor vehicles	Straight line	4 years
IT equipment	Straight line	3 years
Computer software	Straight line	3 years
Leasehold improvements	Straight line	Over the lease period

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the bank ,as applicable, are as follows:

Financial assets which are debt instruments:
- Amortised cost.

Financial liabilities:
- Amortised cost

Note 29 Financial instruments and risk management presents the financial instruments held by the bank based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

Accounting Policies

Financial instruments (continued)

Financial instruments at amortised cost

Classification

Cash and cash equivalents , balance with other banks , financial assets - investments and loans and advances (note 7) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the year's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Financial assets are recognised when the bank becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in interest and similar income.

The application of the effective interest method to calculate interest income on a financial asset measured at amortised cost is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Loans denominated in foreign currencies

When a loan receivable is denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating income (note 18).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 29).

Impairment

The bank recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The bank measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

Accounting Policies

Financial instruments (continued)

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the bank compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the bank consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the bank considers that default has occurred when a loan instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write off policy

The bank writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the bank recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Accounting Policies

Financial instruments (continued)

If the bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the bank measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and vice versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 20).

Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 29).

Derecognition

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Balances due to other banks, deposit due to customers

Classification

Balances due to other banks and Deposit due to customers are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Balances due to other banks and deposits due to customers are recognised when the bank becomes a party to the contractual provisions of the instruments. These are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Interest expense, calculated on the effective interest method, is included in profit or loss in interest and similar expenditure.

Financial liabilities expose the bank to liquidity risk and interest rate risk. Refer to note 29 for details of risk exposure and management thereof.

Financial liabilities denominated in foreign currencies

When financial liabilities are denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (note 19).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 29).

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Accounting Policies

Financial instruments (continued)

Accruals and other payables

Classification

Accruals and other payables (note 15), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value. These are measured at amortised costs.

Derecognition

Financial assets

The bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The bank derecognises financial liabilities when, and only when, the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting Policies

1.5 Tax (continued)

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.6 Leases

The bank assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Bank as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense (note 20) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the bank has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the bank is a lessee are presented in note 14 Leases (bank as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the bank under residual value guarantees;
- the exercise price of purchase options, if the bank is reasonably certain to exercise the option;

1.6 Leases (continued)

- lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 20).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in Interest and similar expenditure (note 17).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position and is initially measured at the present value of lease payments.

Lease payments included in the measurement of the right of use assets comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Accounting Policies

1.6 Leases (continued)

When the Bank or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised. On derecognition, any difference is recognised as a gain or loss in the profit or loss.

1.7 Impairment of assets

The bank assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the bank estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the bank also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Stated capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at no par value and classified as 'stated capital' in equity.

1.9 Employee benefits

The bank's employees (other than employees seconded by the parent bank) are covered under a defined contribution pension plan to which the bank contributes. For employees seconded by the parent bank, the bank contributes to a provident fund managed by the parent bank.

Defined contribution plans

Payments to defined contribution retirement plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the bank's obligation under the schemes is equivalent to those arising in a defined contribution retirement plan.

1.10 Provisions and contingencies

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Accounting Policies

1.10 Provisions and contingencies (continued)

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26.

1.11 Recognition of Revenues and Expenses

The bank recognises revenue from the following major sources:

- Interest income on financial instruments including loans and advances
- Fee and commission income
- Treasury commission and foreign exchange gains/losses.

Revenues and expenses are recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest rate. Interest income on securities includes revenues from fixed and floating interest rate coupons and accrued discount and premium, where significant and material. Fees and commissions are recognised in the profit or loss on an accrual basis. Fees and commissions related to the provision of loans are accrued over the contractual term of the loan until its due date and are recognised in the statement of comprehensive income in "Interest income".For financial assets categorised into Stage 3, the bank recognises interest income on the net financial asset after the recognition of expected credit loss.

Documentation and admin fees - This relates to fee and commission income related to the loans advances to customers. Revenue from commitment fees is recognised on a straight-line basis over the commitment period. The amounts to be recognised in future months are recognised as other liabilities.

Transaction based fees such as electronic banking fees are charged to the customer's account when the transaction takes place. Revenue related to transactions are recognised at the point in time when the transaction takes place.

Account servicing fees are charged on a monthly basis. The fees are recognised as the services are performed and received.

Other expenses and revenues are recognised in the relevant period on an accrual basis.

Accounting Policies

1.12 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Pula, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Pula by applying to the foreign currency amount the exchange rate between the Pula and the foreign currency at the date of the cash flow.

1.13 Other assets

Included in other assets are prepayments, security deposits and other receivables. Except for prepayments, other assets are financial assets carried at amortised cost. Prepayments are non-financial assets and are stated at their nominal values.

1.14 Related parties

Parties are considered to be related to the Bank if meet the following definitions;

(a) A person or a close member of that person's family:
-has control or joint control over the Bank;
-has significant influence over the Bank; or
-is a member of the key management personnel of the Bank.

(b) An entity for which the following conditions apply:
-the entity and the Bank are members of the same group
-the entity is controlled or jointly controlled by a person identified in (a)
-the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank.

A number of transactions are entered into with related parties in the normal course of business. These transactions are summarised in the notes to the financial statements.

1.15 Earnings per share

Basic earnings per share is calculated by dividing the net profit after tax attributable to the shareholders by the weighted average number of equity shares outstanding during the year adjusted for bonus element in equity share, attributable to the shareholders. Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period unless issued at a later date.

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards. These are given in Note 3.

3. New Standards and Interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

COVID-19 - Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16

In May 2020, the IASB published an amendment 'COVID- 19-Related Rent Concessions (amendment to IFRS 16)' (the amendment). The amendment added a practical expedient to the Standard which provides relief for lessees in assessing\ whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications.

In light of the impact the COVID-19 pandemic has had on business activity across the world, and response from feedback received from stakeholders, the IASB decided to extend this relief for one year to provide relief for recent concessions in relation to COVID-19 that reduce payments up until 30 June 2022.

The bank has adopted the amendment for the first time in the 2022 annual financial statements.

The impact of the amendment is not material.

3.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 April 2022 or later periods:

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The bank expects to adopt the amendment for the first time in the 2024 annual financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

IFRS 17 Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after 01 January 2023.

The bank expects to adopt the standard for the first time in the 2024 annual financial statements.

It is unlikely that the standard will have a material impact on the bank's annual financial statements.

Notes to the Annual Financial Statements

3. New Standards and Interpretations (continued)

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements.

It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21,256	63,894
Balances with Bank of Botswana	72,571	88,223
	93,827	152,117
Other cash equivalents for the purposes of cash flow statement		
Bank of Botswana Securities - Registered bonds	61,248	61,387
Bank of Botswana Securities - reverse repo	169,966	-
Balances with domestic banks	1,117	5,745
Short term placements with domestic banks	114,157	261,357
Balances with foreign banks	242,872	222,402
Short term placements with foreign banks	34,294	-
Bank of Botswana Certificates	49,990	49,991
Balance due to other banks	-	-
	673,644	**600,882**

Cash and balances with Bank of Botswana	93,827	152,117
Other short term cash and cash equivalents	673,644	600,882
	767,471	**752,999**
Cash and cash equivalents held by the entity that are not available for use by the bank.	37,050	33,050

Credit quality of cash and balances with Bank of Botswana

Cash in hand denominated in Pula and balances with the Bank of Botswana carry the sovereign credit risk rating of the Government of Botswana which is rated A3 by Moody's investor services. The credit rating has has been downgraded from A2 to A3 but outlook has changed from negative to stable. Also S&P maintained the country's sovereign credit rating for long and short term foreign and local currency sovereign credit at "BBB+/A-2". However, S&P revised the economic outlook from negative to stable on account of anticipated rebound in Botswana's economic growth, partially led by the diamond mining recovery.

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

5. Balance with other banks

Balances with domestic banks	1,117	5,745
Balances with foreign banks	242,872	222,402
Short term placements with domestic banks	114,157	261,357
Short term placements with foreign banks	34,294	-
	392,440	**489,504**

Exposure to credit risk

Balance with other banks inherently exposes the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

5. Balance with other banks (continued)

Balance with other banks are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for balance with other banks is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if a loan is in arrears more than 90 days, then it is assumed that there has been a significant increase in credit risk since initial recognition.

In determining the amount of expected credit losses, the bank has taken into account any historic default experience, the financial positions of the shareholders as well as the future prospects in the industries in which the shareholders operate.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The maximum exposure to credit risk is the gross carrying amount as presented below. The bank does not hold collateral or other credit enhancements against balance with other banks.

Credit rating framework

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

The table below sets out the internal credit rating framework which is applied by management for loans for which external ratings are not available. The abbreviation "ECL" is used to depict "expected credit losses."

Internal credit grade	Description	Basis for recognising expected credit losses
Performing - Stage 1	Low risk of default and no amounts are past due	12 Month ECL
Doubtful - Stage 2	Either 30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL (not credit impaired)
In default - Stage 3	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

Notes to the Annual Financial Statements

5. Balance with other banks (continued)

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for balance with other banks by credit rating grade:

2022

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	58,195	58,195
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	254,235	254,235
Absa Bank Botswana Limited	Unrated	Foreign	Performing	12m ECL	22,932	22,932
First Capital Bank Limited	Unrated	Domestic	Performing	12m ECL	57,078	57,078
					392,440	**392,440**

2021

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank ABC Limited	Unrated	Domestic	Performing	12m ECL	95,003	95,003
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	112,002	112,002
First National Bank of Botswana Limited	Unrated	Domestic	Performing	12m ECL	4,661	4,661
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	192,830	192,830
Absa Bank Botswana Limited	Unrated	Foreign	Performing	12m ECL	29,572	29,572
First Capital Bank Limited	Unrated	Domestic	Performing	12m ECL	55,436	55,436
					489,504	**489,504**

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management to balance with other banks.

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

5. Balance with other banks (continued)

Exposure to interest rate risk

Refer to note 29 Financial instruments and financial risk management for details of interest rate risk management for balance with other banks.

Fair value of balances with other banks

The fair value of balance with other banks approximates their carrying amounts.

6. Financial assets - investments

Financial assets - Investments are presented at amortised cost, which is net of loss allowance, as follows:

Bank of Botswana registered Bonds	61,248	61,387
Bank of Botswana reverse repo	169,966	-
Bank of Botswana Certificates	49,990	49,991
	281,204	**111,378**

Exposure to credit risk

Financial assets - Investments inherently exposes the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

Notes to the Annual Financial Statements

6. **Financial assets - investments (continued)**

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for balance with other banks by credit rating grade:

2022

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana - bonds	A3	Moody's	Performing	12m ECL	61,248	61,248
Bank of Botswana - reverse repo	A3	Moody's	Performing	12m ECL	169,966	169,966
Bank of Botswana Certificates	A3	Moody's	Performing	12m ECL	49,990	49,990
					281,204	**281,204**

2021

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana bonds	A3	Moody's	Performing	12m ECL	61,387	61,387
Bank of Botswana Certificates	A3	Moody's	Performing	12m ECL	49,991	49,991
					111,378	**111,378**

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management for financial assets - investments.

Exposure to interest rate risk

Refer to note 29 for details of interest rate risk management for investments in financial assets - investments.

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

6. Financial assets - investments (continued)

Fair values

The fair value of these instruments approximates their carrying amounts.

7. Loans and advances

Financial instruments:		
Term loans	1,272,222	1,203,494
Loans and overdrafts against bank own deposits	104,753	75,887
Demand and overdraft advances	263,726	228,455
Loss allowance	(54,855)	(57,485)
Loans and advances at amortised cost	1,585,846	1,450,351
Total loans and advances	**1,585,846**	**1,450,351**

Security on loans and advances

Please refer Section on Credit Risk under risk management for details of securities held against loans and advances.

Credit rating framework

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

The table below sets out the internal credit rating framework which is applied by management for loans for which external ratings are not available. The abbreviation "ECL" is used to depict "expected credit losses."

Internal credit grade	Description	Basis for recognising expected credit losses
Performing - Stage 1	Low risk of default and no amounts are past due	12m ECL
Doubtful - Stage 2	Either 30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL (not credit impaired)
In default - Stage 3	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

Exposure to credit risk

Loans and advances inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the bank only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

In response to the COVID-19 coronavirus pandemic and the measures implemented by the Government of Botswana, the bank temporarily extended payment holidays for specific customers and used available information when calculating expected credit losses (ECL) on a collective basis. Where a payment holiday was extended, the bank assessed if these resulted in significant increase in credit risk on a case-by-case basis after considering the nature of business, the banking relationship and the security of the customers.

Notes to the Annual Financial Statements

6. Financial assets - investments (continued)

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for balance with other banks by credit rating grade:

2022

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana - bonds	A3	Moody's	Performing	12m ECL	61,248	61,248
Bank of Botswana - reverse repo	A3	Moody's	Performing	12m ECL	169,966	169,966
Bank of Botswana Certificates	A3	Moody's	Performing	12m ECL	49,990	49,990
					281,204	**281,204**

2021

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana bonds	A3	Moody's	Performing	12m ECL	61,387	61,387
Bank of Botswana Certificates	A3	Moody's	Performing	12m ECL	49,991	49,991
					111,378	**111,378**

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management for financial assets - investments.

Exposure to interest rate risk

Refer to note 29 for details of interest rate risk management for investments in financial assets - investments.

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

6. Financial assets - investments (continued)

Fair values

The fair value of these instruments approximates their carrying amounts.

7. Loans and advances

	2022	2021
Financial instruments:		
Term loans	1,272,222	1,203,494
Loans and overdrafts against bank own deposits	104,753	75,887
Demand and overdraft advances	263,726	228,455
Loss allowance	(54,855)	(57,485)
Loans and advances at amortised cost	1,585,846	1,450,351
Total loans and advances	**1,585,846**	**1,450,351**

Security on loans and advances

Please refer Section on Credit Risk under risk management for details of securities held against loans and advances.

Credit rating framework

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

The table below sets out the internal credit rating framework which is applied by management for loans for which external ratings are not available. The abbreviation "ECL" is used to depict "expected credit losses."

Internal credit grade	Description	Basis for recognising expected credit losses
Performing - Stage 1	Low risk of default and no amounts are past due	12m ECL
Doubtful - Stage 2	Either 30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL (not credit impaired)
In default - Stage 3	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

Exposure to credit risk

Loans and advances inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the bank only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

In response to the COVID-19 coronavirus pandemic and the measures implemented by the Government of Botswana, the bank temporarily extended payment holidays for specific customers and used available information when calculating expected credit losses (ECL) on a collective basis. Where a payment holiday was extended, the bank assessed if these resulted in significant increase in credit risk on a case-by-case basis after considering the nature of business, the banking relationship and the security of the customers.

7. Loans and advances (continued)

A loss allowance is recognised for all loans and advances to customers, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, loans and advances to customers are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. loans and advances to customers which have been written off are not subject to enforcement activities.

The loss allowance provision is determined as follows:

	2022	2022	2021	2021
Expected credit loss rate:	**Estimated gross carrying amount at default**	**Loss allowance**	**Estimated gross carrying amount at default**	**Loss allowance**
Performing - no default history				
Stage 1 (12 M Credit loss recognised)	1,261,502	25,191	1,188,838	24,978
Previously defaulting customers				
Stage 2 (Lifetime Credit loss recognised)	366,636	18,866	304,071	17,581
Customers in default				
Stage 3 (Lifetime Credit loss recognised)	12,563	10,798	14,926	14,926
Total	**1,640,701**	**54,855**	**1,507,835**	**57,485**

The table below represents the different stages for the loan categories as at 31 Mar 2022

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	1,090,024	22,124	335,776	18,325	7,765	6,000	1,433,565	46,449
Housing loans	92,932	928	23,009	323	1,404	1,404	117,345	2,655
Vehicle loans	22,679	226	5,177	74	219	219	28,075	519
Personal loans	55,867	1,913	2,674	144	3,175	3,175	61,716	5,232
Total	1,261,502	25,191	366,636	18,866	12,563	10,798	1,640,701	54,855

The table below represents the different stages for the loan categories as at 31 March 2021.

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	949,967	19,994	273,186	16,676	8,725	8,725	1,231,878	45,395
Housing loans	130,940	2,144	21,776	617	592	592	153,308	3,353
Vehicle loans	69,817	1,215	7,962	233	791	791	78,570	2,239
Personal loans	38,114	1,625	1,147	55	4,818	4,818	44,079	6,498
Total	1,188,838	24,978	304,071	17,581	14,926	14,926	1,507,835	57,485

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

7. Loans and advances (continued)

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) forloans and advances:

Opening balance in accordance with IFRS 9	**(57,485)**	**(75,421)**
Provisions reversed on loans and advances	4,527	18,202
Provision raised on new loans and advances	(1,897)	(266)
Closing balance	**(54,855)**	**(57,485)**

Exposure to currency risk

Refer to note 29 for details of currency risk management for loans and advances.

Fair value of loans and advances

The fair value of loans and advances approximates their carrying amounts.

8. Other assets

Other assets	2,542	3,731

9. Right of use asset

Opening balance	16,700	16,700
Accumulated depreciation		
Opening balance	(6,257)	(3,528)
Depreciation for the year	(2,802)	(2,729)
	(9,059)	**(6,257)**
Carrying value		
Opening balance	10,443	13,172
Depreciation	(2,802)	(2,729)
	7,641	**10,443**

10. Deferred tax

Deferred tax asset

Property plant and equipment	10	10
Deferred tax asset	10	10

Reconciliation of deferred tax asset

At beginning of year	10	10

Notes to the Annual Financial Statements

11. Property, plant and equipment

	2022			2021		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold property	1,863	(634)	1,229	1,863	(696)	1,167
Furniture and fixtures	6,981	(6,308)	673	7,298	(6,525)	773
Motor vehicles	860	(685)	175	691	(622)	69
Office equipment	5,304	(4,201)	1,103	5,116	(4,039)	1,077
IT equipment	7,454	(6,875)	579	7,409	(6,550)	859
Leasehold improvements	5,520	(4,677)	843	5,520	(3,917)	1,603
Total	**27,982**	**(23,380)**	**4,602**	**27,897**	**(22,349)**	**5,548**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Depreciation	Total
Leasehold property	1,167	86	(24)	1,229
Furniture and fixtures	773	110	(210)	673
Motor vehicles	69	169	(63)	175
Office equipment	1,077	165	(139)	1,103
IT equipment	859	-	(280)	579
Leasehold improvements	1,603	-	(760)	843
	5,548	**530**	**(1,476)**	**4,602**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	1,167	-	-	-	1,167
Furniture and fixtures	647	359	-	(233)	773
Motor vehicles	182	-	-	(113)	69
Office equipment	1,549	108	-	(580)	1,077
IT equipment	601	544	(16)	(270)	859
Leasehold improvements	1,814	485	-	(696)	1,603
	5,960	**1,496**	**(16)**	**(1,892)**	**5,548**

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

12. Stated capital

Reconciliation of number of shares issued:		
Reported as at 1 April	181,000	181,000
Issued		
Ordinary (181000000 shares at no par value and fully paid up)	181,000	181,000
Capital adequacy		
Core capital (Tier 1)		
Stated capital	181,000	181,000
Retained earnings- Beginning of the year	210,902	168,659
Dividends	(9,050)	(9,050)
Current year audited profits	59,406	51,292
IFRS 9 - Transition provision adjustments to CET	-	5,670
	442,258	**397,571**
Supplementary capital (Tier 2)		
IFRS 9 - Transition provision on Stage 1 and Stage 2	11,876	11,876
Total eligible capital (Unimpaired capital) - Tier 1 + Tier 2	**454,134**	**409,447**
Risk weighted assets		
Credit risk	1,812,063	1,704,538
Operational risk	55,725	50,676
Market risk	4,000	2,803
Total risk adjusted exposure	**1,871,788**	**1,758,017**
Minimum capital required as per Bank of Botswana guidelines (12.5% (2021:12.5%) of Risk adjusted exposure)	233,974	219,752
Excess capital over minimum required	220,160	189,695
Capital adequacy ratio	24.26 %	23.29 %
Bank of Botswana required minimum ratio	12.50 %	12.50 %
Excess over the minimum required (%)	11.76 %	10.79 %

13. Deposits due to customers

Held at amortised cost		
Interest bearing deposits from Banks	55,867	116,510
Interest bearing deposits from others	1,570,686	1,435,676
Non interest bearing deposits	284,361	257,586
	1,910,914	**1,809,772**

Exposure to liquidity risk

Refer to note 29 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management.

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

13. Deposits due to customers (continued)

Exposure to interest rate risk

Refer to note 29 for details of interest rate risk management.

14. Lease liabilities

	2022	2021
Minimum lease payments due		
- within one year	2,585	3,332
- in second to fifth year inclusive	3,985	5,877
- later than five years	1,253	1,479
	7,823	10,688
less: future finance charges	(259)	(323)
Present value of minimum lease payments	**7,564**	**10,365**
Present value of minimum lease payments due		
- within one year	2,499	3,009
- in second to fifth year inclusive	3,853	5,877
- later than five years	1,212	1,479
	7,564	**10,365**

The average lease term for the right of use assets was 3-5 years and the average effective borrowing rate was 2.46% (2021 2.46%).

15. Other accruals and creditors

	2022	2021
Creditors and accruals	6,209	10,127
VAT	1,167	917
	7,376	**11,044**

Exposure to currency risk

Refer to note 29 Financial instruments and financial risk management for details of currency risk management.

Exposure to liquidity risk

Refer to note 29 Financial instruments and financial risk management for details of liquidity risk exposure and management.

16. Interest and similar income

	2022	2021
Interest from loans and advances	119,417	98,012
Interest and gains from BOBC and similar instruments	2,905	2,186
Interest from financial assets and bank placements	1,692	7,383
	124,014	**107,581**

17. Interest and similar expenditure

	2022	2021
Interest	41,472	40,182
Interest on term deposits	34,657	30,810
Interest on savings deposits	4,312	4,341
Interest on short term borrowings	175	2,773
Interest on call deposits	1,596	1,935
Interest on lease liabilities	732	323
	41,472	**40,182**

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

21. Taxation (continued)

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	76,136	65,691
Tax at the applicable tax rate of 22% (2021: 22%)	16,750	14,452
Tax effect of adjustments on taxable income		
Permanent differences	(20)	(53)
	16,730	**14,399**

22. Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing profit or loss attributable to the ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share		
From continuing operations	59,406	51,291
Weighted average number of ordinary shares outstanding	181,000	181,000
Earnings per share - In thebe	**32.82**	**28.34**

Dividends per share

Final (thebe)	0.50	0.50

23. Cash generated from operations

Profit before taxation	76,136	65,691
Adjustments for:		
Depreciation	4,277	4,617
Gains on disposals, scrappings and settlements of assets and liabilities	(245)	(6)
Effect of forex exchange gains on cash balances	4,981	2,470
Net impairments and movements in credit loss allowances	(709)	266
Changes in working capital:		
Loans and advances	(133,683)	(275,743)
Other asset	1,189	(2,543)
Other accruals and creditors	(3,665)	1,687
Deposits due to customers	99,224	226,693
	47,505	**23,132**

24. Tax paid

Balance at beginning of the year	-	(2,600)
Current tax for the year recognised in profit or loss	(16,730)	(14,400)
	(16,730)	**(17,000)**

25. Dividends paid

Dividends	(9,050)	(9,050)

Figures in Pula thousand		2022	2021

18. Other operating income

Miscellaneous income		5,276	5,114
Commissions received		763	827
Recoveries		286	15
Gain on foreign exchange transactions		16,660	20,599
		22,985	**26,555**

19. Other operating gains

Gains on disposals, scrappings and settlements			
Property, plant and equipment	11	245	6

20. Operating profit (loss)

Operating profit for the year is stated after charging (crediting) the following, amongst others:

Auditor's remuneration - external			
Audit fees		118	550

Employee costs

Salaries, wages, bonuses and other benefits		13,374	11,580
Housing keeping and other allowances		1,144	1,020
Retirement benefit plans: pension		443	343
Termination benefits: Provident fund		244	326
Total employee costs		**15,205**	**13,269**

Depreciation			
Depreciation of property, plant and equipment		1,476	1,892
Depreciation on rights to use asset		2,801	2,725
Total depreciation		**4,277**	**4,617**

Movement in credit loss allowances			
Loans and advances		(709)	266

Expenses by nature

Employee costs		15,205	13,269
Operating lease charges		366	72
Depreciation, amortisation and impairment		4,277	4,617
Other expenses		10,497	10,045
		30,345	**28,003**

21. Taxation

Major components of the tax expense

Current			
Local income tax - current period		16,730	14,400

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

26. Contingencies

Litigations

In 2015, a claim of P 1.5 million was instituted against the Bank for the unauthorised usage of an individual's photograph in a local advertisement. It is view of the Bank's management that the marketing consultant engaged by the Bank had used the photograph based on some arrangement they had and the claimant has named the Bank as the third party to the suit. The Bank has engaged its attorneys to defend the suit. Management does not expect any pay-out to the merits of the case as they are of the view that the case is primarily between the marketing consultant and the claimant. Consequentially, no provision has been recognised in the financial statements.

Guarantees

Guarantees provided by the Bank consist significantly of financial guarantees and performance guarantees provided to clients in the construction, telecommunication operators and service industry.

These guarantees are fully secured against customer deposits and are therefore fully reimbursable in the event of the Bank being called upon to meet its obligations.

It is impracticable to determine the timing of any outflows, as this is entirely dependent on the meeting of obligations by clients.

Contingencies		
Guarantees	81,728	84,369
Letters of credit	1,566	9,063
	83,294	**93,432**

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

27. Related parties

Bank of Baroda Botswana Limited is a fully owned subsidiary of Bank of Baroda, a company incorporated in India. Subsidiary companies and branches of Bank of Baroda are related parties of Bank by the virtue of holding/subsidiary relationship.

Related parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business.

Relationships

Holding company	Bank of Baroda
Joint ventures	India First Life Insurance Company Limited India Infradebt Limited
Fellow subsidiaries under common management	Baroda BNP Paribas Trustee India Private Limited (Formerly Baroda Trustee India Private Limited) Baroda BNP Paribas Asset Management India Private Limited Baroda Global Shared Services Limited BOB Financial Solutions Limited BOB Capital Markets Ltd. Nainital Bank Ltd Bank of Baroda (Kenya) Ltd Bank of Baroda (Uganda) Ltd Bank of Baroda (Guyana) Inc. Bank of Baroda (New Zealand) Ltd Bank of Baroda (UK) Ltd Bank of Baroda (Tanzania) Ltd
Overseas branches of Bank of Baroda, India	Bank of Baroda New York Bank of Baroda London Bank of Baroda Brussels Bank of Baroda Mauritius Bank of Baroda Sydney Bank of Baroda Dubai Bank of Baroda Tanzania
Associates of the holding company	Baroda Uttar Pradesh Gramin Bank Baroda Rajasthan Gramin Bank Baroda Gujarat Gramin Bank Indo Zambia Bank Limited India International Bank Malaysia Behrad
Directors of the bank	Refer to information page
Members of key management	Mr S K Singh

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021

27. Related parties (continued)

Related party balances and transactions

	2022	2021
Balance with banks*		
Bank of Baroda Mumbai	3,001	2,018
Bank of Baroda New York	205,693	180,344
Bank of Baroda London	6,385	6,759
Bank of Baroda Brussels	3,996	3,480
Bank of Baroda Sydney	865	227
	219,940	**192,828**
Placement balances*		
Bank of Baroda Tanzania	34,294	-

*These balances pertain to Nostro account balances and short term placements during regular course of transactions. Interest rate where applicable is based on the prevailing market conditions. These placements are usually on a short term basis (upto a year), and are unsecured.

	2022	2021
Interest income		
Bank of Baroda New York	-	8,284
Bank of Baroda Dubai	-	314
	-	**8,598**
Interest expenditure		
Bank of Baroda (Uganda) Limited	-	765
Bank of Baroda Mauritius	-	2,261
	-	**3,026**
Transactions with key management		
Board sitting fees	153	123
Management fees paid		
Bank of Baroda, India	1,489	960
Compensation to key management personnel		
Salaries and perquisites	883	755

28. Comparative figures

Certain comparative figures have been reclassified. There is no material impact due to these reclassifications. These reclassifications are made in the statement of cash flows and statement of comprehensive income.

Notes to the Annual Financial Statements

29. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2022

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	392,440	392,440	392,440
Financial assets and investments	6	281,204	281,204	281,204
Loans and advances	7	1,585,846	1,585,846	1,585,846
Cash and cash equivalents	4	93,827	93,827	93,827
		2,353,317	**2,353,317**	**2,353,317**

2021

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	489,504	489,504	489,504
Financial assets and investments	6	111,378	111,378	111,378
Loans and advances	7	1,450,351	1,450,351	1,450,351
Cash and cash equivalents	4	152,117	152,117	152,117
		2,203,350	**2,203,350**	**2,203,350**

29. Financial instruments and risk management (continued)

Categories of financial liabilities

2022

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	6,202	-	6,202	6,202
Deposits due to customers	13	1,910,914	-	1,910,914	1,910,914
Lease liabilities	14	-	7,564	7,564	7,564
		1,917,116	**7,564**	**1,924,680**	**1,924,680**

2021

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	10,121	-	10,121	10,121
Deposits due to customers	13	1,809,772	-	1,809,772	1,809,772
Lease liabilities	14	-	10,365	10,365	10,365
		1,819,893	**10,365**	**1,830,258**	**1,830,258**

Capital risk management

The Bank's objective when maintaining capital, is to comply with the requirements set by the regulators of the banking markets where the Bank operates, to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders and to maintain a strong capital base to support the development of its business

Regulatory compliance

Capital adequacy and the use of regulatory capital are monitored by the Bank, applying techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervision (Basel Committee) and European Community Directives, as implemented by the Bank of Botswana for supervisory purposes.

These techniques include the risk weighted asset ratio, which the Bank of Botswana regards as a key supervisory tool. The Bank of Botswana has set the individual minimum ratio requirements for Banks in Botswana at 12.5% which is above the Basel Committee minimum guideline of 8%. The ratio calculation involves the application of designated risk weightings to reflect an estimate of credit, operational, market and other risks associated with broad categories of transactions and counterparties.

Regulatory guidelines define two tiers of capital resources: Tier 1 (core) capital, comprising mainly shareholders' funds, is the highest tier. Tier 2 capital includes perpetual, medium and long term subordinated debt, general provisions for bad and doubtful debts as well as property and equipment revaluation reserves. Both tiers can be used to meet trading and banking activity requirements although tier 2 capital, included in the risk asset ratio calculation, may not exceed tier 1 capital.

The Bank has complied with all externally imposed capital requirements throughout the period

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Financial risk management

Overview

The bank is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It is the risk that the Bank's customers, clients or counterparties will not be able or willing to pay interest, repay capital or otherwise fail to fulfil their contractual obligations under loan agreements or other credit facilities. Credit risk also arises through the downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall. Furthermore, credit risk is manifested as sector risk where difficulties experienced by the sector in which the exposure is domiciled may impede payment or reduce the value of the asset. Settlement risk is another special form of credit risk which is the possibility that the Bank may pay a counterparty – for example, a Bank in a foreign exchange transaction – and fail to receive the corresponding settlement in return

Credit risk is the Bank's largest risk and considerable resources, expertise and controls are devoted to managing it.

The bank is exposed to credit risk on financial assets - investments, loans and advances, cash and cash equivalents, loan commitments and financial guarantees.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The bank only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Credit risk exposure arising on cash and cash equivalents is managed by the bank through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer belongs, period for which the customer has been active, external credit references etc. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account.

29. Financial instruments and risk management (continued)

Credit rating assessment at the time of sanction and review

The Bank uses an internally developed credit rating system for exposure limits to business and commercial loans in excess of P 200 000 . The rating system takes into account the financial discipline of the borrower and is based on the latest financial statements availed to the Bank. Ratings of the most credit-worthy customer are assigned at AAA and decrement points system is used. Ratings below BBB are not considered by the Bank as viable option. Loans to individuals are not rated.

At the reporting date, exposures to customers categorised into ratings are as follows

	2022	2021
AAA	948,265	941,009
AA	514,690	349,040
A	31,580	85,440
B and BBB	8,460	4,538
Unrated and NPA	137,706	127,809
	1,640,701	**1,507,836**

The maximum exposure to credit risk is presented in the table below:

		2022			2021		
		Gross carrying amount	**Credit loss allowance**	**Amortised cost / fair value**	**Gross carrying amount**	**Credit loss allowance**	**Amortised cost / fair value**
Balances with other banks	5	392,440	-	392,440	489,504	-	489,504
Financial assets and other investments	6	281,204	-	281,204	111,378	-	111,378
Loans and advances to customers	7	1,640,701	(54,855)	1,585,846	1,507,836	(57,485)	1,450,351
Cash and cash equivalents	4	93,827	-	93,827	152,117	-	152,117
		2,408,172	**(54,855)**	**2,353,317**	**2,260,835**	**(57,485)**	**2,203,350**

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets. The management uses inflation, GDP information, unemployment and other macro factors for calculations of the ECL. The management estimates that the credit loss would increase by P 5 million should there be any change by more than 10% in the underlying factors and resultantly would decrease the profit after tax and the equity by the same amount.

Collateral and other credit enhancements obtained

The following table analyses the collateral and other credit enhancements before impairments

Collateral classified as follows		
Secured by cash	104,753	75,880
Secured by mortgages on properties and hypothecation of other assets	1,488,236	1,396,780
Unsecured	47,712	35,176
	1,640,701	**1,507,836**

Concentration risk

The bank had a significant concentration risk resulting from its top ten customers. The total exposure relating to these customers was P('000) 461 419 (2021: P316 314), comprising 28% of the gross loan book at the reporting date.

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

In addition, these exposures individually exceeded 10% of the bank's unimpaired capital and comprised 100% (2021:81%) of the unimpaired capital at the reporting date.

Liquidity risk

The liquidity risk is the risk of being unable to meet financial or settlement obligation to customers or counterparties.

The Bank's Asset-Liabilities Committees (ALCO) is charged to ensure access to funds and to avoid a concentration of funding needs at any one time or from any one source. Meetings are held every quarter and also when there are changes to Bank of Botswana rate.

ALCO also controls asset maturities as well as the volume and quality of holdings of liquid assets and short term funds. In evaluating the Bank's liquidity position, ALCO takes account of lending commitments not drawn, the use of overdraft facilities and the possible impact of outstanding contingent liabilities, such as letters of credit and guarantees.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the business of the Bank. It is unusual for Banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Primary reserve held is 2.5% (2021:2.5%) of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

29. Financial instruments and risk management (continued)

Maturity Profile

The table below analyses assets and liabilities of the table into relevant maturity groupings based on the remaining period at balance sheet date to the remaining contractual maturity date.

At 31 March 2022	Upto 3months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and Balances with Bank of Botswana	93,827	-	-	-	93,827
Balances with other banks	392,440	-	-	-	392,440
Other financial assets	49,990	-	-	231,214	281,204
Loans and advances to customers	329,109	91,435	338,578	826,724	1,585,846
Total financial assets	865,366	91,435	338,578	1,057,938	2,353,317
Non - financial assets					
Plant and equipment and ROU	-	-	-	12,243	12,243
Other assets	-	2,542	-	-	2,542
Deferred tax	-	-	10	-	10
Total assets	865,366	93,977	338,588	1,070,181	2,368,112
Liabilities					
Deposits due to customers	495,780	425,723	988,696	-	1,910,199
Lease liabilities	-	2,499	3,853	1,212	7,564
Creditors, accruals and tax	-	8,091	-	-	8,091
Total financial liabilities	495,780	436,313	992,549	1,212	1,925,854
Equity funds	-	-	-	442,258	442,258
Total liabilities and equity	495,780	436,313	992,549	443,470	2,368,112
Net liquidity gap	369,586	(342,336)	(653,961)	626,711	-
Off balance sheet items- Guarantees	-	-	83,294	-	83,294

At March 31, 2021	Upto 3months	3-12 months	1-5 years	Over 5 years	Total
Cash and Balances with Bank of Botswana	152,117	-	-	-	152,117
Balances with other banks	489,504	-	-	-	489,504
Other financial assets	49,991	-	-	61,387	111,378
Loans and advances to customers	229,096	47,991	345,655	827,609	1,450,351
Total financial assets	920,708	47,991	345,655	888,996	2,203,350
Non - financial assets					
Plant and equipment and right to use asset	-	-	-	15,991	15,991
Other assets	-	3,731	-	-	3,731
Deferred tax	-	-	10	-	10
Total assets	920,708	51,722	345,665	904,987	2,223,082
	-	-	-	-	-
Deposit due to customers	1,283,336	349,565	176,871	-	1,809,772
Finance lease liability	-	3,009	5,877	1,479	10,365
Creditors and accruals and taxation payable	-	11,043	-	-	11,043
Total financial liabilities	1,283,336	363,617	182,748	1,479	1,831,180

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Equity funds	-	-	-	391,902	391,902
Total liabilities and equity	1,283,336	363,617	182,748	393,381	2,223,082
Net liquidity gap	(362,628)	(311,895)	162,917	511,606	-
Off balance sheet items- Guarantees and LCs	-	-	93,432	-	93,432

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Foreign currency risk

The bank is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary. The foreign currencies in which the bank deals primarily are US Dollars, Euros, GBP, ZAR and INR.

The bank through treasury, manages foreign currency risk in accordance with broad risk guidelines set by the Board. Foreign currency risk arises as a result of fluctuations in exchange rates and the resultant impact on the Bank's position, which is established during normal day to day trading. During the financial year under review, the Bank's authorised Net open position exposure limit was USD 1 000 000 (2021 :USD 1 000 000). The limits were adhered to throughout the year and at year end. Even though treasury may take position on any major currencies, for the purposes of exposure limit, these are calculated in USD after considering the forward and spot contracts.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

Exposure in Pula

The net carrying amounts, in Pula, of the various exposures, are denominated in the following currencies. The amounts have been presented in Pula by converting the foreign currency amounts at the closing rate at the reporting date: (Amounts in 000)

	Note	2022	2021
US Dollar exposure:			
Loans and advances		72	18,569
Cash and cash equivalents		3,893	96
Balances with other banks		205,693	347,691
Deposits due to customers		(337,294)	(362,153)
Net US Dollar exposure		**(127,636)**	**4,203**
Euro exposure:			
Balances with other banks		3,996	3,481
Deposits due to customers	13	(3,991)	(3,433)
Net Euro exposure		**5**	**48**
GBP exposure:			
Balances with other banks		6,385	6,760
Deposits due to customers		(6,349)	(6,083)
Net GBP exposure		**36**	**677**
ZAR exposure:			
Cash and cash equivalents		64	55
Balances with other banks		22,932	29,606
Deposits due to customers	13	(14,552)	(21,501)
ZAR exposure		**8,444**	**8,160**
AUD and INR exposure:			
Balances with other banks		3,865	2,246
Deposits due to customers	13	(789)	(324)

Notes to the Annual Financial Statements

Figures in Pula thousand	2022	2021
29. Financial instruments and risk management (continued)		
Net AUD and INR exposure:	**3,076**	**1,922**
Net exposure to foreign currency in Pula	**(116,075)**	**15,010**

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency (amount in 000) of the above exposure was as follows:

	2022	2021
US Dollar exposure:		
Loans and advances	6	1,675
Cash and cash equivalents	341	9
Balances with other banks	18,019	31,362
Deposit due to customers	(29,547)	(32,666)
Net US Dollar exposure	**(11,181)**	**380**
Euro exposure:		
Balances with other banks	314	278
Deposits due to customers	(313)	(274)
Net Euro exposure	**1**	**4**
GBP exposure:		
Balances with other banks	426	443
Deposits due to customers	(423)	(398)
Net GBP exposure	**3**	**45**
ZAR exposure:		
Cash and cash equivalents	82	73
Balances with other banks	29,163	39,728
Deposit due to customers	(18,506)	(28,852)
Net ZAR exposure	**10,739**	**10,949**
AUD and INR exposure:		
Balances with other banks	19,921	13,287
Deposit due to customers	(92)	(38)
Net AUD and INR exposure	**19,829**	**13,249**

Figures in Pula thousand	2022	2021

29. Financial instruments and risk management (continued)

Exchange rates

The following closing exchange rates were applied at reporting date:

Pula per unit of foreign currency:		
US Dollar	11.415	11.090
Euro	12.739	12.520
ZAR	0.786	0.745
GBP	14.99	15.27
INR	0.15	0.15
AUD	0.117	0.118

Foreign currency sensitivity analysis

The following information presents the sensitivity of the bank to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

	2022	2022	2021	2021
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
US Dollar 10% (2021: 10 %)	(55)	55	(420)	420
Euro 10% (2021: 10 %)	(871)	871	(5,221)	5,221
GBP 10% (2021: 10 %)	(1)	1	(68)	68
ZAR 10% (2021: 10 %)	(4)	4	(816)	816
AUD and INR 10% (2021: 10 %)	5	(5)	(296)	296
	(926)	**926**	**(6,821)**	**6,821**
Impact on equity:				
Increase in Tier 1 Capital due to increase in exchange rates	926	(926)	6,821	(6,821)
	-	-	-	-

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Interest rate risk

The bank has an active ALCO whose responsibility is for balance sheet planning from risk returns perspective, particularly strategic management of interest rate risk. There is an interest rate risk management policy that gives guidance on the management of the following: 1. Gap or Mismatch risk 2. Basis risk 3. Embedded Option risk 4. Yield Curve risk 5. Price risk 6. Reinvestment risk

Gap or Mismatch Risk Gap or mismatch risk arises from differences in maturity dates, repricing dates and principal amounts of assets and liabilities. On account of the mismatch, interest rate change can alter the income and economic value.

Basis Risk Even in a perfectly matched gap position, there is a risk that the interest rates of different instruments on different basis viz. BOBCs yield or US$ LIBOR etc. will not change by the same degree during a given period of time. Basis risk arises from the possibility that the interest rates of different assets and liabilities, which have different basis, change in different magnitudes.

Embedded Option Risk: Changes in the level of interest rates can cause prepayment of loans and the exercise of put/call options on bonds and withdrawal of deposits before their stated maturity dates. If not adequately managed, instruments with optionality features can pose significant risk as options are generally exercised to the advantage of the holder of the option.

Yield Curve Risk: The yield on various assets does not change equally with change in interest rate due to differing maturities. The unequal change in yield of different assets for different maturities for a specific change in interest rate gives rise to yield curve risks. The Bank's endeavour will be to take a view of possible movement of interest rate change over a period of twelve months, since major part of assets are by way of Overdraft facility for twelve months and Loan facility extending beyond twelve months.

Price Risk: When assets are sold at a price lower than cost price a price risk occurs. However, the Bank's policy is to manage our liabilities in such a way that it will not be in a situation where securities will be sold at a price lower than purchase price.

Reinvestment Risk: This risk arises from the uncertainty regarding the interest rate at which future cash flow can be reinvested. Thus the interest rate risk of the financial institution has to be seen not from the traditional earnings perspective only, but more importantly, from the economic value perspective also as variation in interest rates can affect the economic value of its assets, liabilities and off balance sheet positions. The sensitivity of economic value to fluctuations in interest rates is of considerable importance to all the stakeholders and the supervisors.

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

At 31 March 2022	Under-3 months	3 to 12 months	1-5 years	Over 5 years	Non - interest bearing	Non- financial	Total
Cash and balances with Bank of Botswana	-	-	-	-	93,827	-	93,827
Balances with other banks	392,440	-	-	-	-	-	392,440
Investment in Bank of Botswana Certificates	49,990	-	-	231,214	-	-	281,204
	-	-	-	-	-	-	-
Loans and advances to customers	329,109	91,435	338,578	826,724	-	-	1,585,846
Total financial assets	771,539	91,435	338,578	1,057,938	93,827	-	2,353,317
Non - financial assets							
Plant and equipment and ROU	-	-	-	-	-	12,243	12,243
Deferred tax	-	-	-	-	-	10	10
Other assets	-	-	-	-	-	2,542	2,542
Total Assets	771,539	91,435	338,578	1,057,938	93,827	14,795	2,368,112

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Liabilities						
Deposits due to customers	495,780	425,723	-	731,875	256,821	1,910,199
Balance due to other banks	-	-	-	-	-	-
Creditors, accruals and lease liability	-	2,499	3,853	1,212	8,091	15,655
Total financial liabilities	495,780	428,222	3,853	733,087	264,912	1,925,854
Equity funds and other liabilities	-	-	-	-	442,258	442,258
Total liabilities	495,780	428,222	3,853	733,087	707,170	2,368,112
Net interest gap liquidity	275,759	(336,787)	334,725	324,851	(613,343)	-

At 31 March 2021	Under-3 months	3-12 Months	1-5 years	over 5 years	Non interest bearing	Non-financial	Total
Cash and balances with Bank of Botswana	-	-	-	-	152,117	-	152,117
Investments in Bank of Botswana Certificates and Securities	49,991	-	-	61,387	-	-	111,378
Balances with other banks	489,504	-	-	-	-	-	489,504
Loans and advances to customers	229,096	47,991	345,655	827,609	-	-	1,450,351
Total financial assets	768,591	47,991	345,655	888,996	152,117	-	2,203,350
Non - financial assets							
Plant and equipment and right to use asset	-	-	-	-	-	15,991	15,991
Deferred tax	-	-	-	-	-	10	10
Other assets	-	-	-	-	-	3,731	3,731
Total Assets	768,591	47,991	345,655	888,996	152,117	19,732	2,223,082
Liabilities							
Deposits due to customers	1,026,515	349,565	-	176,871		256,821	1,809,772
Creditors, accruals and lease liability	-	3,009	5,877	1,479		11,043	21,408
Total financial liabilities	1,026,515	352,574	5,877	178,350		267,864	1,831,180
Equity funds and other liabilities	-	-	-	-		391,902	391,902
Total liabilities	1,026,515	352,574	5,877	178,350		659,766	2,223,082
Net interest gap liquidity	(257,924)	(304,583)	339,778	710,646		(507,649)	-

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period. These calculations are based on simplified scenarios. Based on the simulations performed, the impact on pre-tax profit of a .5% shift in interest rates would result in the following. (Amounts in 000s)

	2022	2022	2021	2021
Increase or decrease in rate	Increase	Decrease	Increase	Decrease
Impact on profit or loss:				
Investment and bank balances	438	(438)	911	(911)
Loans and advances	11,249	(11,249)	9,191	(9,191)
Deposits due to customers	(3,950)	3,950	(3,826)	3,826
	7,737	**(7,737)**	**6,276**	**(6,276)**
Impact on equity:				
Impact on Tier 1 capital	(7,737)	7,737	(6,276)	6,276

Operational risk

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.
The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the holding Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the parent Bank's and the Bank of Botswana's requirements are supported by a periodic review undertaken by the senior management of the Bank. Spot rectifications are, where ever possible, carried out.

Notes to the Annual Financial Statements

30. Fair value information

Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observable significant inputs to the measurement, as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Bank can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

All financial assets and liabilities are categorised under Level 2 for the purposes of disclosure.

For loans and advances to customers which are in the nature of overdrafts and short term loans, the estimated fair value approximates to the carrying value. For deposits due to customers with no stated maturity value which includes non-interest bearing deposits, the fair value is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Due to the nature of the instruments, the carrying values of all financial assets and liabilities approximately equates to their fair values.

31. Events after the reporting period

On 24 February 2022, Russia announced a "special military operation" against Ukraine, which has resulted in the on-going conflict between the two countries. The on-going conflict has seen various economic sanctions being imposed on Russia by the United States of America, European Union and other countries. Russia is a key player in world economics and the conflict poses a substantial economic risk for most countries, including Botswana. The conflict and economic sanctions against Russia do not have an impact on the 31 March 2022 financial statements and are considered a non-adjusting event. Subsequent to the year end, due to the war, the country is witnessing increase in price of commodities caused mainly by increase in oil prices and cost of transport. These increasing cost also affects the GDP growth due to inflation.

Detailed Income Statement

Figures in Pula thousand	Note(s)	2022	2021
Interest and similar income	16	**124,014**	**107,581**
Interest and similar expenditure	17	**(41,472)**	**(40,182)**
Net interest income		**82,542**	**67,399**
Other operating income	18	**22,985**	**26,555**
Other operating gains (losses)			
Gains on disposal of assets or settlement of liabilities		245	6
Movement in credit loss allowances	20	709	(266)
Expenses (Refer to page 60)		**(30,345)**	**(28,003)**
Profit before taxation		**76,136**	**65,691**
Taxation	21	(16,730)	(14,400)
Profit for the year		**59,406**	**51,291**

Detailed Income Statement

Figures in Pula thousand	Note(s)	2022	2021
Other operating expenses			
Administration and management fees		(1,489)	(960)
Advertising		(125)	(199)
Auditors remuneration - external auditors	20	(118)	(550)
Board sitting fees		(153)	(123)
Consulting and professional fees		(318)	(533)
Consulting and professional fees - legal fees		(166)	(151)
Depreciation		(1,476)	(1,892)
Depreciation- Rights of use asset		(2,801)	(2,725)
Employee costs		(15,205)	(13,269)
Entertainment		(4)	(5)
IT expenses		(29)	(23)
Insurance		(843)	(1,022)
Lease rentals on operating lease		(366)	(72)
Motor vehicle expenses		(252)	(239)
Municipal expenses		(379)	(362)
Printing and stationery		(401)	(378)
Rates, licenses and levies		(613)	(512)
Repairs and maintenance		(2,109)	(1,628)
Security		(827)	(805)
Staff welfare		(528)	(260)
Telephone and fax		(714)	(894)
Travel		(379)	(436)
VAT expenses		(1,050)	(965)
		(30,345)	**(28,003)**