Bank of Baroda (Botswana) Limited

Annual financial statements
for the year ended 31 March 2020

General Information

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Commercial Banking
Directors	S Bagopi P Sengupta (Resigned 15 Jun 2019) N N Mosimakoko N Tshabang (Resigned 19 Nov 2019) G Setume S K Singh M K Chary (Appointed 05 June 2019) S T Nlebgwa (Appointed 15 Jan 2020) A Singh (Appointed 03 Feb 2020)
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 Chartered Accountants Member of Grant Thornton International
Secretary	R K Accountants (Proprietary) Limited
Bank registration number	2000/3894
Date of incorporation	17 August 2000

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Directors' Responsibilities and Approval

The directors are required in terms of the Banking Act (46:04) 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 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 2021 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 8 to 10.

The annual financial statements set out on pages 11 to 59, which have been prepared on the going concern basis, were approved by the on 14 JULY 2020 and were signed on their behalf by:

S Bagopi

S K Singh

Directors' 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 2020.

1. The Botswana Economy

The global slowdown has its impact on Botswana, as the demand for its main export commodity i.e. diamonds has come down. Projections by Government indicate that domestic economic activity will expand by 4.6 percent in 2020. The significant influences on domestic economic performance include conducive financing conditions as indicated by accommodative monetary policy and sound financial environment that facilitate policy transmission, intermediation and risk mitigation. Furthermore, it is anticipated that the increase in government spending, as well as implementation of initiatives, such as the doing business reforms, should also be supportive of economic activity. Overall, the economy is projected to operate close to, but below full capacity in the short to medium term, thus not adding to inflationary pressures going forward.

Year on year growth in the Agriculture industry was weak when compared to same quarter last year, with the industry registering a negative growth of 1.0 percent. The drop in the real value added of the Agriculture industry was mainly due to the decline in the Livestock sub industry by 0.4 percent

Real GDP increased by 3.0 percent in 2019 compared to a 4.5 percent increase in 2018. Projections for the year 2020 is 4.4 percent.

Inflation was unchanged for the fourth consecutive month at 2.2 percent in March 2020, remaining below the lower bound of the Bank's desired medium-term objective range of 3 – 6 percent. Inflation is forecast to revert to within the objective range in the fourth quarter of 2020.

The outbreak of COVID -19 and its resultant declaration of the disease as a pandemic by the WHO has had wide-spread impact across the world. To curb the spread of the disease, the country was put on a 28-day lockdown (extreme social distancing) effective from midnight of April 2, 2020, with movement outside the home only restricted to essential goods and service providers. On April 9, 2020, Parliament approved His Excellency the President's request for a six-month state of emergency to allow the country to adequately respond to the threat posed by Covid-19. The lockdown was extended to May 7, 2020, after which, the extreme social distancing regulations were reviewed.

As an open economy that is integrated with regional global economies, Botswana is affected through several channels, among others, local infections; weaker global demand affecting exports (diamonds and tourism, for example); disruption to global supply chains affecting local production and project execution; and disruptions caused by containment and mitigation measures imposed by Government. Other channels include the impact of disruption of economic activity on the banking system and likely reduction in fiscal and external buffers; as well as the weak performance of, and panic, in the global markets that, invariably, will negatively impact on the nation's official foreign exchange reserves. Overall, IMF's April 2020 World Economic Outlook estimates that the domestic economy will contract by 5.4 percent in 2020, before rebounding to 6.8 percent in 2021, while the MFED projects a sharp deterioration, of a 13.1 percent contraction and a modest recovery of 3.9 percent growth in 2021.

Under these circumstances, it is likely that the bank may be impacted financially, operationally and administratively, both in the short term and long term. The full effect of these circumstances cannot be estimated..

There have been no material changes to the nature of the bank's business from the prior year.

Directors' Report

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04). The accounting policies have been applied consistently compared to the prior year.

The business of the Bank reported positive growth of about 13.35% during the year in compare to business of last year, mainly impacted by 16 percent growth in deposit in which 22% growth is in CASA (Current and Savings deposits) and10 percent growth in credit.

This year net profit of the Bank stood at P54.62 mn for the year as compared to P30.84 mn during the previous year showing growth over last year mainly due to containing the impairments and the costs of deposits

Key financial highlights during 2019-20

- The total business of the Bank grew by 13.35% during the year.
- The total deposit grew from P1359.14 mn to P1578.34 mn during FY 2019-20 up by 16.13%.
- Total CASA deposits increased by 22.28% i.e. growth of P80 mn.
- The total advances grew from P 1132.74mn to P1246.24 mn during the year up by 10.02%.
- CD ratio is 78.96% as on 31 March 2020.
- Capital Adequacy ratio stood at 20.48% against regulatory requirement of 15%
- The cost of deposits has decreased from 2.75% to 2.70% during the year.
- The yield on advances was at 7.72% as against 7.54 % last year.
- Net worth of the Bank as on 31 March 2020 is P349.62 mn.
- Business per employee has decreased to P47.08mn as on 31.03.2020 from. P53.02mn on 31.03.2019 (due to increase in staff strength by 13).
- Gross profits of the Bank reported growth of 12.08% and reached to P63.38mn against last years figure of P56.55mn. Net profit reported healthy growth 77.34% to P54.62 Mn from P30.80Mn last year.
- Net Interest Margin reached to 3.49%.
- The cost to income ratio has improved to 30.41% against 33.21% last year.
- Gross NPAs decreased from P101.69 mn. to P32.77mn, whereas the Net NPAs have come down to P0 mn from P0.28 mn. We have recovered P10.34 mn in NPA A/cs during the Year & able to restrict our fresh slippages to P0.11 mn only. Banks NPA provisions coverage ratio is 100 %.

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

3. New Initiatives during the Year:

Implementation of interbank fund transfer facility through net banking for retail and corporate customers.

- Implemented contactless EMV Visa chip based debit card with 3D security.
- Introduced remittance facility in AUD currency also.
- Opened new braUpgradation of magnetic strip debit card into EMV chip based debit card

Directors' Report

- Opened a new branch at Palapye on 16-03-2020.
- Implementation of Central Processing Cell (CPC) is under process

4. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

5. Regulatory compliance

Capital Adequacy

With a capital adequacy ratio of 20.48% as at 31 March 2020 as against the regulatory requirement of 15%, the Bank is 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 to FIA as per their requirements.

6. Directorate

The directors in office at the date of this report are as follows:

Directors	Designation
S Bagopi	Non-executive Independent - Chairperson
P Sengupta (Resigned 15 Jun 2019)	Non-executive
N N Mosimakoko	Non-executive Independent
N Tshabang (Resigned 19 Nov 2019)	Non-executive Independent
G Setume	Non-executive Independent
S K Singh	Executive
M K Chary (Appointed 05 June 2019)	Non-executive
S T Nlebgwa (Appointed 15 Jan 2020)	Non-executive Independent
A Singh (Appointed 03 Feb 2020)	Non-executive Independent

7. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report except for the COVID 19 pandemic as reported in these financial statements.

8. Acknowledgements

Thanks and appreciation are extended to all of our shareholders, staff, customers and Bank of Botswana for their continued support of the bank. The bank also wishes to extend its gratitude to the directors whose term came to an end or resigned for their invaluable guidance.

Directors' Report

The annual financial statements set out on pages 11 to 59, which have been prepared on the going concern basis, were approved by the Board on 14 JULY 2020 , and were signed on its behalf by:

Approval of annual financial statements

S Bagopi	S K Singh
Chairperson	**Managing Director**

Grant Thornton

Chartered Accountants

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Independent Auditor's Report

To the shareholders of Bank of Baroda (Botswana) Limited

Opinion

We have audited the annual financial statements of Bank of Baroda (Botswana) Limited set out on pages 11 to 57, which comprise the statement of financial position as at 31 March 2020, 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 annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Botswana) Limited as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual 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 (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Botswana. 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 annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming Our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The assessment for loan loss provision for loans to customers	
The credit impairment provision inherently contains a significant amount of estimation uncertainty especially with regard to identifying impaired receivables 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 statistical models with input parameters, obtained from internal and external sources. In accordance with the requirements of IFRS 9, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages is based on an assessment of the objective characteristics of loans and relevant debtors, and subjective judgements of the bank. Impairment stage III includes distressed loans and advances where significant increase in credit risk has occurred and	Our audit procedures included considering the appropriateness of the loans and advances impairment provision. We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provision for the selected significant portfolios.On a sample of the Bank's loans we evaluated appropriateness of provisioning methodologies and application. Our audit response focused on the significant inputs used by management in their impairment calculation. We formed an independent view on levels of provisions required by examining available external and internal information. We evaluated the estimated future cash flows and discount rate used by management in their impairment calculation. Our assessment of the inputs used within the cash flow model included an assessment of the probability of default, which is an area of significant judgement. We assessed the

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
where objective proof of impairment exists. When determining the provision amount this impairment stage, the Bank management primarily considers the following factors: - Amount and timing of forecasted cash flows. - The bank's success rate at recovering debt - Collateral value In addition to the above-identified impairments, an estimate is made for impairments associated with those assets in the statement of financial position where no repayment difficulties have been identified for a particular receivable (Stage I and Stage II). The bank creates a provision using a statistical model for a homogeneous group of loans. The statistical model is based on a deriving the probability of loan default and the estimated amount of subsequent loss. Management's judgement determines input data for the model, the calculation logic and its comprehensiveness.	appropriateness of the methodologies and assumptions used, to the extent that this could have materially impacted the estimations around the timing and amount of the future cash flows. We compared this to our own methodologies and available industry data. We also performed an independent calculation of the impairment provision and relevant inputs in the models used by management to estimate the future cash flows, discount rate as well as management's other adjustments. We found this to be within an acceptable range of outcomes.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Detailed Income Statement as required by the Companies Act (42:01) of Botswana, which we obtained prior to the date of this report, and the Annual Report, which is 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 annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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 Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04), and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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 company's financial reporting process

GRANT THORNTON CHARTERED ACCOUNTANTS GABORONE

Grant Thornton

Independent Auditor's Report

Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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:

- Identify and assess the risks of material misstatement of the annual 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 annual 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 annual 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 the directors, we determine those matters that were of most significance in the audit of the annual financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter 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.

Grant Thornton

Chartered Accountants
Certified Auditor : Madhavan Venkatachary
BICA Membership Number : 20030049
Certified Auditor of Public Interest Entity
BAOA Membership number : CAP 0017 2020

22 July 2020
Gaborone

Statement of Financial Position as at 31 March 2020

Figures in Pula thousand	Note	2020	2019
Assets			
Cash and cash equivalents	4	120,993	99,910
Balances with other banks	5	1,072,667	362,229
Financial assets - Investments	6	69,746	336,245
Loans and advances	7	1,173,161	996,763
Other assets		1,188	3,834
Right to use asset	8	11,486	-
Deferred tax	9	10	10
Property, plant and equipment	10	5,960	3,515
Total Assets		**2,455,211**	**1,802,506**
Equity and Liabilities			
Equity			
Stated capital	11	181,000	181,000
Retained income		168,660	114,042
		349,660	**295,042**
Liabilities			
Balances due to other banks	13	497,423	134,366
Deposit due to customers	14	1,584,087	1,363,768
Creditors and accruals	15	9,351	9,330
Finance lease liabilities		12,090	-
Current tax payable		2,600	-
		2,105,551	**1,507,464**
Total Equity and Liabilities		**2,455,211**	**1,802,506**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Pula thousand	Note	2020	2019
Interest and similar income	16	105,006	97,166
Interest and similar expenditure	17	(40,843)	(34,726)
Net interest income		**64,163**	**62,440**
Non-interest income	18	31,792	20,413
Other operating gains (losses)		(8)	50
Movement in credit loss allowances	19	(3,570)	(25,772)
Other operating expenses		(27,685)	(26,329)
Profit (loss) before taxation		**64,692**	**30,802**
Income tax expenses	20	(10,074)	98
Profit (loss) for the year		**54,618**	**30,900**
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		**54,618**	**30,900**

Statement of Changes in Equity

Figures in Pula thousand	Stated capital	General risk reserve	Retained income	Total equity
Balance at 01 April 2018	**181,000**	**9,302**	**101,242**	**291,544**
Profit for the year	-	-	30,900	30,900
Total comprehensive income for the year	**-**	**-**	**30,900**	**30,900**
Dividends	-	-	(18,100)	(18,100)
Movements to general risk reserve	-	(9,302)	-	(9,302)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**(9,302)**	**(18,100)**	**(27,402)**
Balance at 01 April 2019	**181,000**	**-**	**114,042**	**295,042**
Profit for the year	-	-	54,618	54,618
Total comprehensive income for the year	**-**	**-**	**54,618**	**54,618**
Balance at 31 March 2020	**181,000**	**-**	**168,660**	**349,660**
Note(s)	11	12		

Statement of Cash Flows

Figures in Pula thousand	Note(s)	2020	2019
Cash flows from operating activities			
Cash generated from operations	22	116,319	44,760
Income tax received/(paid)	23	(7,474)	98
Net cash from operating activities		**108,845**	**44,858**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(3,950)	(314)
Sale of property, plant and equipment	10	(6)	52
Acquisition of right to use asset	8	(15,014)	-
Net cash from investing activities		**(18,970)**	**(262)**
Cash flows from financing activities			
Finance lease payments		12,090	-
Dividends paid	24	-	(18,100)
Net cash from financing activities		**12,090**	**(18,100)**
Total cash movement for the year		**101,965**	**26,496**
Cash at the beginning of the year		664,018	637,522
Total cash at end of the year	4	**765,983**	**664,018**

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 inPulas, 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. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

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. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

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

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.

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:

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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 Right to use asset

When the bank holds property under a long term prepaid lease agreement, the lease is classified as a finance lease or an operating lease in accordance with the provisions of IAS 17 Leases. Refer to the accounting policy on leases. When these leases are classified as finance leases, the property is capitalised as leasehold property, and is depreciated over the lease term.

1.5 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

1.5 Financial instruments (continued)

Financial instruments at amortised cost

Classification

Cash and cash equivalents , balances with other banks , financial assets at amortised cost 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 bank'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 gains (losses) (note).

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

1.5 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

1.5 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 visa 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 19).

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.

Any gains or losses arising on the derecognition of a loan receivable is included in profit or loss in derecognition gains (losses) on financial assets at amortised cost (note).

Balances due to other banks, deposit due to customers

Classification

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

Recognition and measurement

Balances due to other banks, deposits due to customers and other borrowings 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 (losses) (note).

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.

Accruals and other payables

Accounting Policies

1.5 Financial instruments (continued)

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.

1.6 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.

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.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.7 Leases (continued)

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. With the adoption of IFRS 16 from 01 Aril 2019, the bank's erstwhile operating leases are treated as finance leases.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee (Only comparitives)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.8 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.
- tests goodwill acquired in a business combination for impairment annually.

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.

1.9 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 par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the bank in which they are declared.

Accounting Policies

1.10 Employee benefits

Defined contribution plans

Payments to defined contribution retirement benefit 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 benefit plan.

1.11 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.

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.

1.12 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. 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". Fees and commissions that are not part of the effective interest rate are recognised as expenses and income in the statement of comprehensive income line "Fee and commission expense" and "Fee and commission income" on an accrual basis and as at the date of transaction. For financial assets categorised into Stage 3, the bank recognises interest income on the net financial asset after the recognition of expected credit loss.

Accounting Policies

Recognition of Revenues and Expenses (continued)

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

1.13 Translation of foreign currencies

Foreign currency transactions

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

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.

Application of IFRS 16 Leases

In the current year, the bank has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 April 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the bank's annual financial statements is described below.

The bank has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated. No adjustments were made to the retained earnings due to the fact that most of the lease agreements were renegotiated during the current year and the impact of any retrospective adoption is insignificant.

Leases where bank is lessee

Leases previously classified as operating leases

The bank undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate at the date of initial application.
- recognised right-of-use assets measured on a lease by lease basis, at either the carrying amount (as if IFRS 16 applied from commencement date but discounted at the incremental borrowing rate at the date of initial application) or at an amount equal to the lease liability adjusted for accruals or prepayments relating to that lease prior to the date of initial application.

The bank applied IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

The bank applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- when a portfolio of leases contained reasonably similar characteristics, the bank applied a single discount rate to that portfolio;
- leases which were expiring within 12 months of 01 April 2019 were treated as short term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.
- hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases which contained extension or termination options.

Impact on financial statements

No adjustments were made to the retained earnings as the impact of adoption on the financial statement was insignificant.

When measuring lease liabilities, bank discounted lease payments using its incremental borrowing rate at 01 April 2019. The weighted average rate applied is 3%.

Notes to the Annual Financial Statements

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:

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the bank are as follows:

Bank as lessee:
- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Bank as lessor:
- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

Notes to the Annual Financial Statements

3. New Standards and Interpretations (continued)

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

The bank has adopted the standard for the first time in the 2020 annual financial statements.

The impact of the standard 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 2020 or later periods:

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the bank's accounting periods beginning on or after 01 April 2020 or later periods but are not relevant to its operations:

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The bank does not envisage the adoption of the amendment until such time as it becomes applicable to the bank's operations.

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

The bank does not envisage the adoption of the interpretation until such time as it becomes applicable to the bank's operations.

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

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	33,745	18,684
Balances with Bank of Botswana	87,248	81,226
	120,993	99,910
Other cash equivalents for the purposes of cash flow statement		
Bank of Botswana Securities - Repo instruments	-	96,462
Balances with domestic banks	4,127	1,086
Short term placements with domestic banks	624,201	100,528
Balances with foreign banks	142,887	34,565
Short term placements with foreign banks	301,452	226,050
Bank of Botswana Certificates	69,746	239,783
Balance due to other banks	(497,423)	(134,366)
	644,990	**564,108**

Cash and balances with Bank of Botswana	120,993	99,910
Other short term cash and cash equivalents	644,990	564,108
	765,983	**664,018**

Cash and cash equivalents held by the entity that are not available for use by the bank.	55,705	43,991

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 A2 by Standard & Poor.

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. Balances with other banks

Balances with domestic banks	4,127	1,086
Balances with foreign banks	142,887	34,565
Short term placements with domestic banks	624,201	100,528
Short term placements with foreign banks	301,452	226,050
	1,072,667	**362,229**

Exposure to credit risk

Balances 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.

Balances 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 balances 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.

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

5. Balances with other banks (continued)

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 balances 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. Balances 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 balances with other banks by credit rating grade:

2020

Counterparty	External/Internal credit rating	Domestic / Foreign	Credit grade	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank ABC Limited	Unrated	Domestic	Performing	12m ECL	152,416	152,416
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	101,170	101,170
First National Bank of Botswana Limited	Unrated	Domestic	Performing	12m ECL	2,961	2,961
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	232,743	232,743
ABSA Limited	Unrated	Foreign	Performing	12m ECL	211,595	211,595
First Capital Bank Limited	Unrated	Domestic	Performing	12m ECL	371,782	371,782
					1,072,667	**1,072,667**

2019

Instrument	External credit rating	Rating agency	Credit grade	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank Gaborone Limited	Unrated	Domestic	Performing	12m ECL	100,528	100,528
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	590	590
First National Bank of Botswana Limited	Unrated	Domestic	Performing	12m ECL	500	500
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	183,713	183,713
Union Bank of India, Dubai	Unrated	Foreign	Performing	12m ECL	53,952	53,952
ABSA Bank Limited	Unrated	Foreign	Performing	12m ECL	22,946	22,946
					362,229	**362,229**

Figures in Pula thousand	2020	2019

5. Balances with other banks (continued)

Exposure to currency risk

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

Exposure to interest rate risk

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

Fair value of balances with other banks

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

6. Financial assets at amortised cost

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

	2020	2019
Bank of Botswana Securities- Repo instruments	-	96,462
Bank of Botswana Certificates	69,746	239,783
	69,746	**336,245**

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 at amortised cost (continued)

Credit loss allowances

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

2020

Instrument	External credit rating (where applicable)	Rating agency	Credit grade	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana	A2	S&P	Performing	12m ECL	69,746	69,746

2019

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 Certificates	A2	S&P	Performing	12m ECL	96,462	96,462
Bank of Botswana Certificates - Security	A2	S&P	Performing	12m ECL	239,783	239,783
					336,245	**336,245**

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.

Fair values

The fair value of financial assets - investments approximates their carrying amounts.

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

7. Loans and advances

Financial instruments:		
Term loans	919,910	744,414
Loans and overdrafts against bank own deposits	44,568	47,363
Demand and overdraft advances	284,104	340,960
Loss allowance	(75,421)	(135,974)
Loans and advances at amortised cost	1,173,161	996,763
Total loans and advances	**1,173,161**	**996,763**

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	Lifetime ECL (not credit impaired)
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.

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:

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

7. Loans and advances (continued)

Expected credit loss rate:	2020 Estimated gross carrying amount at default	2020 Loss allowance (Lifetime expected credit loss)	2019 Estimated gross carrying amount at default	2019 Loss allowance (Lifetime expected credit loss)
Performing - no default history Stage 1 (12 M Credit loss recognised)	1,186,809	35,706	776,458	7,909
Previously defaulting customers Stage 2- Lifetime Credit loss recognised	28,909	6,851	240,998	17,774
Customers in default Stage 3	32,864	32,864	115,279	110,290
Total	**1,248,582**	**75,421**	**1,132,735**	**135,973**

The table below represents the different stages for the loan categories as at 31 Mar 2020

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	994,812	29,982	24,370	5,834	26,405	26,405	1,045,587	62,221
Housing loans	106,682	1,411	3,686	774	653	653	111,021	2,838
Vehicle loans	60,730	1,543	853	243	840	840	62,423	2,626
Personal loans	24,586	2,771	-	-	4,965	4,965	29,551	7,736
Total	1,186,810	35,707	28,909	6,851	32,863	32,863	1,248,582	75,421

The table below represents the different stages for the loan categories as at 31 March 2019.

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	638,611	6,197	213,709	12,414	96,609	96,609	948,929	115,220
Housing loans	81,108	524	15,332	3,361	10,239	5,248	106,679	9,133
Vehicle loans	34,855	93	4,850	226	2,314	2,314	42,019	2,633
Personal loans	21,884	1,094	7,107	1,776	6,117	6,117	35,108	8,987
Total	776,458	7,908	240,998	17,777	115,279	110,288	1,132,735	135,973

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

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 IAS 39 Financial Instruments: Recognition and Measurement	-	(100,928)
Adjustments upon application of IFRS 9	-	(45,131)
Opening balance in accordance with IFRS 9	**(135,974)**	**(146,059)**
Additional Stage 3 loans	(111)	-
Amounts recovered	10,034	10,085
Loans written off	59,240	-
Other movements and upgradations	(8,610)	-
Closing balance	**(75,421)**	**(135,974)**

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. Right to use asset

Additions	15,014	-
Accumulated depreciation on right to use asset		
Depreciation for the year	(3,528)	-
Carrying value		
Additions	15,014	-
Amortisation - Leased	(3,528)	-
	11,486	-

Finance lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	3,434	-
Two to five years	7,908	-
More than five years	1,709	-
	13,051	-
Less finance charges component	(961)	-
	12,090	-

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

9. Deferred tax

Deferred tax liability

Property plant and equipment	10	10

Deferred tax asset

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	10	10

Reconciliation of deferred tax asset / (liability)

At beginning of year	10	10

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

10. Property, plant and equipment

	2020			2019		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold property	1,863	(696)	1,167	1,863	(650)	1,213
Furniture and fixtures	6,959	(6,312)	647	6,543	(5,964)	579
Motor vehicles	691	(509)	182	691	(366)	325
Office equipment	5,008	(3,459)	1,549	3,755	(3,171)	584
IT equipment	6,982	(6,381)	601	6,415	(6,182)	233
Leasehold improvements	5,035	(3,221)	1,814	3,322	(2,741)	581
Total	**26,538**	**(20,578)**	**5,960**	**22,589**	**(19,074)**	**3,515**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	1,213	-	-	(46)	1,167
Furniture and fixtures	579	416	-	(348)	647
Motor vehicles	325	-	-	(143)	182
Office equipment	584	1,254	(2)	(287)	1,549
IT equipment	233	567	-	(199)	601
Leasehold improvements	581	1,713	-	(480)	1,814
	3,515	**3,950**	**(2)**	**(1,503)**	**5,960**

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	1,260	-	-	(47)	1,213
Furniture and fixtures	1,147	50	(2)	(616)	579
Motor vehicles	284	192	-	(151)	325
Office equipment	927	34	-	(377)	584
IT equipment	382	38	-	(187)	233
Leasehold improvements	919	-	-	(338)	581
	4,919	**314**	**(2)**	**(1,716)**	**3,515**

11. Stated capital

	2020	2019
Reconciliation of number of shares issued:		
Reported as at 1 April	181,000	181,000
Issue of shares	-	-
	181,000	**181,000**
Issued	181,000	181,000
Capital adequacy		
Core capital (Tier 1)		
Stated capital	181,000	181,000
Retained earnings	114,042	101,243
Dividends	-	(18,100)
IFRS 9 - Transition provision adjustments to CET	11,340	17,010
	306,382	**281,153**
Supplementary capital (Tier 2)		
Unpublished current year's profits	54,618	30,900
IFRS 9 - Transition provision on Stage 1 and Stage 2	11,876	11,876
	66,494	**42,776**
Total eligible capital (Unimpaired capital) - Tier 1 + Tier 2	**372,876**	**323,929**
Risk weighted assets		
Credit risk	1,777,335	1,138,120
Operational risk	41,080	41,331
Market risk	1,991	1,861
Total risk adjusted exposure	**1,820,406**	**1,181,312**
Minimum capital required as per Bank of Botswana guidelines (15% of Risk adjusted exposure)	273,061	177,197
Excess capital over minimum required	99,815	146,732
Capital adequacy ratio	20.48 %	27.42 %
Bank of Botswana required minimum ratio	15.00 %	15.00 %
Excess over the minimum required (%)	5.48 %	12.42 %

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

12. General risk reserves

The bank had maintained an amount equivalent to the provision made on performing financial assets with no history of default as a general risk reserve when impairment provisions were recognised on incurred loss model under IAS 39 - Financial instruments. With the adoption of IFRS 9 during the previous year, the bank no longer maintains a reserve for the provision on standard assets. Instead, the provision is netted off against the loans and advances.

	2020	2019
Opening balance	-	9,302
Transfers during the year	-	22,680
Reversals during the year (Transfers to provisions)	-	(31,982)
	-	-

13. Balances due to other banks

	2020	2019
Balances due to other banks	497,423	134,366

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.

Exposure to interest rate risk

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

14. Deposits due to customers

Held at amortised cost

	2020	2019
Interest bearing deposits from Banks	111,887	106,250
Interest bearing deposits from others	1,272,434	1,102,752
Non interest bearing deposits	199,766	154,766
	1,584,087	**1,363,768**

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.

Exposure to interest rate risk

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

15. Creditors and accruals

	2020	2019
Creditors and accruals	8,693	8,700
VAT	658	630
	9,351	**9,330**

Exposure to currency risk

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

15. Creditors and accruals (continued)

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

	2020	2019
Interest from loans and advances	88,111	85,679
Interest and gains from BOBC and similar instruments	1,827	2,462
Interest from financial assets and bank placements	15,068	9,025
	105,006	**97,166**

17. Interest and similar expenditure

	2020	2019
Interest and similar expenditure	40,843	34,726
Interest on call deposits	1,973	1,643
Interest on savings deposits	4,822	4,159
Interest on term deposits	29,262	27,942
Interest on short term borrowings	4,786	982
	40,843	**34,726**

18. Other operating income

	2020	2019
Miscellaneous income	3,958	3,406
Commissions received	2,144	2,204
Recoveries	4,906	95
Gain on foreign exchange transactions	20,784	14,708
	31,792	**20,413**

19. Operating profit (loss)

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

	2020	2019
Auditor's remuneration - external		
Audit fees	554	500
Leases		
Operating lease charges		
Premises	(549)	3,019
Depreciation and amortisation		
Depreciation of property, plant and equipment	1,503	1,716
Depreciation on rights to use asset	3,528	-
Total depreciation and amortisation	**5,031**	**1,716**
Movement in credit loss allowances		
Loans and advances	3,570	25,772

Expenses by nature

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

19. Operating profit (loss) (continued)

Employee costs	11,439	10,420
Operating lease charges	(549)	3,019
Depreciation, amortisation and impairment	5,031	1,716
Other expenses	11,764	11,174
	27,685	**26,329**

20. Taxation

Major components of the tax expense

Current		
Local income tax - current period	10,074	-
Local income tax - recognised in current tax for prior periods	-	(98)
	10,074	**(98)**

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	64,692	30,802
Tax at the applicable tax rate of 22% (2019: 22%)	14,232	6,776
Tax effect of adjustments on taxable income		
Permanent allowances and deductions	(1,045)	-
Set off of carried forward losses	(3,113)	-
Tax losses carried forward	-	(6,874)
	10,074	**(98)**

21. Earnings per share

Basic earnings per share

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

Basic earnings per share		
Profit for the year	54,618	30,900
Number of shares in issue (in thousands)	181,000	181,000
Earnings per share - In thebe	**30.18**	**17.07**

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

22. Cash generated from operations

	2020	2019
Profit before taxation	64,692	30,802
Adjustments for:		
Depreciation and amortisation	5,031	1,716
Losses (gains) on disposals, scrappings and settlements of assets and liabilities	8	(50)
Net impairments and movements in credit loss allowances	3,570	25,772
Changes in working capital:		
Loans and advances	(179,968)	22,907
Other assets	2,646	(2,401)
Creditors and accruals	21	3,527
Deposits due to customers	220,319	(28,216)
Other movements	-	(9,297)
	116,319	**44,760**

23. Tax paid

	2020	2019
Current tax for the year recognised in profit or loss	(10,074)	98
Balance at end of the year	2,600	-
	(7,474)	**98**

24. Dividends paid

	2020	2019
Dividends	-	(18,100)

25. Commitments

Operating leases – as lessee (only comparitives)

	2020	2019
Minimum lease payments due		
- within one year	-	2,326
- in second to fifth year inclusive	-	7,217
	-	**9,543**

Operating lease payments represent rentals payable by the bank for certain of its office properties. Leases are negotiated for an average term of five years and rentals and have an average annual escalation of 5%. No contingent rent is payable.

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

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.

	2020	2019
Contingencies		
-Guarantees	72,591	68,062
Letters of credit	4,380	6,266
	76,971	**74,328**

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

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
Fellow subsidiaries under common management	Bank of Baroda (Guyana) Limited
	Bank of Baroda (Tanzania) Limited
	Bank of Baroda (Trinidad & Tobago) Limited
	Bank of Baroda (Ghana) Limited
	Bank of Baroda (Kenya) Limited
	Bank of Baroda (Uganda) Limited
	BOBCARDS Limited
	BOB Capital markets Limited
	Nainital Bank Limited
Overseas branches of Bank of Baroda, India	Bank of Baroda New York
	Bank of Baroda London
	Bank of Baroda Singapore
	Bank of Baroda Durban
	Bank of Baroda Brussels
	Bank of Baroda Johannesburg
	Bank of Baroda Mauritius
	Bank of Baroda Sydney
	Bank of Baroda Dubai
Associate of holding company	Baroda Pioneer Asset Management Company Limited
	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 information page
Members of key management	Mr S K Singh

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019
27. Related parties (continued)		
Related party balances and transactions		
Balances with banks		
Bank of Baroda - Mumbai branch	1,501	1,169
Bank of Baroda New York branch	44,899	-
Bank of Baroda London branch	4,954	4,185
Bank of Baroda Brussels branch	-	5,758
Bank of Baroda Sydney branch	236	-
Bank of Baroda Dubai branch	119,643	-
Bank of Baroda Ney York branch - Short term placements	61,509	-
	232,742	**11,112**
Balances due to other banks and short term borrowings		
Bank of Baroda New York	(95,694)	(48,193)
Bank of Baroda (Uganda) Limited	(119,687)	(43,057)
Bank of Baroda Mauritius	(84,994)	-
Bank of Baroda Brussels branch	(124,627)	-
	(425,002)	**(91,250)**
Interest income		
Bank of Baroda Brussels	1,455	-
Bank of Baroda Mauritius branch	719	-
Bank of Baroda New York branch	3,772	38
Bank of Baroda London branch	523	-
	6,469	**38**
Interest expenditure		
Bank of Baroda (Uganda) Limited	2,452	379
Bank of Baroda Mauritius branch	1,262	-
	3,714	**379**
Transactions with key management		
Salaries and benefits	735	550
Board sitting fees	76	36

28. Comparative figures

Certain comparative figures have been reclassified. There is no material impact due to these reclassifications.

Notes to the Annual Financial Statements

29. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	1,072,667	1,072,667	1,072,667
Financial assets and investments	6	69,746	69,746	69,756
Loans and advances	7	1,173,161	1,173,161	1,173,161
Cash and cash equivalents	4	120,993	120,993	120,993
		2,436,567	**2,436,567**	**2,436,577**

2019

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	362,229	362,229	362,229
Financial assets and investments	6	336,245	336,245	336,245
Loans and advances	7	996,763	996,763	996,763
Cash and cash equivalents	4	99,910	99,910	99,910
		1,795,147	**1,795,147**	**1,795,147**

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Categories of financial liabilities

2020

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	8,694	-	8,694	8,691
Balances due to banks	13	497,423	-	497,423	497,423
Deposits due to customers	14	1,584,087	-	1,584,087	1,584,087
Finance lease obligations		-	12,090	12,090	12,090
		2,090,204	**12,090**	**2,102,294**	**2,102,291**

2019

	Note(s)	Amortised cost	Total	Fair value
Accruals and other payables	15	8,695	8,695	8,695
Balances due to banks	13	134,366	134,366	134,366
Deposits due to customers	14	1,363,768	1,363,768	1,363,768
		1,506,829	**1,506,829**	**1,506,829**

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 15% 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, lease receivables, 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.

Credit rating assessment at the time of sanction and review

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

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 decremental 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

AAA	910,190	853,372
AA	140,860	18,487
A	13,262	98
B and BBB	34,257	56,057
Unrated and NPA	150,013	204,723
	1,248,582	**1,132,737**

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

		2020			2019		
		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	1,072,667	-	1,072,667	362,229	-	362,229
Financial assets and other investments	6	69,746	-	69,746	336,245	-	336,245
Loans and advances to customers	7	1,248,582	(75,421)	1,173,161	1,132,737	(135,974)	996,763
Cash and cash equivalents	4	120,993	-	120,993	99,910	-	99,910
		2,511,988	**(75,421)**	**2,436,567**	**1,931,121**	**(135,974)**	**1,795,147**

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forwardlooking 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 mangaement 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.

Collateral and other credit enhancements obtained

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

Collateral classified as follows		
Cash deposits	19,370	14,651
Mortgage bond and other immovable properties	1,028,510	938,744
Unsecured	200,702	179,342
	1,248,582	**1,132,737**

Concentration risk

The bank had a significant concentration risk resulting from its top ten customers. The total exposure relating to these customers was P 322 777 000 (2019: P 317 070 631), comprising 30% of the gross loan book at the reporting date.

In addition, these exposures individually exceeded 10% of the bank's unimpaired capital and comprised 86% (2019:118%) of the unimpaired capital at the reporting date.

Liquidity risk

29. Financial instruments and risk management (continued)

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 5% of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

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 2020	**Upto 3months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash and Balances with Bank of Botswana	120,993	69,746	-	-	190,739
Balances with other banks	951,180	121,487	-	-	1,072,667
Loans and advances to customers	255,259	22,216	253,453	642,233	1,173,161
Total financial assets	1,327,432	213,449	253,453	642,233	2,436,567
Plant and equipment and right to use asset	-	-	-	17,446	17,446
Other assets	-	1,188	-	-	1,188
Deferred tax	-	-	10	-	10
Total assets	1,327,432	214,637	253,463	659,679	2,455,211
	-	-	-	-	-
Deposit due to customers	571,543	344,144	668,400	-	1,584,087
Due to other banks	412,429	84,994	-	-	497,423
Finance lease liability	-	3,422	8,668	-	12,090
Creditors and accruals and taxation payable	-	11,948	-	-	11,948
Total financial liabilities	983,972	444,508	677,068	-	2,105,548
Equity funds	-	-	-	349,663	349,663
Total liabilities and equity	983,972	444,508	677,068	349,663	2,455,211
Net liquidity gap	343,460	(229,871)	(423,605)	310,016	-
Off balance sheet items- Guarantees and LCs	-	-	76,971	-	76,971

At 31 March 2019	**Upto 3months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets	-	-	-	-	-
Cash and Balances with Bank of Botswana	99,910	-	-	-	99,910

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Balances with other banks	362,229	-	-	-	362,229
Other financial assets	336,245	-	-	-	336,245
Loans and advances to customers	45,248	135,569	617,742	198,204	996,763
Total financial assets	843,632	135,569	617,742	198,204	1,795,147
Plant and equipment	-	-	-	3,515	3,515
Other assets	-	3,834	-	-	3,834
Deferred tax	-	-	10	-	10
Total assets	843,632	139,403	617,752	201,719	1,802,506
Liabilities					
Deposits due to customers	1,012,845	277,048	73,875	-	1,363,768
Balance due to other banks	134,366	-	-	-	134,366
Creditors and accruals	-	9,330	-	-	9,330
Total financial liabilities	1,147,211	286,378	73,875	-	1,507,464
Equity funds	-	-	-	295,042	295,042
Total liabilities and equity	1,147,211	286,378	73,875	295,042	1,802,506
Net liquidity gap	(303,579)	(146,975)	543,877	(93,323)	-
Off balance sheet items- Guarantees	7,792	11,291	24,422	30,804	74,309
Operating lease commitments - Payable	705	1,621	7,217	-	9,543

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

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 (2019 :USD 500 000). 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)

	2020	2019
US Dollar exposure:		
Cash and cash equivalents	1,491	2,006
Balances with other banks	526,910	226,049
Loans and advances	35,925	108,490
Deposits due to customers	(194,319)	(200,459)
Balances due to other banks	(360,185)	(134,307)
Net US Dollar exposure	**9,822**	**1,779**
Euro exposure:		
Balances with other banks	138,655	5,758
Deposits due to customers	(3,329)	(1,995)
Balances with other banks	(137,232)	-
Net Euro exposure	**(1,906)**	**3,763**
GBP exposure:		
Balances with other banks	4,953	4,184
Deposit liabilities	(5,288)	(4,192)
Net GBP exposure	**(335)**	**(8)**
ZAR exposure:		
Cash and cash equivalents	552	-
Balances with other banks	91,328	23,143
Deposits from customers	(24,935)	(13,347)
ZAR exposure	**66,945**	**9,796**
AUD and INR:		
Balances with other banks	1,737	1,169
Net exposure to foreign currency in Pula	**76,263**	**16,499**

Notes to the Annual Financial Statements

Figures in Pula thousand	2020	2019

29. Financial instruments and risk management (continued)

Exposure in foreign currency amounts

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

	2020	2019
US Dollar exposure:		
Cash and cash equivalents	124	186
Balances with other banks	44,049	21,000
Loans and advances	3,003	10,078
Deposits due to customers	(16,245)	(18,622)
Balances due to other banks	(30,111)	(12,477)
Net US Dollar exposure	**820**	**165**
Euro exposure:		
Balances with other banks	11,000	476
Deposits due to customers	(264)	(165)
Balances due to other banks	(10,887)	-
Net Euro exposure	**(151)**	**311**
GBP exposure:		
Balances with other banks	336	296
Deposit due to customers	(358)	(297)
Net GBP exposure	**(22)**	**(1)**
ZAR exposure:		
Balances with other banks	129,687	31,209
Cash and cash equivalents	784	-
Deposits due to customers	(35,408)	(18,000)
Net ZAR exposure	**95,063**	**13,209**
INR exposure:		
Balances with other banks	9,430	7,453

Exchange rates

The following closing exchange rates were applied at reporting date:

	2020	2019
Pula per unit of foreign currency:		
US Dollar	11.961	10.764
Euro	12.605	12.075
ZAR	0.704	0.741
GBP	14.76	14.29
INR	0.16	0.16

29. Financial instruments and risk management (continued)

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.

	2020	2020	2019	2019
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
US Dollar 10% (2019: 10 %)	982	(982)	13	(13)
Euro 10% (2019: 10 %)	(190)	190	341	(341)
ZAR 10% (2019: 10 %)	6,694	(6,694)	728	(728)
GBP 10% (2019: 10 %)	(33)	33	1	(1)
INR 10% (2019: 10 %)	150	(150)	43	(43)
	7,603	**(7,603)**	**1,126**	**(1,126)**

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.

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

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 2020	Under-3 months	3-12 Months	1-5 years	over 5 years	Non interest bearing	Total
Cash and balances with Bank of Botswana	-	-	-	-	120,993	120,993
Investments in Bank of Botswana Certificates and Securities	69,746	-	-	-	-	69,746
Balances with other banks	951,180	121,487	-	-	-	1,072,667
Loans and advances to customers	255,259	22,216	253,453	642,233	-	1,173,161
Total financial assets	1,276,185	143,703	253,453	642,233	120,993	2,436,567
Plant and equipment and right to use asset	-	-	-	-	17,446	17,446
Deferred tax	-	-	-	-	10	10
Other assets	-	-	-	-	1,188	1,188
Total Assets	1,276,185	143,703	253,453	642,233	139,637	2,455,211
Liabilities						
Deposits due to customers	371,777	344,144	668,400	-	199,766	1,584,087
Creditors, accruals and lease liability	3,422	8,668	-	-	8,689	20,779
Balances due to other banks	412,429	84,994	-	-	-	497,423
Total financial liabilities	787,628	437,806	668,400	-	208,455	2,102,289
Equity funds and other liabilities	-	-	-	-	349,663	349,663
Taxation and VAT payable	-	-	-	-	3,259	3,259
Total liabilities	787,628	437,806	668,400	-	558,118	2,455,211
Net interest gap liquidity	488,557	(294,103)	(414,947)	642,233	(418,481)	-

At 31 March 2019	Under-3 months	3 to 12 months	1-5 years	Over 5 years	Non - interest bearing	Total
Cash and balances with Bank of Botswana	-	-	-	-	99,910	99,910
Balances with other banks	362,229	-	-	-	-	362,229
Investment in Bank of Botswana Certificates	336,245	-	-	-	-	336,245
	-	-	-	-	-	-
Loans and advances to customers	30,855	14,393	135,569	617,742	198,204	996,763
Total financial assets	729,329	14,393	135,569	617,742	298,114	1,795,147
Plant and equipment	-	-	-	-	3,515	3,515
Deferred tax	-	-	-	-	10	10
Other assets	-	-	-	-	3,834	3,834
Total Assets	729,329	14,393	135,569	617,742	305,473	1,802,506
Liabilities						
Deposits due to customers	478,348	204,936	-	524,852	155,632	1,363,768

Notes to the Annual Financial Statements

29. Financial instruments and risk management (continued)

Balance due to other banks	43,002	43,171	48,193	-	-	134,366
Creditors, accruals and operating lease liability	-	-	-	-	9,330	9,330
Total financial liabilities	521,350	248,107	48,193	524,852	164,962	1,507,464
Equity funds and other liabilities	-	-	-	-	295,042	295,042
Total liabilities	521,350	248,107	48,193	524,852	460,004	1,802,506
Net interest gap liquidity	207,979	(233,714)	87,376	92,890	(154,531)	-

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)

	2020	2020	2019	2019
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
Investments and bank balances	5,363	(5,363)	3,492	(3,492)
Loans and advances	5,865	(5,865)	4,983	(4,983)
Deposits to customers	(6,921)	6,921	(6,045)	6,045
Balances due to other banks and borrowings	(2,487)	2,487	(671)	671
	1,820	**(1,820)**	**1,759**	**(1,759)**

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;

29. Financial instruments and risk management (continued)

- 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.

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 11 March 2020, the World Health Organisation (WHO) officially declared COVID-19, the disease caused by novel coronavirus, a pandemic and this regard, the Government of Botswana declared a State of Emergency from the 02 April 2020 and also imposed a lockdown that affects almost all companies that operate in Botswana. Management is closely monitoring the evolution of this pandemic, including how it may affect the bank, its customers, the economy and the general population. Management has also determined the financial impact of these events does not significantly affect the bank's financial performance during the current year due to the diversity of customer base and the support provided by Government of Botswana to many of the bank's customers. The management has considered a macro economic factor to adjust the expected credit losses based on the present circumstances. Management has not been aware of any cases of COVID-19 infection among its people and the outbreak has not had a significant impact to the bank's operations to date. The bank currently has an appropriate response plan in place and will continue to monitor and assess the ongoing development and respond accordingly.

Detailed Income Statement

Figures in Pula thousand	Note(s)	2020	2019
Interest and similar income	16	**105,006**	**97,166**
Interest and similar expenditure	17	**(40,843)**	**(34,726)**
Net interest income		**64,163**	**62,440**
Other operating income	18	**31,792**	**20,413**
Other operating gains (losses)			
(Losses) gains on disposal of assets or settlement of liabilities		(8)	50
Movement in credit loss allowances	19	(3,570)	(25,772)
Expenses (Refer to page 59)		**(27,685)**	**(26,329)**
Profit (loss) before taxation		**64,692**	**30,802**
Taxation	20	(10,074)	98
Profit (loss) for the year		**54,618**	**30,900**

The supplementary information presented does not form part of the annual financial statements and is unaudited

Detailed Income Statement

Figures in Pula thousand	Note(s)	2020	2019
Other operating expenses			
Administration and management fees		(2,241)	(683)
Advertising		(220)	(188)
Auditors remuneration - external auditors	19	(554)	(500)
Board sitting fees		(77)	(36)
Consulting and professional fees		(435)	(928)
Consulting and professional fees - legal fees		(256)	(424)
Depreciation		(1,503)	(1,716)
Depreciation- Rights to use asset		(3,528)	-
Donations		(99)	(50)
Employee costs		(11,439)	(10,420)
Entertainment		(383)	(358)
IT expenses		(21)	(79)
Insurance		(834)	(1,228)
Lease rentals on operating lease		549	(3,019)
Medical expenses		(422)	(357)
Motor vehicle expenses		(218)	(149)
Municipal expenses		(306)	(261)
Printing and stationery		(725)	(497)
Rates, licenses and levies		(144)	(160)
Repairs and maintenance		(1,808)	(2,244)
Security		(695)	(743)
Staff welfare		(142)	(87)
Telephone and fax		(1,060)	(998)
Travel		(166)	(343)
VAT expenses		(958)	(861)
		(27,685)	**(26,329)**