GROWTH

Botswana Savings Bank

welcome to smooth banking

ANNUAL REPORT 2019/20

Our 2019/20 Annual Report theme; 'Growth', is a regurgitation and celebration of our deep rooted desire to take along our clients and stakeholders on our journey of progress.

GROWTH

Botswana has enjoyed tremendous economic growth that has seen the lives of ordinary citizens empowered significantly. It is from the country's narrative that our passion for the growth has been re-ignited again.

This is our way of releasing momentum and perpetuating the unraveling story of Botswana's growth.

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About Botswana Savings Bank

Botswana Savings Bank (BSB) is an institution wholly owned by the Government of Botswana with a specific mandate of mobilizing the nation to save as well as providing inclusive financial services.

The Bank's headquarters are based in Gaborone at Broadhurst Mall; Tshomarelo House with branches in Gaborone, Francistown, Mahalapye, Serowe and Hunkutsi. Botswana Savings Bank services are also accessed through Botswana Post offices across the country.

The Bank is governed by an Independent Board of Directors, which reports to the Ministry of Finance and Economic Development. Botswana Savings Bank is supervised by the Central Bank under the custodian of Ministry of Finance and Economic Development. BSB is also required to carry out its business according to sound commercial principles and in accordance with the Banking Act of 1995. The Bank is a member of the World Savings Bank Institute - an association of Savings Banks represented in over 90 countries worldwide.

VISION

We are the number one African financial institution turning clients into fans with our smooth life event solutions.

MISSION

We provide the lowest cost and fastest banking, financial and life events services for all businesses and individuals from cradle to grave of all income groups in Botswana and beyond. We provide our products and services through a team of high performing staff and strategic partners and state-of-the-art technology which enables pro-active service to our clients while creating wealth for our shareholders, leading to more wealth and jobs for Botswana and its citizens.

VALUES

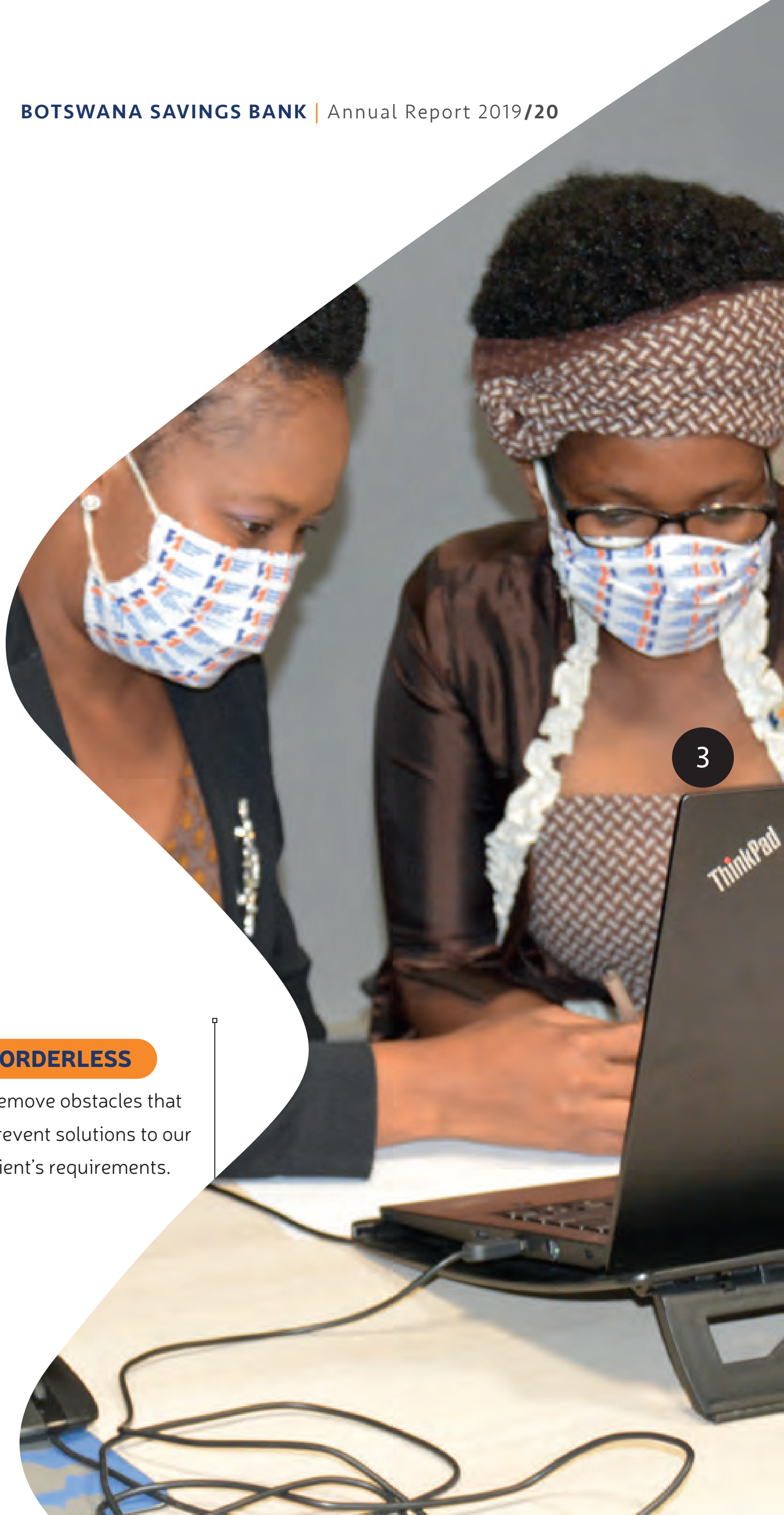
CUSTOMER FIRST
Products and Services designed with customers in mind.

SPEED
Faster service turn around.

SMOOTH
Provide a friction free, cost efficient and high performance working environment.

EMPOWERMENT
Develop associates to match and surpass the bank's standards.

BORDERLESS
Remove obstacles that prevent solutions to our client's requirements.



General Information

BUSINESS

Botswana Savings Bank was established by an Act of Parliament, the Botswana Savings Bank Act of 1992, as a wholly owned financial institution of the Botswana Government for the purpose of providing banking and financial services for all people in Botswana.

A Transition Act (The BSB Transition Act 2012) has been passed by Parliament to allow BSB to convert to a public company named the "Botswana Savings Bank Limited". However, the decision to transform the bank from a statutory bank to a commercial bank has been deferred until further notice.

Board of Directors

Name	Position	First Appointed	Expiry
Mr. K. Molelowatladi	Chairman	01/07/2018	30/06/2022
Mr. T. Gabaraane	Deputy Chairman	01/05/2015	30/06/2021
Mr. M. Libengo	Member	01/04/2012	30/06/2021
Mrs. M. Gaobakwe	Member	01/02/2015	30/06/2021
Mr. N. Marumoloa	Chief Executive Officer	01/04/2018	Further notice
Ms. M. Basinyi	Member	01/11/2017	31/10/2021
Mr. C. Ramatlhakwane	Member	01/07/2018	Further notice
Mrs. S. Molale	Member	01/07/2018	30/06/2022
Mrs. E. Lemo	Member	01/07/2018	30/06/2022

Registered office

Botswana Savings Bank
Tshomarelo House
Cnr Letswai/Lekgarapa Rd
Broadhurst Mall
P.O. Box 1150
Gaborone

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Auditor

Botswana Savings Bank (BSB) is an institution wholly owned by the Government of Botswana with a specific mandate of mobilizing the nation to save as well as providing inclusive financial services. The Bank is governed by an Independent Board of Directors which reports to the Ministry of Finance and Economic Development. Botswana Savings Bank is supervised by the Central Bank under the custodian of Ministry of Finance and Economic Development.

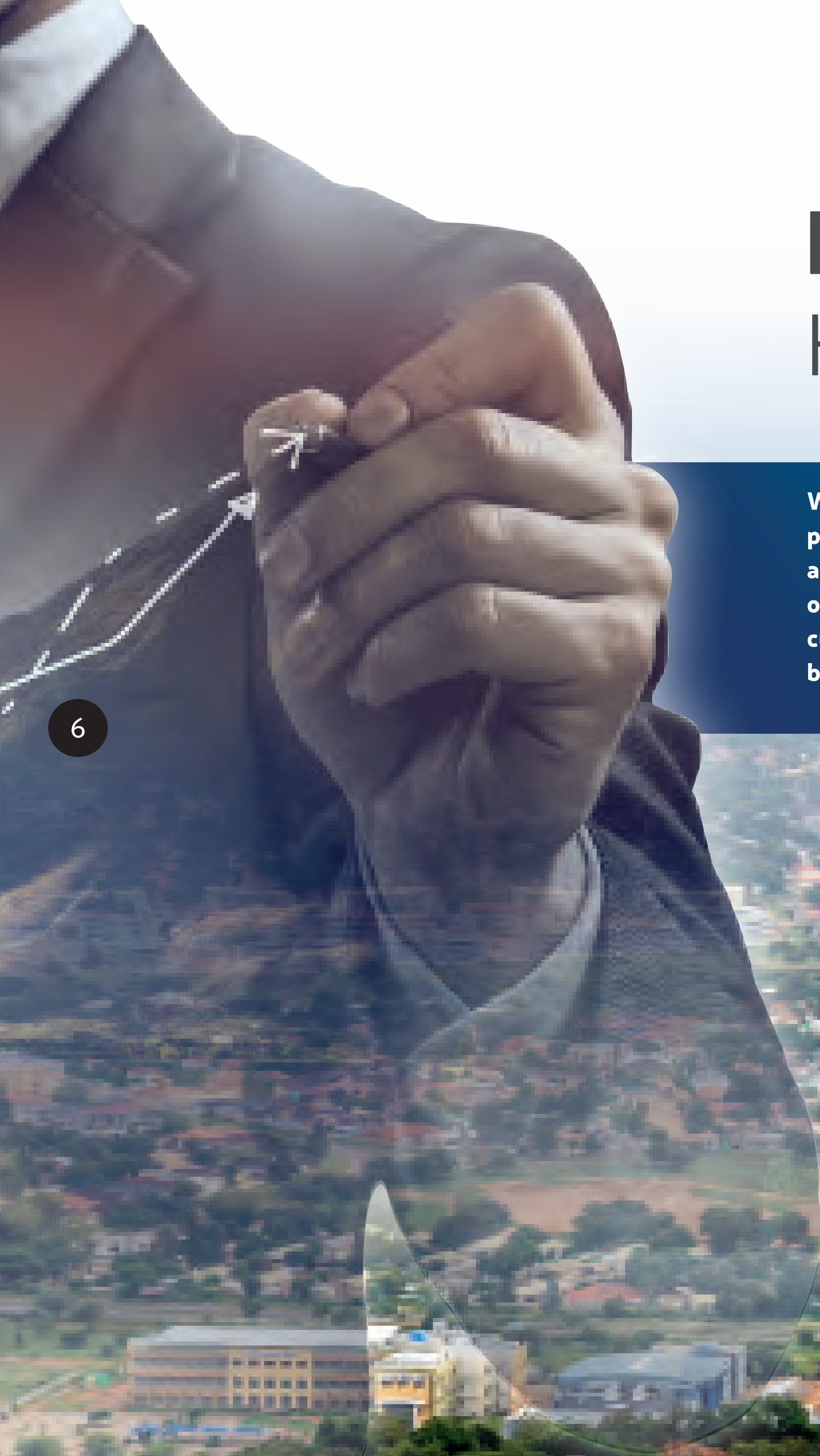
Employing one hundred and ninety-six employees, Botswana Savings Bank services customers throughout the country through the Botswana Postal Services (core branded) and stand-alone branches, network of fourteen ATMs, nine slimline ATMs and five with Deposit Taking ATMs.

P2.92 Bn
Balance

6
Branches

196
Employees

14
ATMs



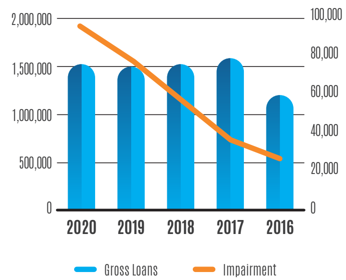
Financial Highlights

We are committed to achieving growth, performance and sustainable business and we are committed to delivering on our financial inclusion mandate for our customers and communities as set up by the Government of Botswana.

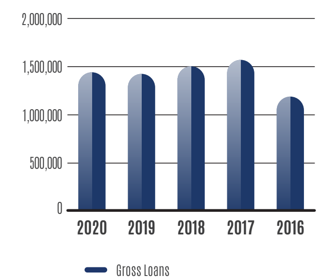
Non- Interest Income	32%
Profit Margin	9%
Cost to Income	62%
CAR	17.3%
Interest Income	68%
Loan/Deposit ratio	64%

Financial Graphs

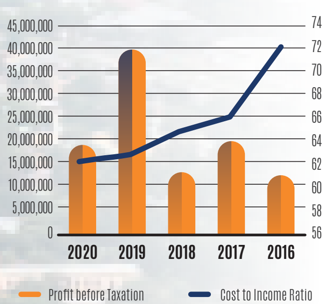
Gross Loans Vs Impairments



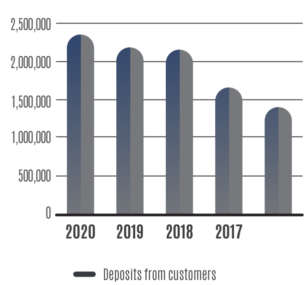
Net Loans and Advances



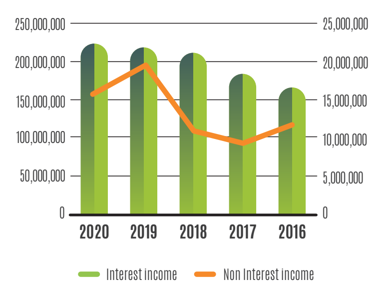
Profit before Tax Vs Cost to Income



Deposits from customers



Gross Loans Vs Impairments



Non-Financial Highlights

In addition to measuring our financial performance, we also measure our non-financial performance.

The data focuses on specific financial inclusion parameters and are summarized as follows:

- Improving access to financial solutions for a customer base that is defined as underserved by financial institutions.
- Increased access to customers in areas with low electronic financial access. The Bank launched more ATMs in the under serviced areas such as Old Naledi, Gabane and Mogoditshane during the current financial year. We continue to invest in these access solutions to improve on these variables going forward. This will allow us to continue providing easier access to our solutions to the underbanked, while reducing the costs of providing these services to these markets.

Chairman's Report

It gives me great pleasure to present the Annual Financial Statements for Botswana Savings Bank (BSB) for the year ended 31 March 2020. It is indeed an honour to present to our stakeholders as Chairman of the Board.

8%

INCREASE IN CUSTOMER SAVINGS

The history of BSB stretches back more than 20 years. Established in 1963, the bank has since experienced transformational growth, moving from a traditional bank to a 21st century financial institution with independent branches in Gaborone, Francistown, Serowe, Mahalapye and Hukuntsi. We continue to increase our physical proximity to customers as part of our financial inclusion mandate which has been embedded into our corporate strategy. Ultimately, our goal is to increase our footprint and brand visibility as we provide affordable savings solutions across the country.

Financial highlights:

- **Net interest income declined by 14% to P107 million** (2019: P124 million)
- **Operating costs were up 14% year on year to P106 million** (2019: P93 million)
- **Profit after tax was P13.8 million** (2019: P35.2 million)
- **Net advances remained stagnant at P1.41 billion** (2019: P1.41 billion)
- **Customer savings were up 8% to P2.3 billion** (2019: P2.18 billion)
- **Return on Equity was 6%** (2019: 19%)

Economic Outlook

Inflation remains under control at 2.2% as at end of March 2020, remaining below the lower bound of the Bank of Botswana's medium-term objective range of 3-6 percent. Low inflation reflects a combination of low domestic demand and modest increases in foreign prices. Real GDP growth was 3% in the twelve months to December 2019, compared to 4.5% recorded in 2018. This is attributable to weakened global demand for rough diamonds due to the oversupply in the polishing and retailing industries, leading to lower mining production.

The Bank has most certainly been impacted by the COVID-19 protocols. The preventative measures which have been put in place by the government are impacting negatively on the operations of the business.

There is a lot of uncertainty in the year ahead, as businesses try to work around the new norm.

It is encouraging though, to note that the Government of Botswana has taken steps to assist entities recover from the COVID-19 impact to ensure business continuity. However, we remain confident that in all these adversities, the Bank will be able to identify opportunities to exploit.

Ever increasing focus on Regulations

The regulatory environment continues to focus on issues around Know Your Customer (KYC), Anti-Money Laundering and Terrorism Financing (AMLTF). The Bank is determined to ensure adequate systems and processes are put in place to remain compliant with evolving requirements emanating from national and international regulators. To reinforce this commitment, the bank has established a risk department to perform the functions related to risk management and compliance. The regulatory capital management requirement is pertinent in the challenging environment and the bank will endeavour to maintain its capital adequacy ratio in line with the stipulated benchmark and all other regulatory requirements within the regulators range.

Corporate Governance

Strong governance is integral to the long-term success of the Bank and the Board is committed to upholding the values of corporate governance including, accountability, integrity, transparency and ethical standards. The Board acknowledges that the Bank does not operate in a vacuum but is an integral part of the society and therefore has accountability towards its current and future stakeholders.

The Bank subscribes to the principles of the King IV Code and applies its recommended practices in a way that is appropriate for the Bank. Our view is that mindful application harnesses the benefits of corporate governance in the interests of the Bank. Our overall objective is to maintain sound corporate governance which is an essential element of good corporate citizenship. Corporate governance is no longer viewed as a compliance exercise but a lever for value creation. This can only be achieved when our board members live our values.

Risk Management

Credit, Market and Operational risks have remained on the bank's radar of significant risk, while looking closely at other risks that the Bank is exposed to, this is done through the structured governance structures in place, such as the Risk & Compliance Committee and the Board. The Bank continued to modernize its processes, reviewing existing policies as well as developing new ones in other areas.

Among the policies reviewed include, human capital, anti-money laundering/countering the financing of terrorism, risk management and governance. Focus during the year was on the roll-out and implementation of such policies. Monitoring of risks was enhanced by setting and cascading the risk appetite determined into thresholds and limits across operations.

Capacity building initiatives were rolled out during the year, targeting fraud risk management and Anti- Money Laundering (AML)/ Countering the Financing of Terrorism (CFT) and Know - Your-Customer (KYC) related areas, the aim being to enable the staffers to adequately execute their responsibilities in various areas of the Bank.

The COVID-19 pandemic affected the risk profile of the bank. Risks owing to the pandemic have been identified, measured, monitored and effectively controlled throughout the period under review. The economic contraction has resulted in heighted expected credited losses from hard-hit economic sectors such as the hospitality and tourism. Loan repayment relief interventions have been extended to affected customers in good-standing.

Performance

The Bank was profitable with net profit after tax of P13.8 million (2019: P35.2 million). The decline in profit was attributable to falling revenues at the back of declining loan book compounded by more than 100% increased impairment provisions. The bank's balance sheet grew by 13% to P2.9 billion in March 2020 (2019: P2.6 billion). Balance sheet growth was partly due to the adoption of IFRS 16 lease that resulted in the capitalization of leased assets.

Forward looking

The Bank is determined to ensure that it delivers on the five-year strategic plan by end of 2021. The bank has embarked on various long-term projects that are currently work in progress. These projects are part of the bank's growth strategy with a focus to increase our footprint in Botswana. This includes the opening of new branches across the country to ensure that our services are accessible to all Batswana. A major drawback in implementing the bank's strategy was lack of integration of systems.

The Bank is working on implementing new systems to improve the bank's efficiency and effectiveness.

We are looking forward to the phasing out of the traditional passbooks as we introduce digital channels and automate our processes for customer convenience.

We remain confident that despite the rapid changes in our economic environment, our strategic priorities will enable us to drive sustainable growth for our business.

Corporate Social Responsibility

BSB has fully embraced Corporate Social Responsibility (CSR) through dedicated activities and initiatives. CSR is not a new activity for Botswana Savings Bank, but has developed consistently over the years to become an integral part of our business strategy. Our investment in CSR activities reflects the importance we attach to it and our commitment to create value for all stakeholders. We are mindful of our social responsibilities and will maintain a sharp focus on the further enhancement of our CSR objectives and activities. The Board and Management Team are committed towards the interests and welfare of the communities it serves. The purpose of our CSR investment is to promote educational, arts and culture, sports and recreation, as well as social and welfare development in Botswana.

Acknowledgement

On behalf of the Board of Directors, I wish to thank the Government of the Republic of Botswana for entrusting me with the responsibility to provide leadership and direction to the Bank and ultimate delivery of its strategic plan. We will always be grateful for the invaluable support we continue to receive from our parent Ministry.

I would like to extend my sincere gratitude to the Management Team and Staff of BSB for their dedication throughout the year. To our valued customers, I am incredibly grateful for their support, loyalty and patronage that we have enjoyed during the year. We expect our relationship to be even much stronger in the coming years.

I wish to extend my most sincere gratitude to our regulators, communities and business partners for continuously challenging our concepts, testing our resilience and ultimately contributing to the sustainable infrastructure which will support our future growth story.

Finally, I would like to thank my fellow board members from whom I have drawn some wisdom and insights for supporting me as Chairman of the Board. I must say that I have a strong team behind me, and I commend them for their continued support and commitment to the Bank. Together we can achieve more.

Kealeboga Molelowatladi
Board Chairman

BOARD OF DIRECTORS

Kealeboga Molelowatladi
BSB Board Chairman

A B C D

A] Thatayaone Gabaraane
Deputy Board Chairman

B] Matildah Basinyi
Board Member

C] Cornelius Ramatlhakwane
Board Member

D] Mpho Gaobakwe
Board Member

E] Sarah Molale
Board Member

F] Moshe Libengo
Board Member

G] Esther Lemo
Board Member

H] Thabo Mzwinila
Board Secretary

I] Nixon Marumoloa
Board Member
Chief Executive Officer

Chief Executive Officer's Report

Overview

I am honoured and privileged to present the BSB annual financial statements for the year ended 31 March 2020. During the year under review, the Bank focused on execution of the five-year strategic plan which commenced in 2016.

P1.41Bn

NET ADVANCES

The Bank acknowledges that digital transformation that is customer centric will create winning strategies. The Bank embarked on various long-term projects as part of our growth strategy with a focus to increase our footprint in Botswana. In fulfilling our mandate for financial inclusion, the Bank focused more on expansion to take our services to the communities that we serve. Our focus in 2020 was on expansion, visibility, continued mobilization and delivery of our inclusive finance agenda to provide simple, appropriate and accessible financial solutions to the under-served in a sustainable manner. In order to achieve our goal, the bank had to make some compromises on some of our short-term goals in order to fulfil long term solutions to our customers.

Financial highlights:

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- **Operating costs were up 14% year on year to P106 million** (2019: P93 million)
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- **Customer savings were up 8% to P2.3 billion** (2019: P2.18 billion)
- **Return on Equity was 6%** (2019: 19%)

Owing to the suspension of the Government Employee Motor Vehicle and Residential Property Advance Scheme (GEMVAS) loan, the Bank's loan book has been on a downward trend resulting in a reduction in interest income. The Bank has launched new products in the fourth quarter and expect the loan book to take an upward direction. Our balance sheet recorded a 13% growth.

The Bank's 2020 financial results reflect a deterioration as the loan book, being the main driver of revenue remained stagnant.

Liquidity

The Bank continued to maintain a moderate liquidity position throughout the financial year. Management will continue to monitor the Bank's liquidity by maintaining a conservative position and leveraging on low cost funding whenever possible.

Risk Management

The Bank recognizes that strategy, risk, performance, and sustainability are inseparable hence the need to invest in risk management. The banks' Enterprise Risk Department is still at infancy stage, having been set up a year ago. The key functions include risk and compliance, credit risk, fraud and investigation and physical security. Various policies in respect of risk management have been put in place. In order to remain compliant with the rigorous regulatory requirements, continuous training to conscientize staff on Anti- Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Know Your Customer (KYC) matters has been incorporated into the bank's corporate training plan. The Bank's risk management strategy is to put emphasis on prevention measures on money laundering, financing of terrorism within the Bank and continuous detection of related transactions/ activities.

Milestones

In advancing the bank's financial inclusion agenda, we are proud to announce that BSB launched four (4) Automated Teller Machines (ATMs) in Gaborone, Mogoditshane, Old Naledi and Bokaa. This is in partial fulfillment of our strategy and commitment to our communities to ensure that our products and services are accessible to all. It gives us pride to be the sole service provider in these areas where financial services were previously non-existent.

During the same period, the bank identified a superior banking system that will be implemented and rolled out by 2021. This banking system shall be the backbone in the bank's digital transformation. It is through this system that the bank will optimize its internal processes to provide a sound value proposition to Botswana and improve profitable of the bank by reducing the cost to income ratio.

Corporate Social Responsibility

As a corporate citizen, Botswana Savings Bank believes that the responsibility to give back and make a positive impact to the communities in which we live and work is not just a social agenda, but a good way of doing business. The Bank executes its corporate social responsibility (CSR) mandate by identifying deserving beneficiaries, supporting various social responsibility projects, enriching and uplifting the lives of many people in need across the country.

Various community projects have been identified by the Bank to support worthy causes. During the year under review, BSB has invested in worthy projects throughout the country, some of which include initiatives carried out at Mathangwane Primary School, Sebina Primary School and Lehututu Junior Secondary School. BSB believes learners are motivated when they compete and hence its continued support towards computer literacy & the annual prize giving ceremony for schools. The Bank is committed to making quarterly donations to Adopt a Person Home Based Care for the upkeep of the Home.

Donations and sponsorships were also made to Desert Bush Walk and Mashokga Excellence Awards. This is just a few of the many projects that we support in the communities that we serve. Giving back to the Community remains a priority for BSB, and the Bank will continue to advocate for community involvement throughout the country.

Looking Ahead

As Botswana Savings Bank approaches the final year in the strategic period of 2016-2021, we are more determined to ensure that the Bank totally transforms to provide life events, cradle to grave products through digitised service channels for all income groups in Botswana and beyond.

Improved products will be launched into the market by Q1 of 2021. The highlight product for the new financial year is the Pensioners loan facility. This product will ensure that the marginalised senior citizens continue to have financial freedom and access to financial services during their years of retirement.

It is in the final year of the strategic period that the digitisation and integration programme will be executed and partially completed, with some elements overlapping into the following financial year. Point of Sales Machines will be deployed across our network to enable the phasing out of passbooks which will be replaced with Visa enabled BSB Debit Cards. As other banks close branches, we will open new branches and service points across the country to ensure we live up to our mandate of financial inclusion.

The COVID-19 pandemic is certainly the most challenging issue the world is faced with as this has affected economic activity. As we know, COVID-19 has massively disrupted global life. We have witnessed the closure of some businesses, workers being furloughed or laid off, and most people were under stay at home orders. Whilst other jobs could transition from an in-person to remote work environment, that is not the case for most of the jobs that rely on interaction between customers and workers, such as retail sales and hospitality. This situation has the potential to increase credit risk leading to increased expected credit losses. The bank has responded swiftly to the COVID-19 pandemic by giving some cash- flow relief such as repayment holiday to eligible customers that are most affected by the pandemic. This is availed to selected sectors and the facility is based on individual assessment.

We remain confident that despite the challenges brought about by the COVID19 pandemic, our strategic priorities will enable us to drive sustainable growth for our business.

Conclusion

Finally, I would like to express my sincere gratitude to the shareholder, the Government of the Republic of Botswana for their continued support. Without their financial assistance, it would not have been possible to execute our financial inclusion agenda. We will always be grateful for the P141 million government grant afforded us during the financial year. The purpose of the grant was to fund selected key BSB projects including the launching of new branches in line with our purpose to reach and bank the under-served. Most of these projects are nearing completion and believe that the new branches will be operational in the next financial year.

To the BSB Board, I would like to say thank you for the guidance you have provided during the year. It has been a great privilege to work under your leadership. It is no doubt that without your support it would not have been possible to implement our strategy.

I wish to appreciate and applaud the Management Team for their concerted efforts in the Bank's great achievement. The Bank requires a management team with skills and ambition to take the opportunities that lay ahead. It is our dedicated and committed employees who turn the Management Team's ideas into reality at the sharp end of the business. Their continued support to the bank over the years has been instrumental in our enduring success. We will continue to invest in our people as they are our pillars in driving the great success the Bank has realized to date.

To our valued customers, I would like to thank you for your continued support and loyalty, and more importantly, for trusting us to grow your wealth. We always promise to give you smooth service.

Lastly, to our partners and other stakeholders, I wish to thank you for partnering with us to deliver smooth life event solutions to our clients. The Bank remains committed to growing its partnerships and strengthening relationships.

Nixon Marumoloa
Chief Executive Officer

EXECUTIVE MANAGEMENT

Pedzani Tafa
Director, Operations

Nixon Marumoloa
Chief Executive Officer

Kabelo Ngwako
Director, Support Services [Acting]

SENIOR MANAGEMENT

Patrick Mmusi	**Bomolemo Selaledi**	**Kagiso Balopi**	**Tsholofelo Kokorwe**	**Beauty Bareki**	**Amogelang Mathake**	**Tebogo Mogotsi**	**Obusitswe Keabaitse**
Head, Internal Audit	*Head, Marketing & Corporate Affairs*	*Head, Enterprise Risk Management & Compliance*	*Head, Sales*	*Head, Central Processing*	*Head, Strategy & Innovation*	*Head, Human Capital*	*Head, Client Services*

Amogelang Mathake | *Head, Strategy & Innovation*

STRATEGY & INNOVATION

The role of the Strategy & Innovation Department is to develop, implement, coordinate/monitor and evaluate the bank's corporate strategic direction. Its mandate hinges on effective allocation of company's resources, establishment of business expectations and improvement of competitive position, as well as increasing of shareholder value.

For the financial year under review, government approved an injection of BWP 141 million geared towards financial inclusion and digitisation projects.

Financial Inclusion

During the year under review, BSB remained as the Bank with the largest footprint in Botswana through the Agency relationship with Botswana Post. In addition, the Bank managed to open Hukuntsi core-branded branch fully equipped for all BSB services including cash transactions, account opening, loan applications and Automated Teller Machine (ATM). This was a welcomed development for the Hukuntsi village and Kgalagadi region as a whole as it became the only bank within 100KM radius.

For the ensuing financial year, five (5) branches, three (3) smart branches and two (2) full branches, have been planned in Gumare, Kanye, Molepolole, Maun and Palapye as part of financial inclusion drive.

Digital Transformation

Through its digitisation drive, the bank managed to increase its Automated Teller Machines (ATMs) footprint by availing their services in Old Naledi, Bokaa, Mogoditshane and Gabane. These ATMs were strategically located in areas that did not have any banking services, which as a result supported the Bank's financial inclusion drive.

The Bank plans to expand it's digitisation drive through the implementation of an improved core banking system coupled with its associated digital channels. All five (5) new branches will be equipped with Automated Teller Machines and two (2) off-site ATMs implemented in selected strategic locations.

Growth Strategy

In implementing a growth strategy, management focused on initiating and planning for the following strategic projects. The growth transition is likely to be experienced in the coming financial year.

1. Improved Accessibility through new branches and strategic partnerships
2. Improved Digitisation drive through a new banking system and associated channels
3. Market analysis and improved product offering

4. Improved operational efficiencies through processes re-engineering and talent management.

High performance culture

The bank continues to drive high performance culture through a clear performance management system that is linked to the corporate strategy.

Bomolemo Saleladi | *Head, Marketing & Corporate Affairs*

MARKETING & CORPORATE AFFAIRS

The Marketing & Corporate Affairs Department is responsible for creating and enhancing public awareness of the Botswana Savings Bank's products and services. This strategic positioning of the BSB brand internally and externally is done through product advertising, systematic campaigns and corporate social responsibility initiatives.

During the year under review the Bank focused on rolling out targeted product solutions to its customers to increase revenue. Various campaigns were conducted which encouraged long term savings. To further increase the Banks footprint, brand visibility and financial inclusion uptake, additional ATMs were rolled out countrywide and branch expansion through the opening of the Hukuntsi Branch. Tshomarelo House was prominently branded to improve on the brand visibility. Continuous collaboration

with strategic partners, to create a platform through which a point of information exchange for existing and potential customer was achieved through participating in national exhibition trade fairs.

Financial Inclusion remains a priority area and is consistent with the Bank's core mandate of inculcating a culture of savings amongst Batswana as well as providing affordable savings solutions to all people. In our efforts of becoming the leading driver in financial inclusion, the Bank hosted the World Savings Day flagship event in October 2019 at Rakops under the theme: "Savings Give Life A Lift". The bank leveraged on the celebrations to increase and maintain awareness, which is key to maintaining brand relevance.

Botswana Savings Bank's aim is to annually contribute in uplifting the quality of life for Batswana through the Bank's Corporate Social Responsibility Programme. The Bank executes its corporate social responsibility (CSR) mandate by identifying deserving beneficiaries, by supporting various social responsibility projects, enriching and uplifting the lives of many people in need across the country. Through its Corporate Social Responsibility Programme the Bank extends financial, social and humanitarian support to organizations that are building strong and resilient communities. Projects aimed at uplifting the lives of the under-privileged were implemented during the year under review. BSB has invested in worthy projects throughout the country, by supporting some of the below projects:

- Y- Care Charitable Trust runs successful nationwide charity walks, by raising funds for different Charities in Botswana.
- AAP Home Based Care is a non-profit organisation which focuses on the needs of orphans and vulnerable children. Children. Botswana Savings Bank supported the NGO with operational expenses of day-to-day running of the organisation.
- CSI Concept Foundation – is the main organiser of the popular Desert Bush Walk, with the primary aim of raising funds for Charity.
- Moshokga Excellence Awards- A sponsorship of the school's Prize Giving Award Ceremony for the schools at Moiyabana, Shoshong and Thabala.
- Lehututu Junior Secondary School in the Kgalagadi region, a few kilometres from Hukuntsi. BSB has renovated both the girls and boys ablution block and has installed geysers.

Botswana Savings Bank has contributed towards promoting education, arts and culture, sports and recreation, as well as social and welfare development in Botswana.

Donations and sponsorships require a strategic approach, since they play a major role in establishing and reinforcing Botswana Savings Bank reputation and image. Giving back to the Community remains a priority for BSB, and the bank will continue to advocate for community involvement throughout the country.

A number of initiatives will be driven to improve efficiencies and business growth by availing strategic go-to market value propositions that will attract customers .

- New product enhancement offerings
- Product Campaigns
- Branch and ATM expansion
- Re-branding and product positioning
- CSR activities – Sustainable initiatives and worthwhile contributions in enhancing the lives of the needy community
- Staff Volunteer Programme to expand community outreach

Kagiso Balopi | *Head, Enterprise Risk Management and Compliance*

ENTERPRISE RISK MANAGEMENT

Through the Enterprise Risk Department, the Bank's key objective is to optimize the attainment of the strategic objectives and operational excellence. Furthermore, the Bank aims at managing the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Botswana Savings Bank has embarked on a journey of achieving a level 5 risk maturity level, being the risk management optimisation level. The Bank recognizes that strategy, risk, performance and sustainability are inseparable.

There are four (4) functions within the Enterprise Risk Department, being:

1. Risk & Compliance
2. Credit Risk
3. Fraud & Investigation
4. Physical Security

During the year under review, strides were attained in strengthening the Enterprise Risk Department. Recruitment of staff members was concluded, completing the complement for the department both at middle and senior management level. Subsequent to the reporting date, a Board Risk & Compliance Committee of the Board was constituted, which will support Governance Infrastructure for Risk Management within the Bank, for the year under review risk matters were presented to the Finance Risk and Audit Committee.

Botswana Savings Bank has modernized its policies and aligned them to the 2016 – 2021 Strategy Plan and to better place the Bank for compliance to regulatory requirements. The following instruments were approved by the Board;

1. Operational Risk Management Framework This framework provides guidance to the Bank on the risk of loss resulting from inadequate or failed processes, people and systems or external factors. The framework is premised on ISO 31000 and COSO Framework.
2. Operational Risk Management Policy
3. Credit Policy
4. Impairment Policy
5. Anti-Money Laundering/Countering the Financing of Terrorism
6. Know-Your-Customer Policy
7. Fraud Policy

Risk & Compliance

One of the key areas of focus was to embed a risk culture throughout the Bank, by ensuring that all the staff members across all branches are conscientious of the risks that they are faced with in rolling out their mandate and goals at both the departmental and Bank level. Training initiatives were carried out to empower staff on AML/CFT and KYC measures, emphasis being to prevent money laundering and financing of terrorism within the Bank and to continuously detect any related activities.

As a way of promoting business resilience, initiatives were dedicated towards business continuity plans at the various branches. The Bank has further positioned its resources to better respond to the changing compliance requirements in the banking environment and serve its clientele better.

Credit Risk

In pursue the mandate and strategic objectives, the Bank has remained prudent in extending facilities and ensuring that the credit assessment is aligned with the policies in place. Impairments have however been a challenge during the year under review, owing to the elevated impairments suffered.

Collections and recovery measures have been strengthening by reviewing the credit policy and appointing a legal panel as a key partner driving the recovery objective. The recovery rate has however been above the set target for the year.

Challenges:

Key challenges experienced during the financial year included;

- *A high number of customers being dismissed at the various workplaces*
- *Resignations by clients without subsequently being employed*
- *Retrenchment of customers by the various employers*

Such challenges have given rise to elevated impairments during the year under review. The application of IFRS 9 provision has had an adverse impact on the impairments suffered by the Bank, as the standard transitioned from a loss provisioning model to a forward looking or expected provisioning method.

CREDIT COMMITTEE

This is a Management Committee responsible for sound credit risk management of the Bank. Responsibilities of the Committee include:

- Ensuring that the Credit Policy is implemented and applied consistently across all business units;
  Reviewing and recommending changes to the credit policy, impairment policy, reviewing loan limits for the various facilities, and providing guidelines for operational effectiveness and contributing towards the determination of credit risk appetite;
- Reviewing and recommending to the Board Risk & Compliance Committee write-off approval of impaired advances;
- Reviewing Non-Performing Loans and ensuring adequacy of provisioning as per Regulatory norms;
- Ensuring that concentration of risks is within the risk tolerance of the Bank as according to the Bank risk appetite;
- Reviewing of facilities involving Politically Exposed Persons & Prominent Influential Persons and their respective related parties;
- Reviewing the credit policy for the Bank from time to time, taking into account changes in applicable laws or regulations or as warranted by changing economic and or banking conditions;
- Reviewing and monitoring the effectiveness and application of the Credit Policy, related standards and procedures and the control environment with respect to credit decision; and
- Ensuring compliance to all regulatory requirements, IFRS 9 provisioning, internal policies, procedures and any legal and in-house lending limit.

Composition of the Committee:

The Credit Committee comprises;

1. Chief Executive Officer – Chairperson
2. Director Support Services
3. Director Operations
4. Head of Central Processing
5. Head of Finance
6. Head of Enterprise Risk Management and Compliance (Secretariat)
7. Head of Client Services
8. Head of Sales
9. Head, Legal and Board Secretary (Ex-Officio)

Frequency of meetings:

Credit Committee meetings are conducted on a monthly basis, the Bank met the required number of meetings in the current financial year, this being in compliance with the terms of reference of the committee.

Beauty Bareki | *Head, Central Processing*

CENTRAL PROCESSING

Central Processing Department is responsible for back-end customer transactions processing, of both savings and loans transactions. It acts as a support to Branches activities to facilitate customer satisfaction by processing transactions within stipulated Turn Around Time (TAT)

The Department engages in continuous process improvement to ensure smooth and timely service delivery. Automation of process remains critical to enhance processing and customer satisfaction.

The expected implementation of POS in support of the current digitization strategy, is expected to facilitate straight through transaction processing at the BSB branches which will take away manual processing of transactions as well as replacement of passbook with a debit card. This development is expected to improve TAT in processing customer transactions from 7 days to same day. This milestone is expected to contribute significantly to customer satisfaction.

Patrick Mmusi | *Head, Internal Audit*

INTERNAL AUDIT

The Internal Audit Department has continued to play a key role in ensuring the soundness of the Bank's activities and operations through providing independent risk-based and objective assurance that the Bank's risk management, governance and internal control processes are operating effectively.

Internal audit conducts its activities in line with the International Professional Practices Framework (IPPF) which is issued by The Institute of Internal Auditors (IIA). This highlights the Internal Audit department's dedication to aligning to international standards and promoting high quality assurance services.

The department does this through performing audit engagements, follow ups and closure of issues raised by both the Internal Audit Department, external auditors and Bank of Botswana reviews.

Tsholofelo Kokorwe | *Head, Sales*

SALES

The mandate for Sales Department is to improve the Bank's financial position and in-turn improve the shareholder's value in terms of profitability. This is achieved by selling the bank's products and services including loans and deposit accounts.

During the year under review the Sales Teams embarked on several sales initiatives and activations with the aim of increasing loan uptake and growing the deposit book. Some of the initiatives entailed direct customer visitations, email and bulk sms campaigns, mall activations and customer sales presentations. A lot of focus was in increasing the number of deductions from source client contracts with the aim of growing the loan book.

Our focus is on the creation of a high-performance sales culture and staff retention through talent management and upskilling of the sales teams. This was achieved through the relevant staff training while at the same time creating an enabling environment for sales to be achieved.

Tebogo Mogotsi | *Head, Human Capital*

HUMAN CAPITAL

The Human Capital Department is a business support aimed at providing the relevant human capital tools which will help the business succeed. The department ensures Line Managers take full responsibility for people Management with specialist support, and that employees assume personal accountability for their performance, learning, growth and development.

Through our activities the Human Capital Department champions a working environment in line with the company's core values.

The Human Capital department seeks ways of making Botswana Savings Bank a great place to work for, focusing on engagement and employee well-being.

In support of the five-year corporate strategy, the Human Resources department focused on:

1. Organisational Review
2. Talent Management
3. Reviewing of Human Capital Policies
4. Leadership Development
5. Improving Core Operating Process
6. High Performance Culture

Obusitswe Keabaitse | *Head, Client Services*

CLIENT SERVICES

Client Services Department is at the center of creating a superior customer experience for Botswana Savings Bank customers. The Departments mandate is to ensure sustainable accessibility of the bank's products and/or services across different channels.

For the year under review, our clients accessed banking services through 2 **(two)** stand-alone own branches **(Tshomarelo & Francistown)**; 3 **(three)** co-branded branches **(Railpark, Serowe & Mahalapye)**; 11 **(eleven)** Automated Teller Machines **(ATMs)** and 124 **(One hundred and twenty-four)** Botswana Post Limited Branches across the country. Our people are key in achieving the envisioned customer centric culture.

Providing convenient customer service has always remained key to the Bank's strategy. The department recognizes customer experience as a function of the product offerings; people, place and channel and processes amongst others. The Bank is transitioning to automate its process and offer its customers convenient digital banking solutions. These will enable the Bank to achieve straight through processing of customer requests and improve turnaround time. To deliver on the "smooth banking experience" the Bank is looking forward to the implementation of self-service channels; online & mobile (USSD & App) to afford clients banking at their own convenience. These initiatives will go a long way in affording valued customer's great convenience by enabling 24/7 banking experience.

This will conform to our values of placing the **"customer first"** through **"smooth"** and **"borderless"** financial solutions. Further to these e-channels, expansion of our distribution channel will see the Bank opening more branches and deploying ATMs within strategic locations across the country.

These will be supported by a fully-fledged 24/7 Contact Centre.


BOTSWANA

Botswana Savings Bank

welcome to smooth banking

Annual Report 2019/20

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Director’s Responsibility Statement

The Directors are required in terms of the Botswana Savings Bank Act of 1992 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 (IFRS). The external auditor is engaged to express on independent opinion on the annual financial statements.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the board of directors 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 on 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 endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The Directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The external auditor is 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 auditor and their report is presented on pages 37 to 48.

Approval of the financial statements

The annual financial statements of Botswana Savings Bank, as set out on pages 49 to 138, were approved by the board of directors on 18 December 2020 and were signed on their behalf by

Mr K Molelowatladi
Chairman

Nixon Marumoloa
Chief Executive Officer

Independent auditor's report

To the Shareholder of Botswana Savings Bank

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Savings Bank (the "Bank") as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Botswana Savings Bank's financial statements set out on pages 49 to 138 comprise of:

- the statement of financial position as at 31 March 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board of Accountants and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Botswana.

Key audit matters

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

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T: (267) 370 9700, www.pwc.com/bw

Country Senior Partner. B D Phirie
Partners: R Binedell, A S Edirisinghe, L Mahesan, I D Molebatsi, S K K Wijesena

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter as follows:</th></tr>
<tr><td>
Expected credit losses ('ECL") on loans and advances Refer to the following notes to the financial statements for disclosure relating to this key audit matter:

note 1.11 (Financial instruments - Credit risk measurement);
note 1.23 (a) (Key sources of estimation uncertainty - Measurement of Expected credit losses (ECL));
note 15 (Loans and advances to customers); and
note 33 (Financial risk management - Credit risk).

At 31 March 2020, gross loans and advances to customers amounted to BWP1.51 billion, against which an ECL of BWP95.2 million was recognised.
The measurement of ECL on loans and advances requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The Bank has developed statistical models to support the quantification of credit risk.
Key areas of significant management judgement and estimation applied in the measurement of ECL on loans and advances include:

the evaluation of significant increase in credit risk ("SICR");
input assumptions to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). Mare details of the input assumptions are disclosed in note 1.23 to the financial statements; and

</td><td>
For a sample of loans and advances, we agreed the loans and advances utilised in the models to underlying data, accounting records and other information such as loan agreements, maintained by the Bank. We noted no exceptions.
Making use of our actuarial expertise, we performed and assessed the reasonableness of the ECL calculation by performing the following procedures:

We obtained a detailed breakdown of the Bank's exposures by product type and staging criteria, and performed the staging criteria based on the Bank's staging approach. No material exceptions were noted.
We performed an independent estimation of the ECL on loans and advances by calculating a base case ECL which incorporated SICR adjustments, before considering forward-looking indicators/ COVID-19 impacts to identify any gaps within the modelling components. We then compared the results against the Bank's ECL before forward -looking indicators/COVID-19 impacts were taken into account. No material differences were noted.
We performed an independent assessment of the ECL on loans and advances by calculating a best estimate ECL, following the same approach in determining the base ECL, but taking into account forward-looking information and the potential COVID- 19 impacts on PDs and LGDs. We compared the result with the Bank's ECL calculation and found the difference to be within an acceptable range.

</td></tr>
</table>

Key audit matter	Our audit addressed the key audit matter as follows:
• the incorporation of forward-looking macro-economic indicators in the SICR assessment and ECL measurement, including the impacts of the COVID-19 pandemic on the measurement of ECL on loans and advances.	
We determined the measurement of ECL on loans and advances to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECL, and the magnitude of the ECL recognised as at 31 March 2020.	• Due to the uncertainty in the current economic outlook, we calculated a range of ECLs by considering a combination of forward-looking scenarios and found the Bank's estimate to be within an acceptable range. • For each component of ECL, namely PD, LGD, EAD, effective interest rate, discounting and staging, the following procedures were performed: o We read the Bank's written summary of its ECL model and discussed this with management to obtain an understanding of the current model development methodology to identify any potential gaps in methodology and assumptions. No exceptions were noted. o We performed the ECL calculations for each component. The ECL under all the approaches were found to be within an acceptable range.

INDEPENDENT AUDITOR'S REPORT [continued]

Key audit matter	*How our audit addressed the key audit matter as follows:*
ECL on related party receivable Refer to the following notes to the financial statements for disclosure relating to this key audit matter: • note 1.23 (a) (Key sources of estimation uncertainty - Related parties); • note 7 (Net impairment loss of financial assets - Related party impairments); • note 16 (Balances with related parties); and • note 33 (Financial risk management - Impairment of related party balances) to the financial statements. At 31 March 2020, balances with related parties comprise an amount of BWP95 million due from the Botswana Postal Services Limited ("BPSL"). Due to the poor remittance history in the current year, the Bank recognised an impairment loss of BWP15 million against the receivable. The Bank determined the ECL on the amount due from BPSL using the same methodologies applied as set out in the key audit matter above. Significant judgement and estimation was applied in determining the loss given default ("LGD") of the receivable. In determining the LGD, the Bank applied judgement and estimation in determining the recovery rate in the event of liquidation and the probability of liquidation of BPSL.	Our audit addressed the key audit matter as follows: Making use of our actuarial expertise, we performed the following procedures: • We read the Bank's working files for ECL on related party receivable to obtain an understanding of the approach followed by the Bank in calculating the ECL on the receivable from BPSL. • We performed an independent recalculation of the ECL using a benchmark LGD parameter for public entities and an estimated liquidation probability based on comparable S&P default rates for CCC/Crated counterparties. Based on our work performed, the ECL recognised by the Bank was found to be within an acceptable range of our results.

Key audit matter	*Our audit addressed the key audit matter as follows:*
Further disclosures of the judgements, estimation and methodologies applied in determining the LGD are made in note 1.23 to the financial statements. We determined the measurement of ECL on the receivable from BPSL to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECL, and the magnitude of the ECL recognised as at 31 March 2020.	

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Botswana Savings Bank Annual Financial Statements for the year ended 31 March 2020". The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

  Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period 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.

PricewaterhouseCoopers

Individual practicing member:
Registration number: 20040091
Rudi Binedell

Gaborone
20 January 2021

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 March 2020

	Note(s)	2020 P '000	2019 P '000
Interest income**		226,421	224,339
Interest expense		(119,741)	(99,964)
Net interest income	3	106,680	124,375
Fee and commission income**		12,952	12,346
Fee and commission expense		(10,117)	(9,123)
Net fee and commission income	4	2,835	3,223
Net operating income		109,515	127,598
Other income	5	7,423	6,415
Revenue from government grant	6	40,000	-
Total income		156,938	134,012
Net impairment loss of financial assets	7	(31,722)	(975)
Net income		125,216	133,037
Employee benefits	8	(58,344)	(48,652)
Operating lease expenses			(2,296)
Depreciation and amortisation	9	(8,816)	(6,847)
Administrative and general expenses	10	(38,944)	(35,662)
Profit before tax		19,112	39,580
Taxation	11	(5,336)	(4,342)
Profit for the year		13,776	35,238
Other comprehensive income			
Total comprehensive income for the year		13,776	35,238

** Refer to accounting policy note 1.24 for detailed narrative.

Statement of Financial Position

as at 31 March 2020

	Note(s)	2020 P '000	2019 P '000
Assets			
Cash and cash equivalents	13	383,178	242,602
Balances with other banks	14	937,585	813,127
Balances with related parties	16	79,979	46,468
Other assets	20	13,974	18,212
Loans and advances to customers**	15	1,413,644	1,411.423
Deferred tax	12	26,967	4,068
Property, plant and equipment	17	37,489	31,218
Right-of-use assets	18	24,709	-
Intangible assets	19	919	2,094
Total Assets		**2,918,444**	**2,569,212**
Equity and Liabilities			
Liabilities			
Current tax payable	21	28,930	5,669
Borrowings	22	90,621	96,660
Other liabilities	23	101,360	80,807
Deposits due to customers	24	2,343,408	2,175,357
Deferred income••	25	106	106
Government grant	6	101,000	-
Lease liabilities	18	26,220	-
Dormancy account liability	26	26,412	24,002
Total Liabilities		**2,718,057**	**2,382,601**
Equity			
Share capital	27	19,721	19,721
Reserves		58,267	54,823
Retained income		122,399	112,067
		200,387	186,611
Total Equity and Liabilities		**2,918,444**	**2,569,212**

** Refer to accounting policy note 1.24 for detailed narrative.

Statement of Changes in Equity

for the year ended 31 March 2020

	Unrecallable capital P'000	Statutory reserve P '000	Retained earnings P '000	Total equity P '000
Balance at 01 April 2018	**19,721**	**46,014**	**102,044**	**167,779**
Profit for the year			35,238	35,238
Other comprehensive income				
Total comprehensive income for the year			**35,238**	**35,238**
Transfer between reserves		8,809	(8,809)	
Effects of IFRS 9 implementation			(16,406)	(16.406)
Total contributions by and distributions to owners of company recognised directly in equity		**8,809**	**(25,215)**	**(16,406)**
Balance at 01 April 2019	**19,721**	**54,823**	**112,067**	**186,611**
Profit for the year			13,776	13,776
Other comprehensive income				
Total comprehensive income for the year			**13,776**	**13,776**
Transfer between reserves		3,444	(3,444)	
Total contributions by and distributions to owners of company recognised directly in equity		**3,444**	**(3,444)**	
Balance at 31 March 2020	19,721	58,267	122,399	200,387
	27	28**		

Refer to accounting policy note 1.24 for detailed narrative.

Statement of Cash Flows

for the year ended 31 March 2020

	Note(s)	2020 P '000	2019 P '000
Cash flows from operating activities			
Interest receipts		229.768	225,446
Interest payments		(109,228)	(106,887)
Fees and commission receipts **		12,952	12,346
Rent and other income received		7,303	6.416
Cash payments to employees and suppliers		(106,220)	(95,915)
Movement in Government Grant		40,000	-
Cash flows from operating activities before changes in operating assets and liabilities		**74,575**	**41,406**
Changes in operating assets and liabilities			
Movement in loans and advances to customers		(19,906)	60,140
Movement in amounts due to customers		168,051	15,303
Movements in other assets		891	(303)
Movements in other liabilities		11.740	4,705
Effects on IFRS 9 implementation		-	(16,406)
Movement in related party balances		(48,730)	(28,115)
Movement in dormancy account liability		2.410	1,824
Tax paid		(4,974)	(2,718)
Net cash generated from operating activities		**184,057**	**75,836**

Statement of Cash Flows [continued]

for the year ended 31 March 2020

	Note(s)	2020 P '000	2019 P '000
Cash flows from operating activities			
Purchase of property. plant and equipment	17	(10,962)	(7,288)
Sale of property. plant and equipment	17	275	(1)
Movement in Government Grant		101,000	-
Purchase of other intangible assets	19	(2)	-
Movement in fixed deposits with banks		(124,458)	85,115
Net cash (used in/) from Investing activities		**(34,147)**	**77,826**
Cash flows from financing activities			
Movement in Government loan		(5,833)	(5,834)
Lease liability payments - Principal		(1,775)	-
Lease liability payments - Interest		(1,726)	-
Net cash used in financing activities		(9,334)	(5,834)
Net movement in cash and cash equivalents for the year		140,576	147,828
Cash and cash equivalents at the beginning of the year		242,602	94,774
Total cash and cash equivalents	**13**	**383,178**	**242,602**

**Refer to accounting policy note 1.24 for detailed narrative.

Accounting Policies

for the year ended 31 March 2020

1. Statement of compliance

The statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC). These financial statements represent the Bank's statutory financial statements and hove been approved by the Board of Directors on Thursday, 31 December 2020

1.1 Basis of preparation

The financial statements are presented in Botswana Pula, which is the Bank 's functional currency and are rounded off to the nearest thousand, unless otherwise stated.

The financial statements have been prepared on historical cost basis, except where otherwise stated. The financial statements incorporate the following accounting policies which are consistent with those applied in the previous year except where otherwise stated.

The estimates and underlying assumptions are reviewed on an on-going basis and these relate mainly to the fair valuation of staff loans that attract interest lower than market rates, assessment of residual values and useful lives of property and equipment and estimation of the impairment losses on the loans and advances due from customers. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.2 Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognised on an accrual basis using the effective yield method on the original settlement amount. Interest income includes the amortisation of any discount or other differences between the initial carrying amount of on interest bearing instrument and its amount calculated on an effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

Where the estimates of payments and receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by comparing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in the net interest income.

When a financial asset of a bank has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that discounts the future cash flows of the asset for the purpose of measuring the impairment loss.

1.3 Fees and commission income

Fees and commission comprises fees token from account related charges from the customers such as non-sufficient funds fees, overdraft charges. Late fees, over-the-limit fees, wire transfer fees and monthly service charges. These fees are recognised over the period over which the underlying service is provided to the customer.

Transactional fees such as cash withdrawal fees, deposit fees, etc. are recognised at the point in time of transactions with customers and payment is received monthly.

1.4 Other income

Other income comprises income from rental and other non-operating revenue stream and are recognized in profit and loss when they are earned.

1.5 Deferred income

Deferred income relates to grant income relating to capital projects. Subsequently, the deferred income is released to statement of comprehensive income over the expected life of the asset.

1.6 Agency fees

The bank has entered into an agreement with Botswana Post for the provision of banking services to its clients.

Botswana Post is entitled to an agency fee payable monthly in arrears upon submission of a monthly transaction report. The fees are recognised as an expense directly to the profit and loss.

1.7 Employee benefits

Short-term employee benefits

The cost of short -term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave , bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Terminal benefits

Certain employees are entitled to terminal gratuities in accordance with their contracts of employment. An accrual is recognised for the estimated liability for such employees up to the reporting date. This accrual is based on undiscounted current wage and salary rates. However, all other employees are members of the bank's pension scheme.

Leave pay accrual

Employees' entitlement to annual leave and other benefits are recognised when they accrue to employees. An accrual is recognised for the estimated liability for annual leave and other benefits as a result of services rendered up to the reporting date. This accrual is based on un-discounted current wage and salary rates.

Pension obligations

The Bank operates a defined contribution pension scheme and its assets are managed by an independent company under supervision of the board of trustees. The Bank pays 15% contributions on behalf of its employees and the employees contribute 5% of basic salary.

Accounting Policies [continued]

for the year ended 31 March 2020

1.7 Employee benefits [continued]

Once the contributions have been made, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

1.8 Impairment of non-financial 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 on indefinite useful life or intangible assets not yet available for use for impairment annually by comparing it's carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

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

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

If the recoverable amount of an asset is less than it's 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 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, amounts due from other banks on demand and current accounts with bank of Botswana. Cash and cash equivalents are measured at amortised cost.

1.10 Balances with other banks

Balances with other banks comprises fixed deposits held with financial institutions for a period of 3 to 24 months, with other maturities subject to negotiations. Balances with other banks are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

Balances with other banks have not been impaired as these placements are made to banks that have high credit standing.

1.11 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. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows);
- Amortised cost.

Credit risk measurement

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The bank has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the bank considers three components, namely: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations;(ii) current exposures to the counterparty and its likely future development. From which the bank derives the 'exposure at default ' (EAD); and (iii} the expected loss on the defaulted obligations (the 'loss given default') (LGD). This is similar to the approach used for the purpose of measuring Expected Credit Loss (ECL) under IFRS 9.

These credit risk measurements, which reflect expected loss (the 'expect ed loss model'), are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee) and are embedded in the bank's daily operational management.

(i) Probability of default (PD)
The probability of default is an indication of the probability that a given loan will default. Under Basel II and IFRS 9 the elements that make up a loss are defined as economic loss and will include direct and indirect costs associated with collecting on the exposure such as allocations of internal overheads and other non-cash costs. The PD in Basel II and IFRS 9 is calculated using historical data of defaults.

(ii) Exposure at default (EAD)
The exposure at default under Basel II and IFRS 9 will take into account an expect at ion of future drawdowns until the default event has occurred by utilising loan run down for amortizing products and a credit conversion factor for non-amortizing products. For example, for a loan this is the face value at the default date. For a commitment, the bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Accounting Policies [continued]

for the year ended 31 March 2020

1.11 Financial instruments [continued]

(iii) Loss given default (LGD)

Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur (1- recovery rote). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II and IFRS 9.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes on credit quality since initial recognition as summarised below:

- A financial instrument that is not credit -impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. A description of how the bank determines when a significant increase in credit risk has occurred is explained further below.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. A description of how the bank defines credit-impaired and default is explained further below.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is explained further below.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should carry forward-looking information. Note 33 includes an explanation of how the bank has incorporated this in its ECL models.

Further explanation is also provided on how the bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 33).

The following Table summarises the impairment requirements under IFRS 9:

Change in credit quality since initial

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

The bank considers a financial instrument to have experienced an increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

Accounts are classified on a watch list when there is qualitative information available such as changes in internal or external credit ratings, sector lending limits, changes in issuing terms of new loans and or significant deterioration in macro-economic variables indicating on increase in the borrowers credit risk. These accounts are moved over to stage 2.

The criteria used to identify SICR are monitored and reviewed periodically for the appropriateness by the independent Credit Risk team.

Backstop

A backstop is applied, and the financial instruments considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The bank has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2020.

Definition of default and credit-impaired assets

The bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired,
when it meets one or more of the following criteria:

Qualitative criteria

The borrower is more than 90 days past due on its contractual payments.

Quantitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty.

These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent

The borrower is in breach of financial covenants

It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the bank's expected loss calculations.

An instrument is considered to no longer be in default {i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. This is in line with regulatory requirements.

Accounting Policies [continued]

for the year ended 31 March 2020

1.11 Financial instruments [continued]

For purposes of internal cred it 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.

Measuring ECL-Explanation of inputs, assumptions and estimates on techniques The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be creditimpaired.

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation
- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the bank includes the current drawn balance plus any further amount that is to be expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loon.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates on ECL for each future month, which is then discounted bock to the reporting dote and summed. The discount rate used in the ECL calculation is the original effective interest rate or on approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of observation throughout the remainder of the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the some across all assets within a portfolio segment. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortisation products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

  For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected draw down of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. This is supported by historical analysis of recoveries per portfolio segment, including the discounting of the recoveries to the default date as well as the recovery costs accounted for.

The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Loans and advances receivable at amortised cost

Classification
Loans and advances to customers (note 15) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these balances give rise, on specified dotes 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 balances.

Recognition and measurement
Loans and advances receivable 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 net interest income (note 3).

Accounting Policies [continued]

for the year ended 31 March 2020

1.11 Financial instruments [continued]

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loon, 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.

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.

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.

Other assets

Classification

Other assets, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 20).

They have been classified in this manner because their contractual terms give rise, on specified dotes 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 other assets.

Recognition and measurement
Other assets are recognised when the bank becomes a party to the contractual provisions of the receivables.

They 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 receivable 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.

Impairment
The bank recognises a loss allowance for expected credit losses on other assets, excluding VAT and prepayments.

The amount of expected credit losses is updated at each reporting date.

Write off policy
The bank writes off a receivable 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 counter party has been placed under liquidation or has entered into bankruptcy proceedings. Receivables 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.

Deposits due to customers

Classification
Deposits due to customers (note 24) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement
Deposits due to customers are recognised when the bank either becomes a party to the contractual provisions of the loan or accepts customer deposits. The loans 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 on 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.

Other liabilities

Classification

Other liabilities (note 23), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Accounting Policies [continued]
for the year ended 31 March 2020

1.11 Financial instruments [continued]

Recognition and measurement

They are recognised when the bank becomes a party to the contractual provisions, and 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.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 33 for details of risk exposure and management thereof.

Borrowings

Classification

(a) Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the liability; and
- the cash flow characteristics of the liability.

Based on these factors, the Bank classifies its debt instruments into one of the following two measurement categories:

Amortised cost:
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured using the simplified expected loss model. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Business model
The business model reflects how the bank's manages it's assets in order to generate cash flows. That is, whether the bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sole of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPTL. Factors considered by the bank in determining the business model for a group of assets include past experience on how the cash flows for

these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely Payments of Principal and Interest (SPPI):
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the bank assesses whether the financial instruments' cash flows represent the 'SPPI test'. In making this assessment, the bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. The amount receivable from Botswana Post is the most significant SPPI asset held by the bank.

(b) Impairment of loans and advances
The bank assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts.

The bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by using the transition matrix methodology;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about post events, current conditions and forecasts of future economic conditions.

(c) Modification of loans and advances
The bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the bank assesses whether or not the new terms are substantially different to the original terms. The bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as profit share/ equity-based returns that substantially offed the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly offed the credit risk associated with the loan.

A substantial modification of the contractual cash flows results in the bank derecognising the original financial asset and recognising a 'new asset' at fair value and recalculating a new effective interest rate for the asset. The date of renegotiation is consequently considered to the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

Accounting Policies [continued]

for the year ended 31 March 2020

1.11 Financial instruments [continued]

However, the bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and whether (i) the bank transfers substantially all the risks and rewards of owner ship, or (ii) the bank neither transfers nor retains substantially all the risks and rewards of ownership and the bank has not retained control.

Collateral furnished by the bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecognition

Financial assets

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

Financial liabilities

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

Reclassification

Financial assets

The bank only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities
Financial liabilities are not reclassified.

1.12 Property, plant and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of these items and are recognised in profit and loss.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance costs are recognised in profit or loss during the financial period in which they are incurred. However, major renovations are capitalised and included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the assets will flow to the bank. Major renovations are depreciated over the remaining useful life of the related asset or until the next planned major renovations. if this period is shorter.

The carrying amount of the replaced part is derecognised.

Depreciation on property and equipment is calculated using the straight-line method to allocate the depreciable carrying amounts of the assets over their estimated remaining useful and economic lives. The following are the estimated useful lives applied in depreciating the bank's assets.

Item	Depreciation method	Average useful life
Buildings and leasehold improvements	Straight line	SO years or unexpired period of the lease
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	5 years
Office & computer equipment	Straight line	7 years

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.

Accounting Policies [continued]

for the year ended 31 March 2020

1.12 Property, plant and equipment
[continued]

Impairment of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to the recoverable amount. The recoverable amount of assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in profit and loss.

Where on impairment loss subsequently reverses, the carrying amount of the assets (cash generating unit) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior periods. A reversal of an impairment loss is recognised in profit or loss as income immediately unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as an increase in the revaluation reserve.

1.13 Capital work-in-progress

Work-in-progress comprises costs of non-current assets acquired but not yet put into their intended use or projects under construction. Once management is satisfied that the asset is ready for its intended use, all costs associated with the asset are then transferred from the work-in-progress account to the respective assets account. No depreciation is charged on any work-in-progress balances.

1.14 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other in making financial or operating decisions. A number of transactions are entered into with related parties in a normal course of business. These transactions are carried out based on mutually agreed terms and conditions.

Related party transactions and balances are recognized at cost and subsequently measured at amortized cost. Receivables from related parties are subject to IFRS 9 impairment. For detailed analysis refer to note 1.23

1.15 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset con be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of on internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development con be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

1.16 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.

1.17 Transactions with Botswana Postal Services

These comprise of the settlement of deposits and withdrawals transacted by customers at post offices. All amounts are stated at cost and settlement is made periodically net of agreed agency fees, which are payable to the Botswana Postal Services under the terms of the agency agreement.

Accounting Policies [continued]

for the year ended 31 March 2020

1.18 Other liabilities

Other liabilities comprise of trade payables, accrued expenses and other sundry creditors.

These are initially recognized at cost and subsequently measured at amortised cost.

1.19 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Grant income related to income expenditure is initially recognised as deferred income in the statement of financial position and subsequently released to the statement of profit or loss when the intended expenditure is incurred by the bank.

Grant income related to capital projects or physical assets is initially recognised as deferred income in the statement of financial position with a corresponding asset recognised in property, plant and equipment. Subsequently, the deferred income is released to the statement of comprehensive income over the expected useful life of the asset. The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the profit or loss (separately).

1.20 Leases - IFRS 16

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

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

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

Bank as lessee

A lease liability and corresponding right-of -use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense (note 18) on a straightline basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

Details of leasing arrangements where the bank is a lessee are presented in note 18 Leases (bank as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are to be made over the lease period. The lease payments include fixed payments (including in substance fixed payments) less any lease payments incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payment. the bank uses its incremental borrowing rate (IBR) at the lease commencement date. Subsequently, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, change in lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value leases

The bank applies the short-term lease recognition exemption to its short-term leases of property (that is, those leases that have a lease term of 12 months or less from the commencement date). The bank also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straightline basis over the lease term.

Right-of-use assets

The bank recognizes right of use assets at the commencement date of the lease (that is, the date the underlying asset is available for use). Right of use assets are measured at cost. less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities r ecognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-u se assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Accounting Policies [continued]

for the year ended 31 March 2020

1.20 Leases - IFRS 16 [continued]

Item	Depreciation method	Average useful life
Property	Straight line	3 - 5 years

Bank as lessor

Leases for which the bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification.

When the bank is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the bank applies the exemption described previously, then it classifies the sub-lease as an operating lease.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated by applying IFRS 15.

1.21 Leases (Comparatives under IAS 17)

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.

Agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. The present value of the lease payments, under a finance lease agreement, discounted at the rate of interest implicit in the lease, is recognised as a receivable.

The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods using the effective interest yield method.

Leases which merely confer the right to the use of the asset are treated as an operating lease, with the contractual lease payments recognised in profit or loss on a straight-line basis over the period of the lease.

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

Operating leases - lessor

Operating lease income is recognised as on income on a straight -line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in profit or loss.

Operating leases - lessee

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.

1.22 Unrecallable capital

This represents equity contributed by the Government of Botswana and is recognised at the fair value of the consideration received.

1.23 Key sources of estimation uncertainty

(a) Measurement of Expected credit losses (ECL)

Key inputs and assumptions
The Expected Credit Loss of the financial asset is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk hos occurred. The total Expected Credit Loss is a discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD).

Impairment of Loans and Advances

Probability of Default (PD)
Retail parameters are determined on a product level basis. Where appropriate on analysis at a sector level within a product is performed. The monthly staging ratings determined under SICR are used to model historic default rates using a credit transition matrix model based on cohorts that the bank believes reflect conditions that are likely to apply in the future. The statistical models generate per iodic probabilities of default, prepayment rates and recovery rates that reflect the overage over the period of study, also called through the cycle (TTC). Lifetime default curves are developed from periodic TTC parameters to reflect increasing risk with time.

TTC parameters are converted to point in time (PIT) parameters that reflect forward looking information and are indicative of default, prepayment and recovery rotes that will apply in the future.

Exposure At Default (EAD)
The loan level exposure at default is estimated at each point in time over the life of the facility taking into consideration loan commitments implicit prepayment rates, the outstanding loan balance, the reaming tenure, the effective interest, the current staging and implicit prepayment rate.

Loss Given Default (LGD)
Loss given default (LGD) rates are estimated at the product level for products that have uniform guarantee structures. The LGD considers factors such as changes in the credit quality of the collateral, the time to recovery of the collateral, costs of recovery, liquidity haircuts to market value and the appropriate discount rate for the collateral. For products that have heterogenous collateral arrangements at loan level, LGD is computed at loan level reflecting specific characteristics of the collateral structure.

Because of its low default credit portfolio and the lock of historical internal LGD data, BSB applies a basic flat LGD approach that varies with each product as follows

Accounting Policies [continued]

for the year ended 31 March 2020

1.23 Key sources of estimation uncertainty [continued]

Key credit risk metrics	Motor vehicle loans	Residential loans	Individual loans	Total
Coverage Ratios				
31 March 2020	2.27 %	2.61%	9.00%	6.25 %
31 March 2019	1.71%	2.40 %	7.68 %	5.22 %
Loss Given Default (LGD)				
31 March 2020	31.87%	24.18 %	98.40 %	66.58 %
31 March 2019	0.46 %	20.66 %	89.32 %	57.42 %
Probability of Default (PD)				
31 March 2020	7.12 %	10.78 %	9.14%	9.38 %
31 March 2019	6.43 %	11.64 %	8.60 %	9.10 %

Forward-looking information

The bank has considered the different scenarios and related probabilities in determining its forward-looking assumptions for purposes of measuring its Expected Credit Loss (ECL). The bank considers the scenarios to represent reasonable and supportable forward-looking views as at its reporting date.

Approach to Incorporate Forward-Looking Indicators (FLI)

Forward-looking macro-economic indicators (FLI) has been used to modify the TTC PD' s to PIT'P D's by applying scalars to TTC lifetime credit curve. These scalars where obtained through a logistic regression of historical PD's to various macroeconomic factors which included GDP, interest rates, inflation rates, commodity price index, Botswanan Stock exchange equity index, exchange rates and banking sector liquidity. Macroeconomic forecasts were obtained by using historical relations between variables obtained by multi-variable regression analysis, these were checked for economic rationality and judgment was used in their application.

Forward-looking information is used to adjust the parameters that drive the LGD such as time to recovery, liquidity haircuts and expected changes in credit quality.

Forward looking information applied in March 2020 ECL computation.

The FLIs applied in the current financial year modelling process are GDP, interest rates, inflation rates, commodity price index and the BSE index. The bank expects key macro-economic fundamentals to deteriorate over the next two years with a mooted recover to lower levels of activity starting in 2023/4. We forecast GDP will drop over the next two years with the lowest point being reached in 2021 and interest rates declining as the central banks tries to stimulate economic activity. We forecast a decoupling of real interest rates to inflation rates due to short term supply disruptions as a result of COVID-19. The table below shows the forecast used in adjusting historical default rates to forward looking default rates.

The following table shows the main macro-economic factors used to estimate the allowances for credit losses on loans.

Year	Gross Domestic Product	Exchange Rate	Real Interest Rate	Inflation	Botswana Stock Exchange
2020	(13)%	20%	(6)%	12%	(16)%
2021	(10)%	5%	(6)%	12%	(8)%
2022	-%	2%	(1)%	2%	(4)%
2023	-%	(1)%	-%	-%	- %
2024	2%	(3)%	6%	6%	4%
2025	4%	(5)%	2 %	3%	7%
2026	6%	(2)%	6%	9%	10%
2027	-%	-%	(6)%	(6)%	2%
2028	-%	1 %	(2)%	(2)%	4%
2029	(1)%	2%	(6)%	(6)%	5%

Impact of forward- looking information (FLI) on ECL

Loans and advances	Motor Vehicle advances	Residential Property Loans	Personal Loans	Total
ECL before FLI adjustments	157	15.488	71,203	86,848
Impact of FLI	128	1,237	2,319	3,684
Impact of COVID-19			4,651	4,651
ECL after FLI adjustments	285	16,725	78,173	95,183

Accounting Policies [continued]

for the year ended 31 March 2020

1.23 Key sources of estimation uncertainty [continued]

	Current Forecast P'000	ECL 1% GDP increase P'000	GDP impact P'000
ECL	95,183	92,271	(2,912)
Impact of 1% increase in GDP			(3)%

COVID-19 considerations:

Adjusting PD's for COVID-19

As at the measurement date the bank had not offered any relief because of COVID-19 to any of its clients. Past the measurement date relief was offered to selected sectors and clients. The models used in deriving PD's did not capture the impact of COVID-19 and the bank adjusted the credit risk provisions at two levels:

i. The first level was the use of stressed macro-economic scenarios. The GDP was set to fall by 13% and 10% in 2020 and 2021, respectively. The PD's were thus increased by appropriate scalars that were computed on a product level.

ii. Further increase of scalars at the sector level.

Significant increase in credit risk

In line with the Bank of Botswana guidelines, the bank did not adjust the internal credit ratings for any accounts based on the impact of COVID-19. The assessment of significant increase in credit risk was done at the sector level to capture the increased credit risk. As 95% of loan book exposure is to government the impact of COVID-19 has been minimal. All private sector exposures in stage 1 were assumed to hove shifted to stage 2 without the individual ratings being affected. This adjustment did not result in shifts to stage 3 status.

Impact of Covid-19 Management overlay on exposures

	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Exposures at 31 March 2020	1,303,891	103,632	101,304	1,508,827
Transfers of exposures to stage 2	(76,25)	76,253		
Exposures as at 31 M arch 2020	1,227,638	179,885	101,304	1,508,827

Impact of COVID-19 on ECL

Management determined that the impact on the government employees' portion of the book was minimal and concentrated efforts in analyzing the impact on the private sector exposures. Scalars were applied that varied with the sector, the private sector was bifurcated into tourism and non-tourism sector. All private sector PD's were increased to lifetime by virtue of being transferred to stage 2, in addition the tourism sector PD's scalars were increased by 50% to reflect the expected increase in defaults.

Impact of Covid-19 Management overlay on ECL

	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
ECL as at 31 March 2020	11,404	9,431	69,697	90,532
Transfers of exposures to stage 2	(979)	979		
Increase in provision due to transfers		4,651		4,651
ECL as at 31 March 2020	10,425	15,061	69,697	95,183

Related parties

Botswana Postal Services Limited (BPSL) provides banking ser vices to the Botswana public on behalf of the Bank. As at 31st March 2020, P95.198m (2019: P46.468m) of the net deposits from the bank's customers was not remitted by BPSL. Due to the poor remittance history in the past twelve months an impairment allowance was estimated at P15.219mas at 31st March 2020 (2019: POm). The banks agency agreement with BPSL is not collaterised and recovery was estimated from the statement of financial position of BPSL. The impairment allowance was computed using the same methodology as detailed in accounting policy note 1.23.

Accounting Policies [continued]

for the year ended 31 March 2020

1.23 Key sources of estimation uncertainty [continued]

(i) Probability of default (PD)

The probability of default is an indication of the probability that a given related party will not meet its contractual obligation to the bank. Due to heterogeneity in the data relating to related party' s the probability of default (PD) is modelled using various structural models of assessing credit risk. The probabilities of default under the structural model take into consideration the volatility of the related party' s assets, liabilities, and volatility of assets. The volatility is adjusted to include forward looking information that will apply during the period that the bank has exposure to the related party.

(ii) Exposure at default (EAD)

The exposure at default considers on expect at ion of future drawdowns until the default event hos occurred by utilizing loan run down for amortizing products and a credit conversion factor for non-amortizing products. For example, for a loan this is the face value at the default date. For a commitment, the bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

For receivables that are impaired the exposure at default includes the amount of interest, charges and penalties that will be accrued till the expected time to recovery.

(iii) Loss given default (LGD)

Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur (1- recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II and IFRS 9.

For related party' s in default but are still operating as a going concern, the loss given default (LGD) is computed as the product of the recovery rate in liquidation (LRR) and the probability of liquidation (PL).

The recovery rate in liquidation (LRR) is estimated using the discrete asset valuation method (DAV). The DAV method considers the value of assets at the valuation date, the time to recovery of each asset class, the appropriate discount rate for each asset, a liquidity haircut, the costs of insolvency, taxes and the waterfall structure of the recovered amounts to the various creditors.

The probability of liquidation is estimated using structural models, these models estimate the probability of being liquidated as a function of the assets, liabilities, and volatility of assets. The volatility is adjusted to include forward looking information that will apply during the period that the bank has

Key assumptions concerning probability of liquidation and loss given default were made in valuing the ECL of r elated parties. The impact of a 5%o Ch anqe in each of the underlying variables is out lined in the tab le below.

2020	Base Value		Value resulting from changes in			
	P'OOO		Asset volatility		Recovery rate	
			5.0%	-5.0%	5.0%	-5.0%
ECL of Related						
Parties	15,219		857	(968)	(1,268)	1,26 8
Principal assumptions	2020	2019				
Asset volatility	64.1%					
Recovery rate	60.0%					

(b) Lessee 's Incremental borrowing rate
The bank has adopted the incremental borrowing rate as the discount factor. The discount factor takes into account the interest rates on the existing facilities where applicable and commercial rates the bank could be offered by their lenders if they were to source for funding.

The bank used incremental borrowing rates of Prime plus 1.5%-2% in recognizing the lease liabilities at the date of initial application.

Discount factor
Under IFRS 16, Leases, discount rates are used to determine the present value of the lease payments used to measure a lessee's lease liability. Discount rates are also used to determine lease classification for a lessor and to measure a lessor's net investment in a lease. For lessees the lease payments are required to be discounted using either the interest rate implicit in the lease if readily determined or the lessee's incremental borrowing rate.

Accounting Policies [continued]

for the year ended 31 March 2020

1.23 Key sources of estimation uncertainty [continued]

(c) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss.

Current tax comprises tax payable/refundable calculated on the basis of the expected taxable income for the year, using tax rotes enacted at the reporting date and any adjustment of tax payable/refund able for previous years.

(d) Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. De f erred t ax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

1.24 Reclassification

In accordance with IFRS, the bank measures loan arrangement fees as part of the effective interest earned on related loans and advances. However, the deferred arrangement fees PS,620,000at 31 March 2020 (P4,936,000 at 31 March 2019) were historically reported as part of deferred income. With effect from the current financial year, these amounts are reported as part of interest income and loans and advances to customers, respectively, as such classification provides a more accurate reflection of the underlying transactions and how these are measured by the bank. In order to maintain comparability, the comparative information for the 2019 financial year has been adjusted. This reclassification does not impact on the net profit or total net assets of the bank.

2. New Standards and Interpretations

2.1 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:

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.l.ll(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.

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.

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

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

IFRIC 23 - 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 adoption of this revisions did not have a significant impact on the bank's accounting policies, recognition and measurement policies. The effective date of the interpretation is for years beginning on or after 01 January 2019.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 - leases, IFRIC 4 - Determining whether on 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 was issued in January 2016 and it is required to be adopted for reporting periods beginning on or after 1 January 2019.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

2. New Standards and Interpretations [continued]

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. While lessors are not much impacted by the new requirements, the accounting for leases in the lessee's financial statements will be significantly affected by the requirement to recognize all leases on the balance sheet of the lessee (unless the leases are short term or low value). In practice this requires entities to record a right-of-use asset and a lease liability, with the liability being established as the present value of future cash flows on entity will pay over the life of the lease.

Adoption of IFRS 16

As permitted by IFRS 16, the bank did not restate comparative information and elected to apply the modified retrospective approach on the date of adoption. The bank has opted for the modified retrospective option under IFRS 16 C.8 b(ii) which measures the right-of-use asset under leases previously classified as operating leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The bank has applied the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability.
- To exclude direct costs from the measurement of right of use asset at the date of initial application.
- To apply o single discount rate to a whole portfolio of leases with reasonably similar characteristics.

Effect of adoption of IFRS 16

The bank has lease obligations for rental of premises which were previously measured in accordance with IAS 17. The bank has opted not to reassess all previous contracts whether the meet the definition of a leases on adoption of IFRS 16, but rather accepted the assessment under previous standards.

Statement of financial position;

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Leases are "capitalized" by recognizing the present value of the lease payments and showing them as either lease assets (right-of-use assets) or as part of property, equipment and plant. The present value of the future lease payments is recognized as a financial liability if lease payments are made over time.

Statement of profit or loss and other comprehensive income

IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset (included within operating costs) and on interest expense on the lease liability (included within finance costs). This charge aligns the lease expense treatment for all leases.

Adjustments recognised on adoption of IFRS 16: Operating lease commitments as at 31 March 2019	18,222
Discounted using the incremental borrowing rate as at 01 April 2019	14.797
Add: extension and termination options reasonably certain to be exercised	13,198
Lease liability recognised as at 01 April 2019	27,995

2.2 Standards and interpretations not yet effective

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure - Interest rate benchmark reform.

Annual periods beginning on or after 1 January 2020 (early adoption is permitted)

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

Amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The effective date of the amendment is for years beginning on or after 01 January 2020.

The bank expects to adopt the amendments for the first time in the 2021 financial statements.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

3. Net interest income

	2020 P'000	2019 P'000
Interest income		
Call accounts with other financial institutions	7,683	4,314
Other fixed deposits	46,682	41,970
Loans and advances to customers	172,056	178,055
	226,421	224,339
Interest expense		
Ordinary savings	2,320	2,153
Sesigo savings	6,189	6,521
Save-As- You-Earn	530	680
Thobo savings	175	163
National savings certificates (NSC)	390	111
Corporate deposits	99,093	78,602
Fixed deposits	4,768	6,915
Government loan	4,461	4,742
Transaction account	89	77
Finance lease Interest	1,726	-
	119,741	99,964
Net interest income	106,680	124,375

4. Net fee and commission

	2020 P'000	2019 P'000
Account maintenance fees	7,209	7,323
Pre-closure fees	495	2,260
Over-the-counter-fees	2,501	94
Commission on loan repayments	2,747	2,669
	12,952	12,346

With effect from the year end March 2019, the bank charges a rate of 1.25% on loan repayments for loans and Advances

Key credit risk metrics	2020 P'000	2019 P'000
Fee and commission expense		
Agency fees	3,558	3,284
Commissions	6,559	5,839
	10,117	9,123
	2,835	3,223

5. Other income

	2020 P'000	2019 P'000
Rental income	2,540	2,540
Botswana Post interest charge	3,989	
Sundry income	774	3,876
Profit/(loss) on disposal of Property, plant and equipment	120	(1)
	7,423	6,415

6. Government grant

	2020 P'000	2019 P'000
Grant received	141,000	
Current year amortisation	(40,000)	
	101,000	

A total of P141 million was secured from the government of Botswana as a grant to fund specific BSB projects. During the year the bank requested and utilised P40 million to defray costs of implementation and cushion the impact from IFRS 9 on the bank's solvency and other regulatory ratios. The breakdown of the expenses are as follows: Additional audit fees 1.1 million, Implementation and training relating to IFRS 9 1.28 million, IFRS 9 impairment adjustment P17,54 million, Financial year 2020 IFRS 9 charge P20.08 million. The grant relating to IFRS 9 implementation was limited to P40 million.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	Note	2020 P'000	2019 P'000
7. Net impairment loss of financial assets			
Specific impairment		11,721	9,627
Related Parties impairment	16	15,219	-
Portfolio impairment		4,989	(8,488)
Recoveries		(207)	(164)
Net impairment loss on financial assets		31,722	975
Movement on specific impairments			
Balance at the beginning of the year		57,976	44,550
IFRS 9 prior year adjustments			3,799
Charge for the year		11.721	9,627
Balance at the end of the year		69,697	57,976
Movement on portfolio impairments			
Balance at the beginning of the year		20,497	16,379
Current year charge		4,989	4,118
Balance at the end of the year		25,486	20,497
Balance specific and portfolio impairments at the end of the year	15	95,183	78,473
Related party impairments			
Balance at the beginning of the year			
Botswana Post impairment		15,219	-
Balance at the end of the year		15,219	-

8. Employee Benefits

	Note(s)	2020 P'000	2019 P'000
Salaries, wages and allowances		42,364	38,049
Pension and medical aid contributions		8,697	6,768
Fair value adjustment for staff loans		1,186	(65)
Training and recruitment costs		2,920	2,372
Staff welfare		3,177	1,528
		58,344	**48,652**

The average number of persons employed by the Bank during the year was 196 (2019: 185)

9. Depreciation and amortisation

	Note(s)	2020 P'000	2019 P'000
Depreciation	17	4,536	4,563
Amortisation	19	1,176	2,284
Right of use asset	18	3,104	-
		8,816	6,847

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	2020 P'000	2019 P'000
10. Administrative and general expenses		
Audit fees	1,307	2,064
Consulting fees	2,824	2,114
Debt recovery	295	(15)
Non-executive directors' fees	306	371
Insurance premiums	1.424	729
Sales expenses	785	
Other operational expenses	1,501	3,919
BURS Interest and Penalty Charges	2,186	
Cash security expenses	1,335	1,172
Visa and subscription fees	1.425	1,009
Motor vehicle expenses	487	342
Exchange losses	1,225	(166)
Overdrawn balances written off	-	15
Bank and other charges	852	681
Office expenses	1,120	-
Property management and security fees	3,200	2,980
Advertising and publicity	4,372	4,955
Repairs and maintenance	1,345	4,673
Software licensing and other IT costs	7,871	6,466
Stationery, utilities and postage	5,084	4,353
	38,944	**35,662**

	2020 P'000	2019 P'000
11. Income tax expense		
Current		
Current tax on profit for the yea	28,235	6,863
Deferred		
Deferred tax benefit	(22,899)	(2,521)
Income tax expense	5,336	4,342
Numerical reconciliation of income tax expense to prima facie tax payable		
Reconciliation between accounting profit and tax expense.		
Profit before taxation	19,112	39,580
Tax at the applicable tax rate of 22% (2019: 22%)	4,205	8,708
Tax effect of adjustments on taxable income		
Other		(46)
Disallowed expenses	871	(711)
Adjustment in respect to prior periods	260	(3,609)
Income tax expense	5,336	4,342

With effect from July 2016, the bank, alongside several other parastatals or bodies wholly owned by the government, was excluded from the listing of exempt tax entities through the income tax (bodies corporate exempt from tax) regulation of 2016.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	2020 P'000	2019 P'000
12. Deferred tax		
Deferred tax asset		
At beginning of year	4,068	1,547
Credit for the year	22,899	2,521
Closing Balance	26,967	4,068
The balance comprises temporary differences attributable to:		
Property and equipment	(990)	(526)
Right of Use Asset	(5,436)	-
Intangible assets	(202)	(461)
Lease Liability	5,768	-
Impairment of loans and advances	5,607	4,509
Unamortised Government grant	22,220	-
Disallowed expenses	520	-
Fair value adjustments - staff loans	-	(14)
Straight line adjustments	-	40
Total deferred tax asset	26,967	4,068

	2020 P'000	2019 P'000

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020 P'000	2019 P'000
Cash on hand	16,750	8,732
Balances with Bank of Botswana	2,911	4,166
Stanbic Bank	147,436	95,379
First National Bank Botswana	13,271	31,300
Capital Bank	2,983	1,771
ABSA Bank	1,276	-
BancABC Bank	132,849	90,707
Bank Gaborone	65,702	10,547
	383,178	242,602

Cash and Cash Equivalents comprises cash on hand and deposits held with other banks that are highly liquid instruments.

14. Balances with other banks

	2020 P'000	2019 P'000
Balances due from other banks	937,585	813,127

Fixed deposits with banks generally have a term of either 3 months, 6 months, 12 months and 24 months, however other maturities are negotiable or can be tailored to customer requirements. Interest rates are negotiable on a deal by deal basis.

Maturity by period	2020 P'000	2019 P'000
Within 1 year	937,585	813,127

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	Note	2020 P'000	2019 P'000
15. Loans and advances to customers			
Motor vehicles advances		12,494	9,546
Residential property loans		640,463	688,771
Personal loans		855,870	791,579
		1,508,827	1,489,896
Less impairment provision	7	(95,183)	(78,473)
		1,413,644	1,411,423
Maturity by period			
Within 1 year		24,652	26,570
After 1 year within 5 years		463,717	506,365
After 5 years		1,020,458	956,961
		1,508,827	1,4 89,896
Sectorial analysis:			
Central Government employees		1,194,009	1,046,814
Parastatal employees		107,446	45,203
Local government employees and other customers		207,372	397,879
		1,508,827	1,489,896
Analysis of specific impairment losses on loans and advances [Motor vehicle advances]		82	66
Residential property loans		11,393	6,458
Personal loans		58,222	51,452
		69,697	57,976

13. Cash and cash equivalents

The government of Botswana and certain of its participating agencies/departments, revised their loan agreement in respect of motor vehicle and residential property loans disbursed. With effect from the 1st January 2019 the government guarantees 70% of the loans (previously at 80%).

Ipelegeng personal loans are advanced to customers who hold SA YE, Sesigo,Thobo and Ordinary accounts and are secured by these account balances held with the bank. The customer must maintain these account balances with at least 60% of the outstanding portion of the loan.

Motheo Personal Loan was introduc ed in November 2007. Two additional personal loan products, Lecha Personal loan and Express Loan were introduced in November 2015. Lecha has identical features to those of Motheo but has a higher loan amount - up to P500 000 repayable over 84 months (compared to P200 000 with repayment up to 5 years for Motheo). Express is a short-term loan for up to 12 months with loan amount up to Gross salary of each respective customer. No security is required for these loans as the deduction is made from source by the employer.

All loans and advances are recognised when cash is disbursed to borrowers.

16. Balances with related parties

	2020 P'000	2019 P'000
Amounts due from Botswana Postal Services	95,198	46,468
Less Impairment provision	(15,219)	
Amounts due from Botswana Postal Services	79,979	46,468

Botswana Postal Services provide banking services to the Botswana public on behalf of the bank at a fixed cost per transaction. The balance due at the end of the year is in respect of net deposits (deposits less withdrawals) which are settled upon demand, in the ordinary course of business.

	2020 P'000	2019 P'000
Maturity by period		
Within 1 year	79,979	46,468

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Opening balances	2020 Cost	Accumulated depreciation	2019 Cost	Accumulated depreciation
17. Property, plant and equipment				
Buildings and leasehold improvements	27,970	(10,567)	26,904	(9,961)
Furniture and Fixtures	9,002	(8,150)	8,658	(7,676)
Motor vehicles	3,879	(2,690)	3,885	(2,082)
Office and computer equipment	28,290	(17,631)	22,474	(14,824)
Capital - work in progress	1,115	2,131	-	-
	70,256	**(39,038)**	**64,052**	**(34,543)**

	2020 P '000 Cost	Accumulated depreciation	Carrying value	2019 P '000 Cost	Accumulated depreciation	Carrying value
Buildings and leasehold improvements	28.703	(11,413)	17,290	27,970	(10,567)	17,403
Furniture and fixtures	9,110	(8,413)	697	9,002	(8,150)	852
Motor vehicles	5,163	(2,634)	2,529	3,879	(2,690)	1,189
Office and computer equipment	32,810	(20,216)	12,594	28,290	(17,631)	10,659
Capital - Work in progress	4,379	-	4,379	1,115	-	1,115
Total	80,165	(42,676)	37,489	70,256	(39,038)	31,218

17. Property, plant and equipment [continued]

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings and leasehold improvements	17,403	494	-	239	(846)	17,290
Furniture and fixtures	852	169	-	-	(324)	697
Motor vehicles	1,189	2,142	(155)	-	(647)	2,529
Office & computer equipment	10,659	3,778	-	876	(2,719)	12,594
Capital - Work in progress	1,115	4,379	-	(11,15)	-	4,379
	31,218	10,962	(155)	-	(4,536)	37,489

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings and leasehold improvements	16,943	1,066	-	(606)	17,403
Furniture and fixtures	982	344	-	(474)	852
Motor vehicles	1,803	-	-	(614)	1,189
Office & computer equipment	7,650	5,878	-	(2,869)	10,659
Capital - Work in progress	2,131	-	(1,016)	-	1,115
	29,509	7,288	(1,016)	(4,563)	31,218

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

17. Property, plant and equipment [continued]

Buildings and Leasehold improvements at Tshomarelo House and a portion of which is held for the bank's own use and is carried at cost. In the opinion of the directors the fair value of the land and building is P75.6 million. This value is based on a valuation conducted by an independent firm of professional valuers as at 1st April 2020 (open market basis). Land and buildings are independently valued on a regular basis and management are of the considered view that no major changes have occurred in the open market value of the property between the last date of valuation and the current period end. The land and building on Plot 53796 is held under a state grant of 50 years commencing 1 June 2006.

		2020 P '000			2019 P '000	
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
18. Right of use asset and lease liabilities						
Buildings	27,813	(3,104)	24.709	-	-	-

Reconciliation of right-of-use assets - 2020

	Opening balance	Additions	Depreciation	Total
Buildings	-	27,813	(3,104)	24,709
Lease liabilities				
Cash flows and interest expense on lease liabilities				
Lease liability - On Adoption of IFRS 16			27,995	-
Lease liability - closing balance			(26,220)	-
Leases - cash payments			1,775	-
The maturity analysis of lease liabilities is as follows:				
Within one year			5,195	-
After 1 year, within 5 years			21,025	-
			26,220	-

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

18. Right of use asset and lease liabilities [continued]

The bank has entered into commercial leases for premises. The leases have an average life of between 3 and 5 years. Details of the leasing arrangements are presented above.

Comparative information for lease liabilities under IAS 17

The information presented for lease liabilities for the comparative period has been prepared on the basis of IAS 17, and therefore only represents the liability as at that date for finance leases and not for operating leases. In addition to the information presented in the table above.

Opening balances	2020 Cost	2020 Accumulated depreciation	2019 Cost	2019 Accumulated depreciation
19. Intangible assets				
Computer software	16,031	(13,937)	16,031	(11,654)

	2020 P '000 Cost	2020 P '000 Accumulated depreciation	2020 P '000 Carrying value	2019 P '000 Cost	2019 P '000 Accumulated depreciation	2019 P '000 Carrying value
Computer software	16,033	(15,114)	919	16,031	(13,937)	2,094

Reconciliation of right-of-use assets - 2020

	Opening balance	Additions	Depreciation	Total
Buildings	2,094	2	(1,176)	919

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

19. Intangible assets [continued]

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	4,377	(2,283)	2,094

20. Other assets

Trade receivables	4,682	5,242
Accrued interest	8,370	11.717
Stock of stationery	922	1,253
	13,974	18,212

Other assets are due and receivable within 12 months of the reporting date.

	2020 P'000	2019 P'000
21. Current tax payable		
Opening Balance	5,669	1,524
Charge for the year	28,235	6,863
Tax paid during the year	(4,974)	(2,718)
Closing balance	28,930	5,669
22. Borrowings		
Principal amount outstanding at the beginning of the year	96,660	102,711
Repayment of principal	(5,833)	(5,833)
Interest paid during the year	(3,327)	(3,545)
Accrued Interest	3,121	3,327
	90,621	96,660

22. Borrowings [continued]

A total of P105 million was advanced by the Government of Botswana for a period of twenty (20) years from July 2015. This period is inclusive of on initial grace period of two (2) years during which interest will be payable with the principal repayable over the remaining eighteen (18) years. The loan was obtained for purposes of facilitating the submission of an application for a banking license to Bank of Botswana which is required for the commercialisation of Botswana Savings Bank.

Interest accrues at 5% per annum on the amount outstanding and is fixed over the loon term.

Maturity analysis for borrowings is presented below	2020 P'000	2019 P'000
Due within 12 months	90,621	96,660

As the bank's application for a banking licence has not yet been submitted, the bank is in violation of specific loan covenants and the loan has become callable at notice as of year -end. The bank has entered into negotiations with the lender for a revision to the loan agreement, will remedy this breach. It is expected that this revision will be formalised subsequent to the reporting date. The lender has not called for early settlement.

23. Other liabilities

Trade payables		
	86,652	70,621
Other creditors	12,539	8,400
Accrued audit fees	2,169	1,786
	101,360	80,807

Other liabilities are due and payable within 12 months of the reporting date.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	2020 P'000	2019 P'000
24. Deposits due to customers		
Ordinary savings	121,275	111, 513
Save-As-You-Earn	28,659	25,714
Sesigo savings	277,962	271,805
Thobo savings	11,630	8,525
Transactional account	41.733	26,028
Notional savings certificates (NSC)	20,687	17,624
Corporate Fixed Deposits	1,702,412	1.507,585
Corporate savings	11,839	19,914
Retail fixed deposits	96,665	118,162
Special savings account	30,546	68,487
	2,343,408	2,175,357

Ordinary savings, Sesigo savings and Corporate savings are all repayable on demand. Ordinary savings accrue interest at 3.0% (2019: 3.0%) per annum, Sesigo savings accrue interest between 2.0% and 4.5% (2019: between 2.0% and 4.5%) per annum and Corporate savings' interest is negotiable.

All other products are fixed deposits with varying maturities and interest rates. Save-As-You-Earn is a 24 months product and earns interest at 2.0% (2019: 3.0%) per annum. Thobo savings is a 12-month product and earns interest at 3.0% (2019: 3.0%) per annum. National Savings Certificates are a 60 months fixed product and earns interest at 4.5% (2019: 3.5%) per annum. Retail fixed deposits have maturities ranging from 3 months to 24 months and earn interest between 2.5% and 3.3% (2019: between 2.5% and 3.3%). Corporate Fixed deposits are negotiable.

Maturity analysis for deposits due to customers is presented below;

Due within 12 months	2,167,514	1,775,065
Due after 12 months	175,894	400,292
	2,343,408	2,175,357

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	2020 P'000	2019 P'000
25. Deferred income		
ATM Project grant from Enterplan	106	106

The grant represents funds which were received to fund the ATM project.

26. Dormancy account liability

	2020 P'000	2019 P'000
Balance at the beginning of the year	24,002	22,178
Movement for the year	2,410	1.824
Balance at the end of year	**26,412**	**24,002**

A customer's savings account becomes dormant if after five consecutive years the customer does not transact in that account. Section 18 of the Botswana Savings Bank Act requires the Bank to transfer dormant accounts to a separate liability account. A transfer can only be made twelve months following the publication in the Government Gazette of dormant customer accounts so identified.

Such transfers into the dormancy liability account are done without prejudice to any subsequent claims made by the respective customers.

27. Unrecallable capital

	2020 P'000	2019 P'000
Subscribed		
Authorised share capital	5,000	5,000
Unrecallable capital	14,721	14,721
	19,721	**19,721**

Section 3 (6) of the Botswana Savings Bank 1992 provides that the Ban k's authorised share capital shall be P20 million of which the first PS million shall constitute the fully subscribed share capital. The fully subscribed share capital represents the Government's contribution towards the construction of Tshomarelo House and other set up costs.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

	2020 P'000	2019 P'000
28. Statutory reserve		
Balance at the beginning of the year	54,823	46,014
Movement for the year	3,444	8,809
Balance at the end of year	58,267	54,823

The statutory reserve has been established in terms of Section 3(e) of the Botswana Savings Bank Act, 1992. The section requires the Bank to transfer the equivalent of 25% of the comprehensive income for the year to a statutory reserve.

The Bank might utilise this reserve against any remaining loss after such loss has been applied against retained earnings.

29. Contingent liabilities and commitment s

These represents the commitments incurred on the issuance of residential property loans which, by virtue of long construction periods over several stages, results on some of the authorised amounts outstanding as at period end.

	2020 P'000	2019 P'000
Contingencies and capital commitments	7,303	121,541

30. Pension fund

The Bank operates a defined contribution pension fund for its eligible employees. The Bank contributes 15% of the employees' basic pay and employees contribute 5% of their basic pay. See note 8.

31. COVID-19 Pandemic and Going concern

The outbreak of the coronavirus occurred after the reporting date and was declared a global pandemic in March 2020. The declaration was made eleven months after the reporting date, and the condition has continued to evolve since then. The outbreak has resulted in disruption to business activity globally and the domestic market has not been spared.

The bank has been impacted by the outbreak through measures taken by the government of Botswana to curb the virus. The 7-week national lockdown and extreme social distancing saw companies not providing essential services suspending operations or implementing remote working. Some companies have taken precautionary measures such as scaling down operations. As COVID-19 continues to spread across the world, the widespread impact has inevitably imposed some challenges on the domestic and global economies. Whilst it is too early to fully understand the severity of this crisis and its long-term implications, some companies are developing their contingency plans whilst others are adopting existing plans to handle this outbreak.

Botswana Savings Bank implemented appropriate measures to ensure that employees, customers, other stakeholders are protected from the spread of the COVID-19 virus. The bank has introduced remote/shift working for its employees to ensure compliance with social distancing.

The Government of Botswana has pledged to give businesses some cash-flow relief to eligible businesses affected by COVID-19 to access credit to support ongoing operations. The bank has responded swiftly to the COVID-19 pandemic by giving some cash-flow relief such as repayment holiday to eligible customers that are most affected by the pandemic. The relief is availed to selected sectors and the facility is based on individual assessment.

The bank has assessed the possible impact of COVID-19 on its operations and have concluded that the bank's future performance is likely to deteriorate due to declining revenues, increased probability of customer default, increased operational costs to comply with COVID-19 regulations and possible increase in cost of funding.

Consequently, the bank is likely to experience cashflow challenges due to delayed repayments arising from loan restructuring.

Based on available information and assessments by management. including sensitivity analysis on the entity's cashflows, the directors believe the effect of the pandemic does not have a material imped on the financial statements for the year ended 31 March 2020.

Management will continue to closely monitor the impact of the pandemic on the bank's operations to be able to take the necessary interventions.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

32. Assets and liabilities by category

The following table shows the carrying amounts and fair values of assets and liabilities by category. The fair values at the end of the period approximate the carrying amounts.

Assets and liabilities category - 2020

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total	Fair value
Assets						
Property, plant and equipment	17	-		37,489	37,489	37,489
Right-of-use assets		-		24,709	24,709	24,709
Intangible assets	19	-		919	919	919
Loans and advances to customers		1,413,644		-	1,413,644	1,413,644
Deferred tax	12			26,967	26,967	25,040
Balances with other banks	14	937,585		-	937,585	937,585
Loans to shareholders	16	79,979		-	79,979	79,979
Other assets	20	13,974		-	13,974	13,974
Cash and cash equivalents	13	383,178		-	383,178	383,178
Total Assets		**2,828,360**		**90,084**	**2,918,444**	**2,916,517**

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Assets and liabilities category - 2020

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total	Fair value
Equity and Liabilities						
Equity						
Share capital	27		-	19,721	19.721	19,721
Reserves	28		-	58,267	58,267	57,785
Retained income			-	122,399	122,399	120,954
Liabilities						
Deposits due to customers	24		2,343.408	-	2,343,408	2,343,408
Deferred income	25		106	-	106	106
Borrowings	22		90,621	-	90,621	90,621
Dormancy account liability	26		26,412	-	26,412	26,412
Government grant	6		-	101,000	101,000	101,000
Other liabilities	23		101,360	-	101.360	101,360
Lease liabilities			26,220	-	26,220	26,220
Current tax payable	21		-	28,930	28,930	28,930
Total Equity and Liabilities			**2,588,127**	**330,317**	**2,918,444**	**2,916,517**

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

32. Assets and liabilities by category [continued]

Assets and liabilities category - 2019

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total	Fair value
Assets						
Property, plant and equipment	17	-	-	31,218	31,218	31,218
Intangible assets	19	-	-	2,094	2,094	2,094
Loans and advances to customers		1,411,423	-	-	1,411,423	1,411,423
Deferred tax	12	-	-	4,068	4,068	4,068
Balances with other banks		813,127	-	-	813,127	813,127
Balances with related parties	16	46,468	-	-	46,468	46,468
Other assets	20	18,212	-	-	18,212	18,212
Cash and cash equivalents	13	242,602	-	-	242,602	242,602
Total Assets		**2,531,832**	**-**	**37,380**	**2,569,212**	**2,569,212**

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Assets and liabilities category - 2020

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Equity and non-financial assets and liabilities	Total	Fair value
Equity and Liabilities						
Equity						
Share capital	27		-	19,721	19.721	19,721
Reserves	28		-	54,823	54,823	54,823
Retained income			-	112,067	112,067	112,067
Liabilities						
Liabilities						
Deposits due to customers			2,175,357	-	2,175,357	2,175,357
Deferred income	25		106	-	106	106
Borrowings	22		96,660	-	96,660	96,660
Dormancy account liability	26		24,002	-	24,002	24,002
Other liabilities	23		80,807	-	80,807	80,807
Current tax payable	21		-	5,669	5,669	5,669
Total Equity and Liabilities			**2,376,932**	**192,280**	**2,569,212**	**2,569,212**

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management

The Bank's activities expose it to a variety of risks. Taking measured risks is care to the financial business sector and the operational risks are on inevitable consequence of being in business. The Bank's aim is therefore to achieve on appropriate balance between risk and retain and minimise potential adverse effects on the Ban k's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

Risk management is carried out by the Bank under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The activities of the Bank to a large extent make use of financial instruments. The Bank accepts deposits from its customers at fixed rates, and for varying periods. and therefore, would seek to earn interest margins by investing in high quality assets.

The Bank also mitigates its lending risks by giving out loons that are either guaranteed or have been granted against collateral or are based on employer direct deductions from payroll. The Bank is exposed to the following risks arising from its use of financial instruments

(a) Market risk
(b) Credit risk
(c) Liquidity risk
(d) Capital risk

Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Bank's income. Interest rate risk

The Bank is exposed to interest rate risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position (fair value interest rate risk) and cash flows (cash flow interest rate risk).

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Operations Department.

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

Assets and liabilities category - 2020

31 March 2020	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 year s P'000	Total P'000
Assets					
Cash and cash equivalent	278,932	-	-	-	278,932
Fixed depo sits with Banks	359,182	682,649	-	-	1,041.831
Balances with related parties	79,979	-	-	-	79,979
Other assets	13,974	-	-	-	13,974
Loans and advances	4,198	20,454	463,717	925,275	1,413,644
Total financial assets	**736,265**	**703,103**	**463,717**	**925,275**	**2,828,360**
Liabilities					
Other liabilities	101,360	-	-	-	101,360
Deposits due to customers	1,212,426	955,088	175,894	-	2,343,408
Borrowings	90,621	-	-	-	90,621
Lease liabilities	532	1,750	11,813	12,125	26,220
Dormancy account liability	26,412	-	26,412	-	-
Total financial Liabilities	**1,431,351**	**956,838**	**187,707**	**12,125**	**2,588,021**
Total interest re-pricing gap	**(695,086)**	**(253,735)**	276,010	**913,150**	**240,339**

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Assets and liabilities category - 2020

31 March 2019	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 year s P'000	Total P'000
Assets					
Cash and cash equivalents	242,602				242,602
Fixed deposits with Banks	813,127				813,127
Balances with related parties	46,468				46,468
Other assets	18,212				18,212
Loans and advances	5,528	13,769	506,360	885,766	1,411,423
Total financial assets	**1,125,937**	**13,769**	**506,3608**	**85,766**	**2,531,832**
Liabilities					
Liabilities Other liabilities	80,807				80,807
Deposits due to customers	1,115 , 581	659,484	349,820	50,472	2,175,357
Borrowings	96,660				96,660
Dormancy account liability	24,002				24,002
Total financial Liabilities	**1,317,050**	**659,484**	**349,820**	**50,472**	**2,376,826**
Total interest re-pricing gap	**(191,113)**	**(645,715)**	**156,540**	**835,294**	**155,006**

An increase of 100 basis points in interest rates during the reporting period would have a negative yield of P9.421 million (2019: P 9.75 million). On the other hand, a 100 basis point decrease in interest rates during the reporting period would have had the equal but opposite effect on the reported profit for the year to the amounts disclosed above, on the basis that all other variables remain constant.

Credit risk

Credit risk measurement

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due resulting in a financial loss to the Bank. The Bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers.

Credit risk arises primarily from the following instruments:

- Loans and advances;
- Cash and cash equivalents;
- Other assets;
- Balances with other banks

In order to minimise credit risk, the bank has developed and maintains its credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the bank's exposures:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit; Forbearances (both requested and granted);
- Changes in business, financial and economic conditions; and Credit rating information supplied by external rating agencies.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Market risk [continued] > **Credit risk measurement** [continued]

Credit risk is monitored on an ongoing basis and managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure.

The assessment of credit risk relies on internally developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD):
- and loss given default (LGD).

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forecast of economic variables, regression analysis and expert judgement is applied and confirmed through internal governance structures.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the bank has considered benchmarking internal/ external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail - Groupings for collective measurement

- Product type
- Repayment type
- Collateral type

All stage 3 exposures for retail are assessed individually.

Market risk [continued] > **Credit risk measurement** [continued]

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Financial Risk team.

31 March 2020	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2019	1,269,584	131,106	89,206	1,489,896
Transfer to stage 1 (12-month ECL)	21,285	(17,158)	(4,127)	
Transfer to stage 2 (Lifetime ECL)	(66,309)	68,021	(1,712)	
Transfer to stage 3 (Credit impaired)	(15,728)	(9,026)	24,754	
Net transfers (out)/ in of stage	(60,752)	41,837	18,915	
Exposure reduction from scheduled instalments	(126,110)	(18,621)	(3,775)	(148,506)
Exposure reduction from repayments	(200,148)	(11,738)	(3,440)	(215,326)
Business activity for the year	345,064	37,301	398	382,763
Additions/(reductions) in exposure for the period	18,806	6,942	(6,817)	18,931
Gross exposure as at 31 March 2020	1,227,638	179,885	101,304	1,508,827

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Market risk [continued] > **Credit risk measurement** [continued]

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Financial Risk team.

31 March 2019	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2019	1,260,228	210,090	82,808	1,553,126
Transfer to stage 1 (12-month ECL)	75,887	(69,729)	(6,158)	
Transfer to stage 2 (Lifetime ECL)	(16,221)	17,068	(847)	
Transfer to stage 3 (Credit impaired)	(9,914)	(9,262)	19,176	
Net transfers (out)/ in of stage	49,752	(61,923)	12,171	
Exposure reduction from scheduled instalments	(140,189)	(11,106)	(4,153)	(155,448)
Exposure reduction from repayments	(172,046)	(22,668)	(3,991)	(198,705)
Business activity for the year	271,839	16,713	2,371	290,923
Additions/(reductions) in exposure for the period	(40,396)	(17,061)	(5,773)	(63,230)
Gross exposure as at 31 March 2020	1,269,584	131,106	89,206	1,489,896

The loss allowance recognised in the period is impacted by o variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Market risk [continued] > **Credit risk measurement** [continued]

The following table explain the changes in the loss allowance between the beginning and the end of the annual period due to the above factors:

31 March 2020	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2019	9,122	11,371	57,980	78,473
Transfer to stage 1 (12-month ECL)	119	(110)	(9)	
Transfer to stage 2 (Lifetime ECL)	(4,484)	4,613	(129)	
Transfer to stage 3 (Credit impaired)	(9,043)	(4,996)	14,039	
Net transfers (out)/ in of stage	(13,408)	(493)	13,901	
Exposure reduction from scheduled instalments	(1,435)	(915)	109	(2,241)
Exposure reduction from repayments	(1,947)	(1,000)	(2,539)	(5,486)
Business activity for the year	4,659	4,278	703	9,640
Model & changes in PD's, LGD's & FLI 's	13,434	1,820	(457)	14,797
Provisions for the period	14.711	4,183	(2,184)	16,710
Loss allowance as at 31 March 2020	10,425	15,061	69,697	95,183

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Credit risk [continued]

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Financial Risk team.

31 March 2019	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2019	14,000	14,986	48,348	77,334
Transfer to stage 1 (12-month ECL)	496	(474)	(22)	-
Transfer to stage 2 (Lifetime ECL)	(1,562)	1,666	(104)	-
Transfer to stage 3 (Credit impaired)	(6,313)	(4,943)	11,256	-
Net transfers (out)/in of stage	(7,379)	(3,751)	11,130	-
Exposure reduction from scheduled instalments	(2,817)	(844)	(222)	(3.883)
Exposure reduction from repayments	(2,395)	(1,559)	(2,352)	(6,306)
Business activity for the year	3,290	1,737	1,716	6,743
Model & changes in PD's, LGD's & FLI 's	4,424	802	(641)	4 ,5 85
Provisions for the period	2,502	136	(1,499)	1,139
Loss allowance as at 31 March 2019	9,123	11,371	57,979	78,473

Reporting of movements into/(out) of stages was adjusted to reflect a current transition basis, in 2019 this was reported on a prior year transition basis.

Coverage Ratios

The bank monitors the expected level of impairment through the coverage ratios. The coverage ratio is the expected loss divided by exposure. The following table details the cover age for the period.

31 March 2020 Exposure	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Personal loans	702,568	93,525	60,519	856,612
Motor vehicle loans	11,717	518	259	12,494
Residential loans	513,353	85,842	40,526	639,721
Total	1,227,638	179,885	101,304	1,508,827
ECL				
Personal loons	9,237	8,873	60,064	78,174
Motor vehicle loons	165	37	82	284
Re sidential loons	1,023	6,151	9,551	16,725
Total	10,425	15,061	69,697	95,183
Coverage ratios				
Personal loans	1.3%	9.5 %	99.2 %	9.1%
Motor vehicle loans	1.4%	7.1%	31.7 %	2.3 %
Residential loans	0.2 %	7.2 %	23.6 %	2.6 %
Total	0.8 %	8.4 %	68.8%	6.3 %

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

31 March 2019 Exposure	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Personal loans	721,989	29,566	51,917	803,472
Motor vehicle loans	7,678	1,506	365	9,549
Residential loans	539,917	100,034	36,924	676,875
Total	1,269,584	131,106	89,206	1,489,896
ECL				
Personal loans	7,967	3,486	50,285	61,738
Motor vehicle loans	49	47	66	162
Residential loans	1,110	7,838	7,625	16,573
Total	9,126	11,371	57 ,976	78,473
Coverage ratios				
Personal loans	1.1%	11.8 %	96.9 %	7.7%
Motor vehicle loans	0.6 %	3.1 %	18.1%	1.7 %
Residential loans	0.2 %	7.8%	20.7 %	2.4 %
Total	0.7 %	8.7 %	65.0 %	5.3 %

Impairment of related party balances

	2020 Stage 3 Lifeti me ECL P'000	2019 Stage 112-month ECL P'000
Exposure	95,198	46.468
Impairment allowance	(15.219)	-
Balance at the end of year	79,979	46.468
Coverage ratio	15.99%	-%

The impairment allowance was computed by taking into consideration the following key parameters:

Probability of BPSL being liquidated	26.47 %	-%
Loss in the event of a liquidation of BPSL	60.40 %	-%
Impairment allowance coverage rate	15.99 %	-%
Effective interest used in discounting impairment allowance	10.00 %	-%

EXPOSURE 31 March 2019	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2019	46.468		46.468	-
Transfer to stage 3 (Credit impaired)	(46.468)		-	-
Exposure reduction from payments	-		(66,653)	(66,653)
Business activity for the year	-		115,383	115,383
Additions in exposure for the period	-		48.730	48.730
Gross exposure as at 31 March 2020	-		95,198	95,198

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

31 March 2019 Exposure	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2018	18,353	-	-	18,353
Exposure reduction from payments	(48,026)	-	-	(48,026)
Business activity for the year	76,141	-	-	76,141
Additions in exposure for the period	28,115	-	-	28,115
Gross exposure as at 31 March 2019	**46,468**	**-**	**-**	**46,468**

LOSS ALLOWANCE

31 March 2019 Exposure	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Transfer to stage 3 (Credit impaired)	-	-	6,797	6,797
Exposure reduction from payments	-	-	(9,749)	(9,749)
Business activity for the year	-	-	18,171	18,171
Additions/(reductions) in exposure for the period	-	-	8,422	8,422
Gross exposure as at 31 March 2020	-	-	15,219	15,219

Maximum exposure to credit risk before collateral held or other credit enhancements-All Financial instruments

Credit risk exposures relating to on-statement-of-financial-position assets are as follows:	2020 P'000	2019 P'000
Cash and cash equivalents	383,178	242,602
Balances due from other banks	937,585	813,127
Other assets	13,974	16,959
Balances with Related Parties	79,979	46,468
Gross loans and advances to customers Motor vehicles advances	12,494	9,546
Residential property loans	640,463	688,771
Personal loans	855,870	791,579
Total on-statement of financial position exposure	2,923,543	2,609,052
Credit risk exposure relating to off-statement-of-financial-position items are as follows:		
Contingent liabilities and capital commitments	7,303	121,541
Total off-statement-of-financial position exposure	7,303	121,541
Total credit risk exposure	2,930,846	2,730,593

The above table represents a worst-case scenario of credit risk exposure to the bank at 31 March 2020, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

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

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio and other securities based on the following:

- The bank employs a range of policies and practices to mitigate credit risk.
- Residential loans are backed by collateral.
- All financial assets, other than special mention and non-per forming loans and advances, are neither post due nor impaired.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Maximum exposure to credit risk - Financial instruments

The following table contains on analysis of the credit risk exposure of financial instruments for which on ECL allowance is recognised. The gross carrying amount of financial assets below also represents the bank's maximum exposure to credit risk on these assets.

31 March 2020 Credit grade	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Investment grade	691,042	-	-	691,042
Standard monitoring	536,596	-	-	**536,596**
Special monitoring	-	179,885	-	179,885
Default	-	-	101,304	101,304
Gross carrying amount	**1,227,638**	**179,885**	**101,304**	**1,508,827**
Loss allowance	(10,425)	(15,061)	(69,697)	(95,183)
Carrying amount	**1,217,213**	**164,824**	**31,607**	**1,413,644**
31 March 2019				
Credit grade				
Investment grade	705,438	-	-	705,438
Standard monitoring	**564,146**	-	-	**564,146**
Special monitoring	-	131,106	-	131,106
Default	-	-	89,206	89,206
Gross carrying amount	**1,269,584**	**131,106**	**89,206**	**1,489,896**
Loss allowance	(9,123)	(11,371)	(57,979)	(78,473)
Carrying amount	**1,260,461**	**119,735**	**31,227**	**1,411,423**

Risk limit control and mitigation policies

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk are approved by the board of directors.

Exposure to credit risk is managed upfront when an application for credit is received. The Credit Risk Management Model is utilised by the bank and assesses the three components of safety, desirability and profitability. Throughout the lifespan of the credit facility, regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations is assessed and lending limits are changed where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, insurance and personal guarantees. The amount the bank is willing to lend unsecured is copped and approved by the board.

Placements with banks, including loans and advances to banks, are subject to the normal credit process. Some other specific control and mitigation measures are outlined below:

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances. Risk exposure to advances is reduced by obtaining approved security as defined by the Board Risk Committee and listed in the advance instruction manual.

The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation and the principal collateral types for loans and advances are:

- cash deposited with and ceded to the bank;
- deposit with any registered financial institution and ceded to the bank;
- life assurance policies with o confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the board credit committee.

Collateral per doss of loans and advances:

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Residential Property Loans (Mortgages):

- All loans issued under the GEMVAS scheme are guaranteed by the Botswana Government
- The government guarantees 80% of the book value (70% for loons issued after 1 April 2019)
- All other residential property loans (staff residential loons) are secured by a first, second or third lien on the property and the bank obtains a cession on the insurance policy

Motor vehicle loans:

- All motor vehicle loans are issued under the scheme with the employer
- The employer guarantees between 70% to 100% of the loan balance
- Most employers on this scheme are parastatals

The following security can be given for any loan class depending on the circumstances and purpose of the loan:

- Suretyships
- Registered cession of life insurance policy
- Cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors.

Valuation methodologies

In fair valuing the government guarantees the following are taken into consideration Government guarantees on GEMV AS residential property loans

- A haircut of 1.82% is applied to the guarantee (0% in 2019)
- The guarantee is discounted at the risk-free rate for the estimated time to realization, 12 months in 2020 (8 months in 2019).

Parastatal guarantee on Motor vehicle loans

- A haircut of 1.82% is applied to the guarantee (0% in 2019)
- The guarantee is discounted at the risk-free rate for the estimated time to realization,12 months in 2020 (8 months in 2019).

Property collateral on staff residential property loans

- A haircut of 25% is applied to the most recent market value (25% in 2019)
- The value of the collateral is limited to the book value of the loan
- The limited collateral is discounted at 5% for the estimated time to realization, 12 months in 2020 (8 months in 2019).

Property valuation

In the case where a property is offered as security in the form of covering a mortgage bond, the valuation of the property is valid for three years in the banking book. A revaluation of the property needs to be done when there is an indication that the value of the property has declined. An approved revaluation of the property is required when a further advance or additional mortgage is applied for, when repayment comes in arrears, when an application for the release of collateral or any additional security is received or for properties in possession.

Homeowners comprehensive insurance is compulsory for all the mortgage loans. All articles financed by the bank must be comprehensively insured.

Life insurance valuation

Life insurance that is used as security for loans taken out at the bank is ceded to the bank and the cession is registered by the insurance company. The values of the life insurance policies ceded to the bank must be updated at least annually to determine the security value and to establish whether premiums are up to date.

Credit life insurance

The customer signs a formal loan agreement and sufficient credit life insurance is ceded to the bank. A formal payroll agreement between the applicant's employer and the bank is also signed. Non-government applicants must sign an acknowledgement of debt and cede their surplus benefits (e.g. unpaid leave) payable on termination of service to the bank.

Long-term finance and lending is generally secured. In addition, in order to minimise the credit loss the bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

it) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

Credit quality of loans and advances and other financial instruments

i. Credit quality and management of loans and advances

Initial applications

The bank applies a standardised approach when assessing applications for credit. All applications are completed according to the Botswana Savings Bank risk model, which covers all information required to make an informed decision when granting advances. The risk model has the main components of safety, desirability and profitability which is further broken down as:

- background;
- needs;
- financial position;
- security;

- desirability;
- profitability; and
- recommendation - positive / negative aspects.

Subsequent credit assessments

Management information system reports were developed over time in order to effectively monitor and manage the quality of the loan portfolio and pro-actively identify problem accounts and trends. The following reports are generated:

- Excesses are reported and reviewed on a daily basis.
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, and bad debts written off within branch mandates.
- The credit deportment submits a monthly report to the executive management team and a more detailed report to the board of directors on a quarterly basis regarding the status of the credit portfolio of the bank.
- Monthly statistics per product are used to monitor the quality and management of the loan portfolio per branch.
- All clients with exposures approved above branch level are interviewed by credit before non-performing accounts are transferred to legal collection branch.
- All transfers to the legal collections branch with an impairment provision higher than P2,000 are scrutinised by the credit department and categorised under:

  - poor assessment -poor management - poor collateral
  - economic reasons; and
  - other

The bank has a process to proactively manage potential problem accounts to prevent possible losses. These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Impairment provisions on these active accounts are raised in accordance with the credit policy.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Loans and advances and balances from financial institutions are summarised as follows:

	2020 Loans and advances to customers P'000	2020 Due from other banks P'000	2019 Loans and advances to customers P'000	2019 Due from other banks P'000
Neither past due nor impaired	1.407,523	1,041,831	1,400,690	813,127
Past due but not individually impaired	101,304	-	89,206	
Gross	1,508,827	1,041,831	1,489,896	813,127
Less: allowance for impairment	(95,183)		(78,473)	
Net	1,413,644	1,041,831	1,411.423	813,127

a) Loans and advances neither past due nor impaired

Loans and advances to customers in this category primarily comprise structured finance to clients, which have no evidence of a deterioration of credit quality.

b) Loans and advances past due but not individually impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contract.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

c) Loans and advances individually impaired

Loans and advances are managed with reference to the days in arrears. Days in arrears are calculated based on the amount post due relative to the instalment amount. Loans and advances outstanding for longer than 90 days are considered non-performing and are included in stage 3 for the loss allowance calculation.

31 March 2020 Exposure	Neither post nor impaired P'000	Post due but not individually impaired P'000	Individually impaired P'000	Total P'000
Residential property loans	513,353	85,842	40,526	639,721
Motor vehicle advances	11,717	518	259	12,494
Personal loans	702,568	93,525	60,519	856,612
	1,227,6381	79,885	101,304	1,508,827
31 March 2019				
Exposure				
Residential property loans	539,917	100,034	36,924	676,875
Motor vehicle advances	7,678	1,506	365	9,549
Personal loans	721,989	29,566	51,917	803,472
	1,269,584	131,106	89,206	1,489,896

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Loans and advances and balances from financial institutions are summarised as follows:

31 March 2020	Motor Vehicle advances	Residential property loans	Personal loans	Total	Related party
Current	11,717	513,353	702,568	1,227,638	10,500
Past due up to 30 days	518	85,842	93,525	179,88	5 7,439
Past due 31-60 days	259	40,526	60,519	101,304	6,609
Past due up to 61-90 days					9,777
Past due more than 90 days					60,873
	12,494	**639,721**	**856,612**	**1,508,827**	95,198
Fair value of collateral	(8,784)	(521,402)	(378)	(530,564)	
Total	3,710	118,319	856,234	978,263	95,198
Impairment raised against unsecured amounts	(284)	(16,725)	(78,174)	(95,183)	(15,219)
Net exposure	**3,426**	**101,594**	**778,060**	**883,080**	**79,979**
31 March 2019					
Current	7,678	539,917	721,989	1,269,584	
Past due up to 30 days	1,506	100,034	29,566	131,106	
Past due 31-60 days	365	36,924	51,917	89,206	
	9,549	**676,875**	**803,472**	**1,489,896**	
Fair value of collateral	(6,685)	(548,574)	(298)	(555,557)	
Total	2,864	128,301	803,174	934,339	
Impairment raised against unsecured amounts	(162)	(16,573)	(61,738)	(78,473)	
Net exposure	**2,702**	**111,728**	**741,436**	**855,866**	

The value of tangible collateral disclosed above is limited to the outstanding balance. Therefore any over collateralized portion of a loan is excluded from the value of tangible collateral. Impairments are raised for under collateralized non-performing loans, resulting in a net exposure of nil. Further information of the impairment allowance for loans and advances to customers is provided in note 7.

The following section summarises the credit quality of financial assets and exposures to corresponding and counterparty banks.

31 March 2020	Carrying amount P'000	Investment grade (AAA to BBB) P'000	Unrated P'000	Total P'000
Cash and cash equivalents	383,178	-	278,932	278,932
Balances with related parties	79,979	-	79,979	79,979
Balances with other banks	937,585	-	1,041,831	1,041,831
Other assets	13,974	-	13,974	13,974
Non-financial assets	88,157	-	88,157	88,157
Total assets (excluding loans and advances and other securities)	1,502,873	-	1,502,873	1,502,873
31 M arch 2019				
Cash and cash equivalents	242,602	-	242,602	242,602
Balances with related parties	46,468	-	46,468	46,468
Balances with other banks	813,127	-	813,127	813,127
Other assets	18,212	-	18,212	18,212
Non-financial assets	37,380	-	37,380	37,380
Total assets (excluding loans and advances and other securities)	1,157,789	-	1,157,789	1,157,789

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Unrated exposures consist mainly of cash balances, due from other banks and Bank of Botswana certificates, which are short term and highly liquid in nature. The credit worthiness of these government and large commercial banks' money market instruments are of high quality, which poses low credit risk. Other assets consist of accounts receivable as well as clearing and settlement accounts. Rated and unrated exposures are not collateralized.

The following weightings are applied for due from other banks when calculating the risk-based capital ratios:

Exposures to banks assigned a credit risk assessment rating of AAA to AA -	20 %
Exposures to banks assigned a credit risk assessment rating of A+ to A -	50 %
Exposures to banks assigned a credit risk assessment rating of BB+ to B -	100 %
Exposures to banks assigned a credit risk assessment rating of B	150 %

Repossessed collateral

The bank obtains assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position for 31 March 2020 was P411,000 (2019: P 1,388.,000). Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

Credit risk weighted amounts

The following risk weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk, in accordance with the requirement of the Banking Act (46:04) on capital adequacy. The figures below will not reconcile to the statement of financial position as it represents statutory amounts:

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

The bank manages credit concentration risk by imposing credit risk concentration caps on the exposure for different loans and advances classifications, such as product classes, regions and industry. The credit risk concentration caps are directly linked to the board-approved risk capacity, appetite and tolerance thresholds, and are managed as part of the risk management process. The credit concentration risk is also further assessed using stress testing and scenario analyses quantitative models.

31 March 2020	Cash and balances asset with the Central Bank P '000	Financial at fair value through profit and loss P '000	Due from other banks P '000	Loan and advances to staff P '000	Loan and advances to customers P '000	Other assets P '000	Total P '000
Finance and insurance	2,911	-	1,041,831	89,998	-	-	1.134.740
Government		-	-	-	1,205,500	-	1,205,500
Other		-	-	-	118.146	458,131	576,277
	2,911	-	1,041,831	89,998	1,323,646	458,131	2,916,517
31 March 2019							
Finance and insurance	4,166	-	813,127	63,435	-	-	880,728
Government	-	-	-	-	1,047,867	-	1,047,867
Other	-	-	-	-	381.121	259.496	640,617
	4.166	-	813,127	63.435	1,428,988	259,496	2,569,212

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations from its financial liabilities. Liquidity risk may arise in situations where there are mismatches between maturities of assets and liabilities.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank's liquidity risk. 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 profit ability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at on 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.

Assets and liabilities are generated from a variety of different sources and opportunities over a period of time and therefore inherently this will create a mismatch in the statement of financial position. The Bank actively and closely manages this mismatch.

The Bank's liquidity management process, as carried out within the Bank, includes:

(a) Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customer;

(b) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(c) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

(d) Managing the concentration and profile of debt maturities.

i) Management of liquidity risk

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset and Liabilities Committee (ALCO). A summary report, including any exceptions and remedial action taken, is submitted regularly to the ALCO Committee.

ii) Exposure to liquidity risk

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

Maturity analysis table

31 March 2020

Assets	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Cash and cash equivalents	278,932	-	-	-	278,932
Fixed deposits with Banks	359,182	682,649	-	-	1.041,831
Loans and advances to customers	4,198	20,454	463,717	925,275	1.413,644
Balances with related parties	79,979	-	-	-	79,979
Other assets	13,974	-	-	-	13,974
Total assets	736,265	703,103	463,717	925,275	2,828,360
Liabilities					
Due to customers	1,212.426	955,088	175,894	-	2,343,408
Other liabilities	101.360	-	-	-	101,360
Deferred income	106	-	-	-	106
Borrowings	90,621	-	-	-	90,621
Dormancy account liability	-	-	-	26.412	26,412
Lease Liabilities	532	1,750	11,813	12,125	26,220
Total liabilities	1,405,045	956,838	187,707	38,537	2,588,127

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

ii) Exposure to liquidity risk

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

Maturity analysis table

31 March 2019

Assets	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Cash and cash equivalents	242,602	-	-	-	242,602
Fixed deposits with Banks	813,127	-	-	-	813,127
Loans and advances to customers	599	18,705	506,360	885,759	1,411,423
Balances with related parties	46,468	-	-	-	46,468
Other assets	18,212	-	-	-	18,212
Total assets	1,121,008	18,705	506,360	885,759	2,531,832
Liabilities					
Due to customers	11,15 ,580	654,440	355,337	50,000	2,175,357
Other liabilities	80,807	-	-	-	80,807
Deferred income	106	-	-	-	106
Borrowings	96,660	-	-	-	96,660
Dormancy account liability	-	-	-	24,002	24,002
Lease Liabilities	532	1,750	11,813	12,125	26,220
Total liabilities	1,293,153	654,440	355,337	74,002	2,376,932

Although, ordinary savings included in amounts due to customers are payable on demand, historically it has shown that at least 40% of these deposits are long term in nature.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

Liquidity ratio

The Bank of Botswana has issued guidelines on the management of liquidity. These guidelines require that total liquid assets divided by total customer deposits should be at least 10%. Liquidity ratios have been assessed as follows:

31 March 2020	P '000	P '000
Total liquid assets	1,320,764	1,058,198
Total deposits	2,343,408	2,175,358
Ratio	56%	49%

The following are considered as liquid assets by the Bank of Botswana

(a) Notes and coins;

(b) Balances due from Bank of Botswana excluding primary reserve requirement balances;

(c) Balances due from domestic banks with maturities less than 184 days;

(d) Treasury bills equal to or less than 6 months;

(e) Government bonds with maturities less than 12 months;

(f) Bank of Botswana Certificates - those pledged as security;

(g) Other government obligations with less than 12 months' maturity; and

(h) Other liquid assets.

Capital risk management

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 Supervisory Practices (Basel Committee) and European Community Directives, as implemented by the Bank of Botswana for supervisory purposes.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

These techniques include the risk 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 15.0% which is above the Basel Committee minimum guideline of 8%. The ratio calculation involves the application of designated risks weightings to reflect on estimate of credit, market and other risks associated with broad categories of transactions and counterparties.

The concept of risk weighting, as applied to banking activities, assumes that such activities generally include some risk of loss. For risk weighting purposes, commercial lending is taken as a benchmark to which a risk weighting of 100% is ascribed. Other transactions considered to generate lower levels of risk than commercial lending may qualify for reduced weightings. Off balance sheet items are converted to credit risk equivalents by applying cred it conversion factors laid down by the Basel Committee, as implemented by the Bank of Botswana. The resulting amounts are then risk weighted according to the nature of the counterparty.

Regulatory guidelines define two tiers of capital resources:

(a) Tier 1 (care) capital, comprising mainly shareholders' funds, is the highest tier

(b) Tier 2 capital includes perpetual, medium and long term subordinated debt and general provisions for bad and doubtful debts.

Both tiers can be used to meet trading and banking activity requirements. Up to end of December 2015, Tier 2 capital, included in the risk asset ratio calculation, could not exceed Tier 1 capital

The Bank has complied with all externally imposed capital requirements throughout the year. There were no material changes in the Bank's management of capital during the year.

To monitor the adequacy of its capital, the Bank uses ratios established by the Bank of Botswana. These ratios measure adequacy by comparing the Bank's eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk. The regulator has advised all financial institutions to ensure capital requirements to be based on the Basel framework. With Basel II having come into full force by 01 January 2016, the Bank is fully compliant following a parallel run from 2014. The regulator has advised the adoption of the following approaches:

- Standardised Approach (SA) for Credit risk,
- Basic Indicator Approach (BIA) for Operational risk
- Standardised Measurement Method (SMM) for Market risk.

For prudential supervisory purposes, Tier 1 capital consists of unrecallable share capital together with the general and the statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the period. The capital adequacy ratio 17.3% as at 31 March 2020 (2019: 16.0%.) The high ratio is as a result of lower weighted risk. The minimum capital adequacy rate as set by the Bank of Botswana is 15.0%.

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

33. Financial risk management [continued]

The following table shows the capital adequacy for the Bank and the risk weighted assets based on Basel II as at 31 March 2020:

Capital Adequacy	Note(s)	Balance P'000	Risk Weight %	Weighted Value P '000
Tier 1 - Stated Capital				19,721
Tier 1 - Other revenue reserve				187, 949
Tier 2 - General provisions				14,614
Total Unimpaired capital				222,284
Risk Weighted Assets				
Cash and Balances with Bank of Botswana	13	20,931	-%	-
Balances due from other banks	14	1,299,831	20%	259,966
Loans and advances to customers	15	1,413,644		725,132
Exposures to Government of Botswana and Bank of Botswana		385,866	-%	
Post due to Government and Bank of Botswana where specific provision is less than 2095 of the outstanding loan		18,5 87	150%	27,881
Retail exposures that fully comply with para 7.26 of Capitol Value of cash collateral deducted from Retail exposures		675,081	75%	506,311
Value of cash collateral deducted from Retail exposures			-%	69
Past due on Retail portfolios where specific provision is more than 50% of the outstanding loan		1.115	50%	558
Other Non-qualifying residential mortgages (not meeting any of the conditions of para 7.28 of the Capital Directive)		226,335	75%	169,751
Past due Non qualifying residential mortgages where specific provision is less than 20% of the outstanding loan		13,708	150%	20,562
Loans to (from) shareholders	16	7 9,979	100%	79,979
Property, plant and equipment	17	37,489	100%	37.489
Intangible assets	19	919	100%	919
Right Of Use Asset		24,709	100%	24,709
Deferred Tax		26,967	100%	26,967
Trade and other receivables	20	13,974	100%	13,974
Total Assets/Risk weighted assets (on balance sheet)		2,918,443	-	1,1691, 35
Total Assets/Risk weighted assets (off balance sheet)	29	7,303	20%	1,461
Operational Risk weighted assets			-%	116,457
Total Assets/Risk weighted assets		2,925,746	-	1,287,053
Capital Adequacy ratio				17.3 %
Regulatory requirement				15.0 %

The following table shows the capital adequacy for the Bank and the risk weighted assets based on Basel II as at 31 March 2020:

Capital Adequacy	Note(s)	Balance P'000	Risk Weight %	Weighted Value P '000
Tier 1 - Stated Capital				19,721
Tier 1 - Other revenue reserve				166,890
Tier 2 - General provisions				13,050
Total Unimpaired capital				199,661
Risk Weighted Assets				
Cash and Balances with Bank of Botswana	13	12,898	-%	
Balances due from other banks	14	1,042,831	20%	208,566
Loans and advances to customers	15	1,411.423	7	13,105
Exposures to Government of Botswana and Bank of Botswana		488,495	-%	
Post due to Government and Bank of Botswana where specific provision is less than 2095 of the outstanding loan		17,156	150%	25.734
Retail exposures that fully comply with para 7.26 of Capitol Value of cash collateral deducted from Retail exposures		725,240	75%	543,9304
Value of cash collateral deducted from Retail exposures			-%	205
Past due on Retail portfolios where specific provision is more than 50% of the outstanding loan		(379)	50%	(190)
Other Non-qualifying residential mortgages (not meeting any of the conditions of para 7.28 of the Capital Directive)		170,042	75%	127,532
Past due Non qualifying residential mortgages where specific provision is less than 20% of the outstanding loan		10,869	150%	16,304
Loans to (from) shareholders	16	46,468	100%	46,468
Property, plant and equipment	17	31,218	100%	31,218
Intangible assets	19	2,094	100%	2,094
Trade and other receivables	20	18,212	100%	18,212
Total Assets/ Risk weighted assets (on balance sheet)		2,565,144	-	1,019,663
Total Assets/ Risk weighted assets (off balance sheet)	29	121,541	20%	24,308
Operational Risk weighted assets			-%	111,538
Total Assets/Risk weighted assets		2,686,685	-	1,155,509
Capital Adequacy ratio				16 %
Regulatory requirement				15.0 %

Notes to the Annual Financial Statements [continued]

for the year ended 31 March 2020

34. Related parties

100% shareholding Botswana Government

Related parties comprise the Government of the Republic of Botswana, Botswana Postal Services and key members of management. Botswana Savings Bank and Botswana Postal Services ("BPS") have an agency agreement where the latter accepts deposits and pays out withdrawals through the postal network for a fee.

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

Related party balances

Balance due from BPS		
Balance of fees, deposits and withdrawals made at BPS branches	95,198	46,468
Impairment provision	(15,219)	-
	79,9794	**6.468**
Balance due to related parties		
Interest due on Borrowings - Botswana Government	3,121	3,327
Capital due on borrowings - Botswana Government	87,500	93,333
	90,621	**96,660**

Related party transactions

Transaction with Botswana Post		
- Fees and commissions paid to BPS	3,558	3,284
Total Net Deposits (unpaid deposit) as at year end	92,263	44,818
Commissions paid to Botswana Government	6,559	5,693
	102,380	**53.795**
Compensation to Executive and Senior management		
- Salaries and allowances	5.733	1,602
- Gratuities and leave pay	1,631	423
- Staff welfare		38
	7,364	**2,063**

Loans to Non-executive directors are made in the ordinary course of business on normal commercial terms. Loans to employees (including executive directors) are made on concessionary terms in accordance with the conditions of employment.

A list of members of the Board of Directors is disclosed in General Information. Directors remuneration is disclosed in note 10.

Loans to non-executive directors		
Non-executive director s loans	478.760	-


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