Botswana Savings Bank

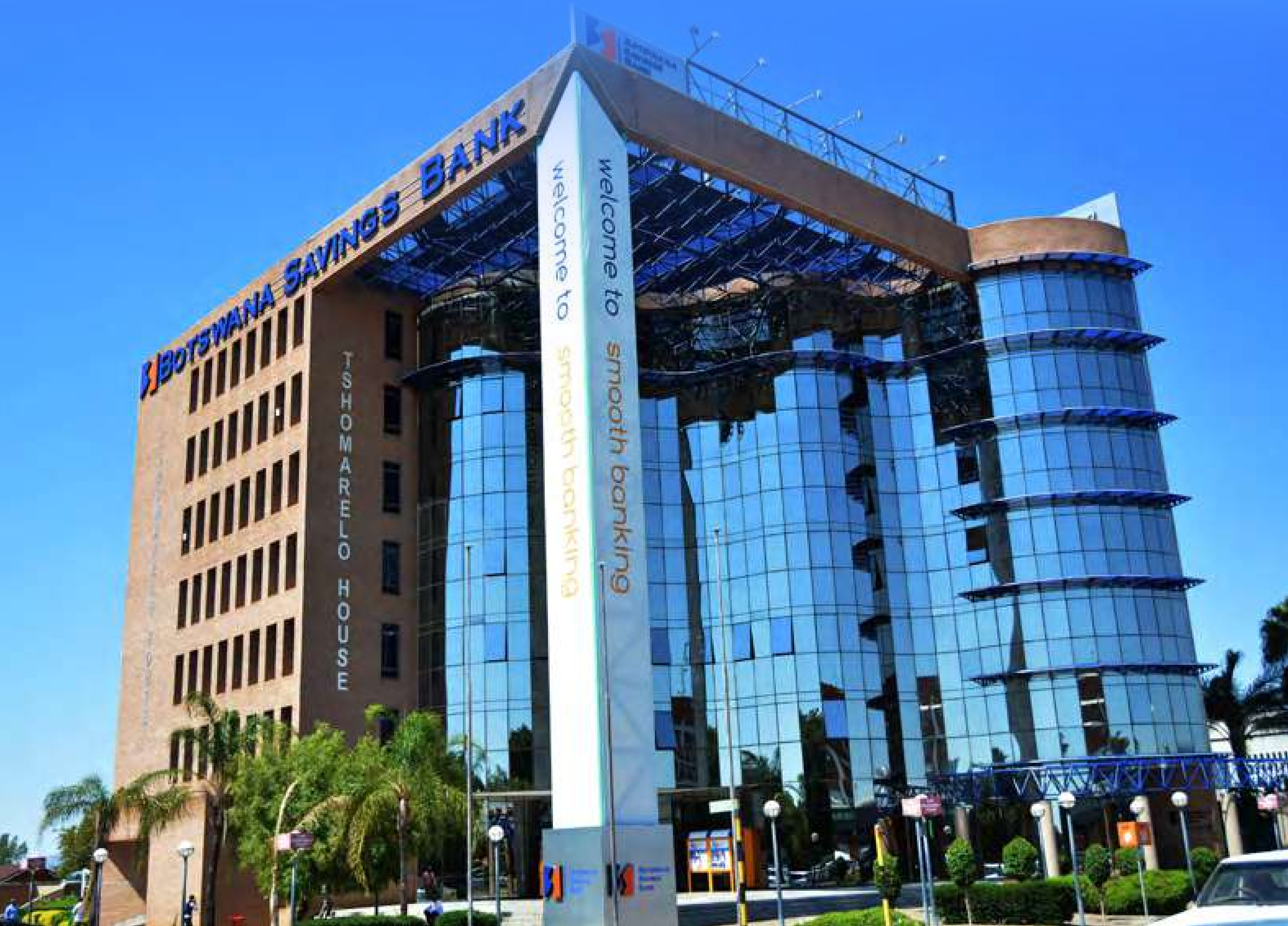
welcome to smooth banking

17/18

Annual Report

CONTENTS PAGE

General Information	02
Chairperson's Report	06
Chief Executive Officer's Report	12
Board of Directors	16
Senior Management	17
Annual Financial Statements	19



GENERAL INFORMATION

Botswana Savings Bank was established by an Act of Parliament, the Botswana Savings Bank Act, 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.

BOARD OF DIRECTORS

Name	Position	First Appointed	Expiry Date
Kealeboga Molelowotladi	Chairperson	01/07/2018	30/06/2022
Thatayaone Gabaraane	Vice Chairperson	01/01/2015	30/06/2021
Moshe C. Z Libengo	Member	01/04/2012	30/06/2019
Mpho Gaobakwe	Member	01/02/2015	30/06/2019
Nixon Morumoloa	Chief Executive Officer	09/04/2018	Further notice
Matilda O. Basinyi	Member	01/11/2017	31/10/2021
Cornelius Ramatlhakwane	Member	01/07/2018	Further notice
Sarah M. Molale	Member	01/07/2018	30/06/2022
Esther Tuelo Lemo	Member	01/07/2018	30/06/2022
J. Mmereki White	Former Chairperson	01/04/2016	30/06/2018
M. Gokatweng	Chief Executive Officer (Acting)	01/02/2017	31/03/2018
B. Mafatlane	Member	01/09/2013	30/06/2018
O. Ward	Member	01/09/2013	31/07/2017
Thabo Mzwinila	Board Secretary		

REGISTERED OFFICE

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

AUDITORS

PricewaterhouseCoopers
P.O. Box 294
Gaborone, Botswana

BANKERS

Bank of Botswana
First National Bank Botswana
Bank Gaborone
Bank ABC
Capital Bank

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. Its headquarters are based in Gaborone at Broadhurst Mall; Tshomarelo House with branches in Gaborone, Francistown, Mahalapye and Serowe. Botswana Savings Bank services are accessed through BotswanaPost offices across the country.

The Bank is governed by an Independent Board of Directors, which reports to the Ministry of Finance and Economic Planning. Botswana Savings Bank is supervised by the Central Bank under the custodian of Ministry of Finance and Economic Planning. 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 service and products through a team of high performing staff and strategic partners and state of the art technology which enables a pro-active service to our clients while create wealth for our shareholders which will lead 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.

BOTSWANA SAVINGS BANK

CHAIRPERSON'S REPORT

FOR THE YEAR ENDED 31 MARCH 2018

FOR THE YEAR ENDED 31 MARCH 2018

It gives me great pleasure to present the BSB 2018 Annual Report to our stakeholders. The report provides an overview of our performance and the actions we are taking to reinforce the sustainability and growth of the Bank. Though the 2018 financial year was challenging due to macroeconomic conditions and margin compression because of lower interest rates, I am proud to say that we delivered on our mandate and reported decent growth and a modest operating profit. We achieved this through strong corporate governance and the commitment of our staff towards the execution of our strategy.

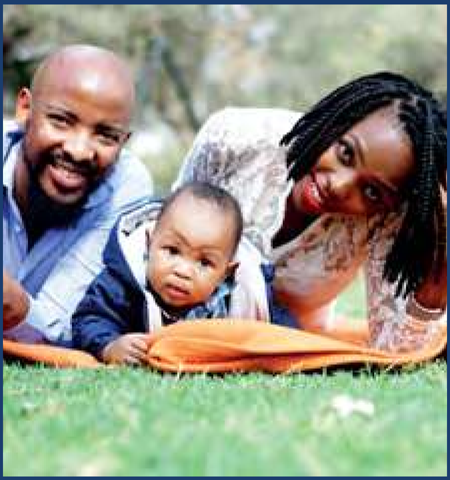
General Economic Overview

Domestic economy

Statistical information published by the Bank of Botswana indicates sluggish GDP growth in 2017 of 2.4% compared to 4.3% growth in 2016. The contraction in growth was primarily experienced in the mining sector following the closure of the BCL and Tati Nickel Mines in October 2016. This had a knock-on effect on the non-mining sector and overall economic expansion was constrained. GDP growth of the non-mining sector stood at 4.2% compared to 5.5% in the prior year as demand for utilities, hotels and restaurants, transport and communications, and banking services contracted.

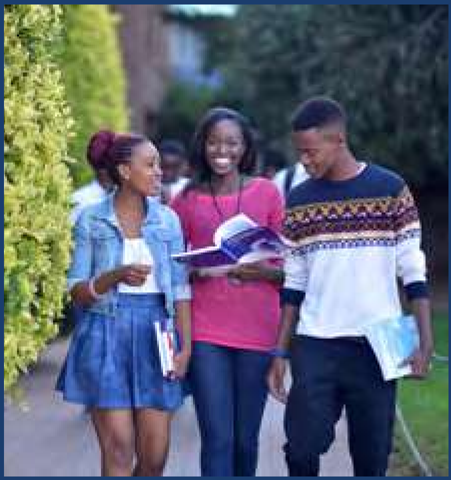
GDP GROWTH IN 2017

2.4%



INFLATION RATE DECLINE IN MARCH 2018

2.8%



Unemployment Rates

During the year under review, formal employment showed an overall decrease in the number of formally employed persons in Botswana. The number of job losses in the private sector were attributable to negative job growth in Mining and Quarrying, Manufacturing and Construction. Loss of employment due to retrenchments, particularly in the Utilities Sector, will continue to negatively impact customers' ability to service loans, leading to high non-performing loan book. The current relatively stagnant public salary levels will also impact on the public's marginal propensity to save.

Botswana's economic success over the past fifty years has been driven by the well-managed and recycling of revenues from diamonds. This is however, not a sustainable development path for the future. It requires a shift from a resource-driven to a productivity-and-efficiency-driven economy, and at the same time a shift from a state-led to a private-sector-led economy.

Banking sector – Credit, Liquidity and Bank rate

In 2017 the banking sector was affected by the slow economic growth. A reduction in interest rates in October 2017 resulted in margin compression and impacted the bank's earnings negatively as our loans are linked to prime rate. This phenomenon was present not just in Botswana, but in the region and, to some extent, globally.

In the retail banking sector, personal incomes have been suppressed for some years now and several businesses were forced to close their operations in 2017, which constrained people's ability to access banking facilities. The effects of this situation were felt in the 2017/18 financial year.

Inflation Trend

Annual inflation rate declined to 2.8% in March 2018, from 3.2% in December 2017. Compared to March 2017, inflation rate was 0.7% lower in March 2018. The annual inflation rate fell for several commodity groups Food and Non-alcoholic Beverages, Alcoholic Beverages and Tobacco, Housing, Water, Electricity, Gas and Other Fuels, Transport and Restaurants and Hotels; while increasing for Furnishing, Household Equipment and Routine Maintenance and Recreation and Culture.

Financial Highlights

Overall, we raised the underlying revenues by 15% to P210m and contained operating and administrative costs at a slight increase of 3.4% compared to the prior year. However, profits declined compared to the prior year, with the Bank recording after tax profit of P9.8m, a decrease of 36.7%. A contributing factor to the decline was the significant 119% rise in impairment costs and higher interest rates paid on corporate deposits. The increased impairment costs can be attributed to the change in the accounting methodology which resulted in the growth of specific impairments and the general increase in loan defaulters due to sluggish economic conditions which lead to loss of employment and shrinking disposable incomes. Moreover, it is worth noting that the Bank has not been operating at full capacity on both staffing and loan book growth. This issue is being corrected post the 2017/18 financial year end.

Milestones

We are proud to announce that during the year the Government of Botswana appointed Botswana Savings Bank to champion one of the priority areas in the financial inclusion agenda, namely, "Facilitation of Low Cost, Accessible Savings Products in Botswana". Under this mandate, the Bank is to develop low cost, accessible, flexible savings products for the lower income segment of the population, who are currently predominantly excluded. This was a great honour to be a part of such an initiative affording the bank the opportunity to service the most remote communities. The financial inclusion has been embedded in the five-year corporate strategic plan for the bank and is currently work in progress.

The decision not to merge with Botswana Post and move from Ministry of Transport and Communications to Ministry of Finance became effective from 1 April 2018. Going forward, the bank continues to forge ahead under the Botswana Savings Bank Act of 1992.

Forward look at Banking operations

Governance, Risk and Compliance are major focus areas in the financial year 2018/19. BSB will ensure that the bank's maturity with governance, risk and compliance is fast tracked and in line with the financial services market and within regulatory requirements. To manage the bank's liquidity and loan book growth, the bank will aggressively source long-term funds from strategic partners, as well as lobby the shareholder for recapitalisation. A new Core Banking System and digital channels remain key focus areas for the bank. By March 2019, the bank envisages to have increased its foot print by implementing two (2) additional branches; 1 stand-alone branch and 1 co-branded branch. In addition, we plan to install 6 new ATM's in high traffic areas to leverage on volumes.

Corporate Social Responsibility

It is important to note that while Botswana Savings Bank is a business, 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.

Giving back to the Community remains a priority for BSB, and the bank will continue to advocate for community involvement throughout the country. Our key focus is on youth and women empowerment initiatives. We also spend a considerable amount of resources to assist charitable organizations to restore dignity to disadvantaged individuals and groups as well as address social ills and general moral decadence in the country.

Corporate Governance

Strong governance is integral to the long-term success of the Bank and the Board is committed to ensuring that the business continues to be governed and managed with openness, honesty, transparency and ethical standards. I am indebted to my fellow board members and continue to be impressed by their professionalism and commitment to the Bank. We have a diverse and very strong balance of skills, knowledge and experience among our directors. This is critical to the success of the business and in supporting our future growth.

Board of Directors

The BSB Board of directors is appointed by the Minister in accordance with the provisions of the BSB Act, 1992. The Board is responsible for general policy of the bank and supervision of its operations as prescribed by the Act. The Board meets at least four times per annum to consider business philosophy and strategic issues, set risk parameters and monitor the implementation of delegated responsibilities. There are Board sub-committees that are responsible for formulating policy and focus on the provision of technical guidance with a view to improving efficiency at Board level.

REVENUE GROWTH UP BY 15%

P210MIL

"However, profits declined compared to the prior year, with the Bank recording after tax profit of P8.9m, a decrease of 36.7%."

Finance, Risk and Audit Committee (FRAC)

The committee defines the level of risk acceptable to the bank, consequently it is responsible for the oversight and implementation of a risk management framework that recognizes the risks which the business faces. The Committee also monitors compliance with all financial reporting requirements.

Staff Rewards, Remuneration Committee (SRRC)

The Committee determines the remuneration, recruitment and staff welfare policies for the bank. The responsibility of the Committee is to ensure that the policy provides a framework to attract, retain and reward employees to achieve the bank's strategic and business objectives.

Board Tender Committee (BTC)

The Board Tender Committee is responsible for the operations and governance of the procurement process of the bank. It ensures that the bank's procurement policies and procedures are complied with in all procurement processes to secure best value for the bank and achieve integrity, accountability and transparency.

Acknowledgement

On behalf of the Board of Directors, Management and staff, I would like to acknowledge the invaluable support we have received from our previous parent Ministry, the Ministry of Transport and Communications and, the Minister, Permanent Secretary and his Management team. Botswana Savings Bank looks forward to bringing value to our new parent Ministry of Finance and Economic Development.
The Board and the Bank bid farewell to Mr Modise Gokatweng, who resigned as Acting Chief Executive Officer with effect from 30th April 2018. Mr Gokatweng worked for BSB for 14 years. He served as Director of Operations up to the time of his appointment as Acting Chief Executive Officer. We would like to thank him for his commitment to serving the bank diligently, and his contribution will always be cherished.

I would like to take this opportunity to officially announce the appointment of Mr Nixon Marumoloa as Caretaker Chief Executive Officer of BSB with effect from 1st April 2018. I wish Mr Marumoloa every measure of success in his new role.

Finally, I wish to thank the Board Members, the Chief Executive Officer, Management team, and all staff for their collective commitment to realising the bank's corporate strategy. Their continued support to the Bank over the years has been instrumental in our enduring success.

Kealeboga Molelowatladi
Chairman

24 August 2018

BOTSWANA SAVINGS BANK

CHIEF EXECUTIVE OFFICER'S REPORT

FOR THE YEAR ENDED 31 MARCH 2018

Overview

During the year under review the Botswana Savings Bank has continued to steadily remain as a profitable entity, a consistent dividend (now tax) payer, as well as continuing its pole position of having the largest banking-footprint in the country, if its Agency relationship with the BotswanaPost is to be taken into account.

BSB has continued to deliver on the above-mentioned points and remains charged to continue the same path in the financial year 2018/19.

Corporate Strategy

During the 2017/2018 Financial Year, Management continued with the implementation of a new, bold and highly ambitious strategy with an overarching objective of turning the Bank into "the number One African financial institution that turns clients into fans with its smooth life event financial solutions."

Through the strategy, greater focus was on delivering a superior client experience and creating sustainable shareholder value, while driving consistent and predictable financial performance in the short-term. The ultimate has been to position Botswana Savings Bank for sustainable financial success over the longer term.

To achieve the above mentioned, focus in the year under review was four highly-integrated strategic themes, these being:

1. Achieving Long-term Financial Sustainability and Shareholder Value;
2. Client Focus or Client Centricity;
3. Driving a Radical Digital Transformation to Achieve Low Execution Friction and Adaptability Speed; and
4. Leadership and Employee Engagement

Our products and services

Botswana Savings Bank has over the years transitioned from a traditional bank to a semi digital bank which offers a variety of competitive platforms for its customers. Our focus this year was to devise strategies to enhance our performance in the delivery of our mandate.

The Bank continues to roll out new product offerings to the market. Within the current environment, BSB introduced Automated Teller Machines and Deposit Machines (ATMs), Visa Debit Card, Motheo Personal Loans, Fixed Deposit Accounts, Express Loans and Lecha Personal Loans.
In terms of traditional forms of banking service, BSB opened its second fully fledged branch in Francistown in 2008. The added enhancement of the banks product offers was centred around the newly introduced tag line: "Welcome to Smooth Banking, which aimed at improving our customers' banking experience.

Radical Digital Transformation

As digital trends and changing client preferences continue to re-shape the role and relevance of branch network, the Bank has been determined to introduce digital options geared towards customer convenience.

Plans are underway to move the bank into the digital space to offer our customers smooth banking. A lot of work has been completed to bring this dream to reality. This includes a benchmarking exercise conducted by the bank within the region to be able to get comfort in the usability of the preferred core banking system and related digital channels.

Management is confident that the bank's transition to digitalization is likely to commence in the financial year 2018/19. The bank and employees look forward to this great breakthrough.

Milestones

We are proud to announce that the Government of Botswana appointed Botswana Savings Bank to champion one of the priority areas in the financial inclusion agenda, which is "Facilitation of Low Cost, Accessible Savings Products in Botswana".

Under this mandate, the Bank is to develop low cost, accessible, flexible savings products for the lower income segment of the population, who are currently predominantly excluded. This was a great honour to be a part of such an initiative affording the bank the opportunity to be of service to the most remote communities.
The financial inclusion has been embedded in the bank's five-year corporate strategic plan and is currently work-in-progress. BSB currently offers a range of both savings and loan products targeted to all income groups in Botswana. Through our partnership with Botswana Post, most of our products are available to the communities through the post offices across the country. It is through our wide spread footprint that gives us a leverage over our competitors.

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. To reinforce our financial inclusion mandate, the Bank hosted and sponsored the World Savings Day which was commemorated in Botswana in October 2017 and held in Masunga. Botswana Savings Bank had an honour to lead the commemoration as the only savings bank in the country. This is part of the strategy to take services closer to the citizenry.

Corporate Social Responsibility

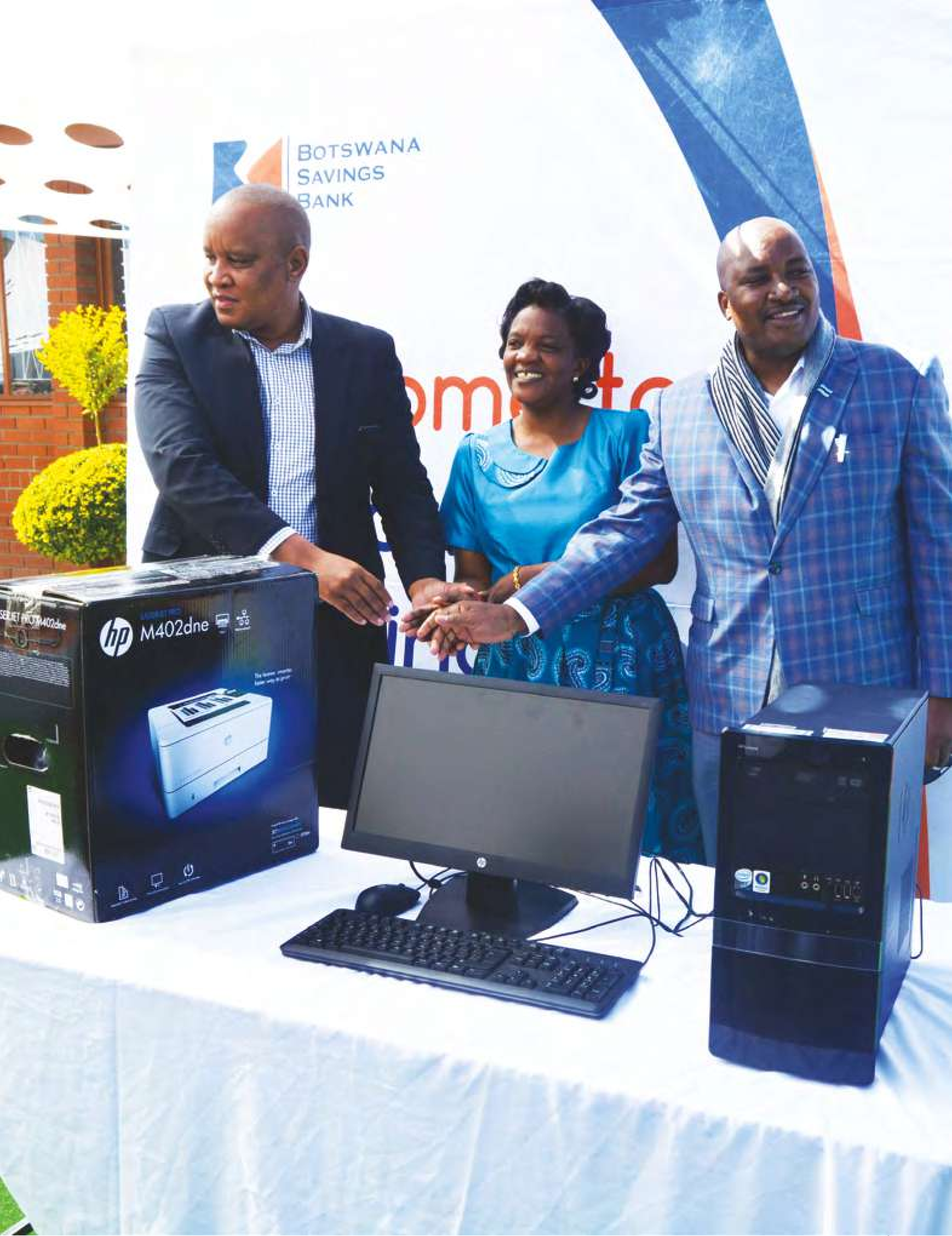
As a corporate citizen, we believe the responsibility to give back and make a positive impact in the communities in which we live, and work is not just a social agenda; it is a good way of doing business. From time to time, we extend financial, social and humanitarian support to organizations that are building strong and resilient communities. The Bank executes its corporate social responsibility (CSR) by identifying deserving beneficiaries, by supporting various social projects, enriching and uplifting the lives of many people in need across the country. A number of community projects have been identified by the Bank and staff to support worthy causes. 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. Giving back to the Community remains a priority for BSB, and the bank will continue to advocate for community involvement throughout the country. Our key focus is on youth and women empowerment initiatives. We also spend a considerable amount of resources to assist charitable organizations to restore dignity to disadvantaged individuals and groups as well as address social ills and general moral decadence in the country.

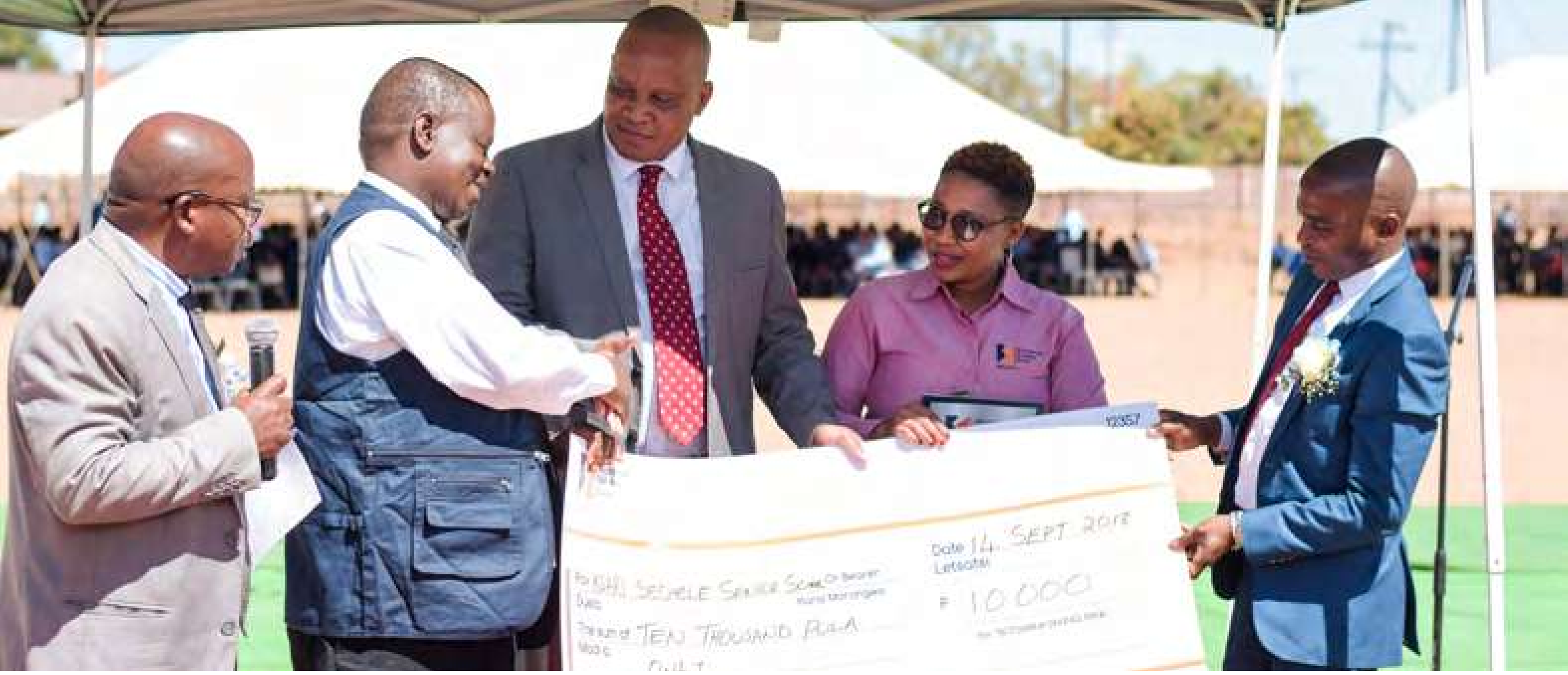
Some of the organizations that the bank supported during the year under review include: Nanogang CJSS (prize giving); Sir Ketumile Masire Foundation; Khawa Dune challenge and Desert Bush Walk sponsorship amongst many.

Our employees

As the leadership of the Bank, we firmly believe that one of the best investments the Bank can make is in people. As a result, we create a supportive environment that enables employees to express their full potential. We promote and nurture a high empowerment business environment and provide employees with maximum possible latitude within regulatory constraints to take calculated risks and make significant judgement calls.

We have also taken bold steps to support individualized development of 'rare-talent' employees through on-the-job training and coaching, targeted development planning and greater alignment of career planning with business needs and career aspirations through proper and structured succession and talent management programs.


BOTSWANA
SAVINGS
BANK
M402dne



To achieve the long-term goal of building a financially sustainable organization, important steps have been taken to enhance key elements of the Bank's culture. Specifically, a new clearly documented high-performance culture has been adopted. The Bank is now more intensely focused on ensuring that the new culture assimilates across the organization. The idea is to create a vibrant and lively climate as well as resonant culture that is ripe with persistent hope, enthusiasm and can-do mentality.

We have also reviewed and enhanced the performance management framework. The new framework places emphasis on disproportionately incentivising exceptional individual value creation and brilliance that delivers more than just the salary demands.

Although the new culture is only evolving, it has been fully embraced by the leadership team, and is resonating strongly across the Bank. Relationships are grounded on mutual respect, authenticity and trust.

As the Bank migrates into the digital world, new and special skills will certainly be required. In acquiring new skills, the Bank will balance external acquisition with internal high performing talent

Thank You

For the period under review, the Botswana Savings Bank was running under the stewardship of Mr. Modise Gokatweng, as Acting Chief Executive Offer. Mr. Gokatweng left the Bank in April 2018 to pursue other interests, and it is therefore befitting to appreciate and acknowledge Mr. Gokatweng's contribution to the Bank during the year under review, as I hereby do so.

I would also like to express sincere gratitude to the BSB Board of Directors and the Government of the Republic of Botswana for the trust and confidence they have shown in us. We are extremely humbled, honoured and privileged to have such a supportive Board and Shareholder.
I also wish to appreciate and applaud the individual and collective efforts of the "Smooth Banking" team. It is through their individual brilliance and collective and unquestionable championing of the BSB values that the Bank continues to achieve great success. The success of the bank can only be realised when we all pull together.

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 promise to give you smooth service at all times.

Finally, to our partners and other stakeholders, I wish to thank you for partnering with us to deliver smooth life event solutions to our clients.

Nixon Marumoloa
Chief Executive Officer

BOARD OF DIRECTORS

THATAYAONE GABARAANE
(Non-ExecutiveDirector) Vice Board Chairperson

MPHO GAOBAKWE
(Non-Executive Director)

MOSHE C. Z. LIBENGO
Non-Executive Director

KEALEBOGA MOLELOWATLADI
(Non-Executive Director) Board Chairman

ESTHER TUELO LEMO
Non-Executive Director

MATILDA BASINYI
Non-Executive Director

CORNELIUS RAMATLHAKWANE
Non-Executive Director

SARAH MOLALE
Non-Executive Director

NIXON MARUMOLOA
Chief Executive Officer

THABO MZWINILA
Board Secretary

SENIOR MANAGEMENT

SENIOR MANAGEMENT

NIXON MARUMOLOA
Chief Executive Officer

BEATRICE M. MBULAWA
Director,
Support Services

(VACANT)
Director,
Operations

TSHOLOFELO KOKORWE
Head, Sales

BOMOLEMO SELALEDI
Head, Marketing & CA

AMOGELANG MATLHAKE
Head, Strategy &
Innovation

BEAUTY BAREKI
Head, Central
Processing

TIGELO NWOSU
Head, Finance

PATRICK MMUSI
Head, Internal Audit

KABELO NGWAKO
Head, ICT

**LETLHOGONOLO
KELISITSE**
Head, Human Capital

**OBUSITSWE
KEABAITSE**
Head, Client Services

BOTSWANA SAVINGS BANK

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

Directors' Responsibility Statement	20
Independent Auditor's Report	21
Statement of Profit or Loss and other Comprehensive Income	24
Statement of Financial Position	25
Statement of Cash Flows	26
Statement of Changes in Equity	27
Significant Accounting Policies	28
Notes to the Financial Statements	38
Financial Risk Management	61

Director's Responsibility Statement

The Directors of Botswana Savings Bank are responsible for the preparation and fair presentation of the financial statements comprising the statement of financial position as at 31st March 2018 and the statements of profit and loss and other comprehensive income, changes in equity and the cash flows for the year then ended and a summary of significant accounting policies and notes to the financial statements in accordance with international Financial Reporting Standards and in the manner required by the Botswana Savings Bank Act of 1992.

The Directors are also responsible 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 and for maintaining adequate accounting records and an effective system of risk management.

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 Auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of Botswana Savings Bank, as identified in the first paragraph, were approved by the Board of Directors on 24th August, 2018 and signed on their behalf by:

Kealeboga Molelowatladi
Chairman

Nixon Marumoloa
Chief Executive Officer

pwc

INDEPENDENT AUDITOR'S REPORT
TO THE MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT

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 2018, 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 18 to 61 comprise of:

- the statement of financial position as at 31 March 2018;
- 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 *Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA Code")* and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (Parts A and B).*

Key audit matter

Key audit matters are those matters that, in our professional judgment, 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.

PricewaterhouseCoopers, Plot 50371, Fairground Office Park, Gaborone, P O Box 294, Gaborone, Botswana,
T: (267) 395 2011, F: (267) 397 3901, www.pwc.com/bw

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

pwc

Key audit matter

Provision for impairment of loans and advances

The quality of credit is one of the primary risks managed by the Bank. As such, the quality of advances to customers, and the resultant credit impairments, are key considerations by management.

Impairment of advances to customers represents management's best estimate of the measurable decrease in the estimated future cash flows due to losses incurred within the loan portfolios at year-end, and amounted to BWP60,929,000 at 31 March 2018, with a charge of BWP23,352,000 being recorded against income for the year then ended.

The assessment of impairment of loans requires significant judgement by management and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment by management, we determined this to be a matter of most significance to our current year audit.

Management considers loans for impairment on an individual basis (specific provision) as well as a portfolio basis (portfolio provision).

In identifying loans and advances to be considered for individual impairment, management considerations include the number of instalments overdue since the last full loan instalment settlement received from a customer, breaches of debt covenants and other factors bearing on the creditworthiness of customers. In assessing the quantum of impairment to be provided, the Bank takes into consideration expected realisation from securities held as collateral.

How our audit addressed the key audit matter

For loans and advances where impairment was individually calculated we

- tested controls over the timely identification of potentially impaired loans,
- tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner, and
- for loans and advances identified for impairment, we checked the valuation of securities to support the calculation of the impairment by comparing estimates to external evidence available and checked mathematical calculations.

Our testing identified no material exceptions.

With respect to loans and advances where impairment provisioning was assessed on a portfolio basis, we performed testing on the models used to calculate the unidentified impairment. Such testing varied by portfolio, but typically included a combination of independent model rebuild, re-performance of the calculation, testing the extraction of data used in the models including the analysis of loans into groupings displaying the same delinquency characteristics, and testing and applying sensitivities to the underlying critical assumptions.

Based on the results of our audit procedures, the Bank's estimates of the required portfolio impairment of loans and advances fell within a reasonable range of outcomes.

pwc

Key audit matter	*How our audit addressed the ey audit matter*
For portfolios of loans and advances, which exclude those loans reviewed for impairment on an individual basis, management calculated the impairment using statistical models incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. The disclosures associated with impairment of advances to customers are set out in the financial statements in the following notes: • Note 1.2 – Key sources of estimating uncertainty, allowances for credit losses (page 22); and • Note 13 – Loans and advances to Customers (page 42); and • Note 32 – Financial Risk Management, Credit Risk (page 50);	

Other information

The directors are responsible for the other information. The other information comprises the information included in the Botswana Saving Bank Financial Statements for the year ended 31 March, 2018. 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

pwc

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

pwc

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 extreme 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.

Individual practicing member: Rudi Binedell | **26 March 2019**
Membership number: 20040091 | **Gaborone**

Statement of Profit or Loss and Other Comprehensive Income

	Note (s)	2018 P '000	2017 P '000
Interest income		210,524	182,551
Interest expense		(101,645)	(77,925)
Net interest income	3	108,879	104,626
Fee and commission income		11,049	9,448
Fee and commission expense		(8,382)	(7,833)
Net fee and commission income	4	2,667	1,615
Net operating income		111,546	106,241
Other income	5	2,920	2,836
Total income		114,466	109,077
Net impairment loss of financial assets	6	(23,319)	(9,689)
Net income		91,147	99,388
Employee benefits	7	(40,682)	(40,510)
Operating lease expenses		(1,732)	(2,253)
Depreciation and amortisation	8	(6,905)	(7,124)
Administrative and general expenses	9	(29,900)	(29,333)
Profit for the year		11,928	20,168
Taxation	10	(2,937)	(4,660)
Profit for the year		8,991	15,508
Other comprehensive income		-	-
Total comprehensive income for the year		8,991	15,508

Statement of Financial Position as at 31 March 2018

	Note (s)	2018 P '000	2017 P '000
Assets			
Cash and cash equivalents	11	94,774	35,016
Balances with other banks	12	898,242	376,488
Loans and advances to customers	13	1,480,681	1,538,020
Deferred tax	24	1,547	-
Balances with related parties	14	18,353	16,550
Property and equipment	15	29,509	33,127
Intangible assets	16	4,377	6,506
Other assets	17	19,017	11,506
Total Assets		2,546,500	2,017,213
Equity and Liabilities			
Liabilities			
Borrowings	18	102,711	108,653
Deposits due to customers	19	2,160,054	1,650,170
Other liabilities	20	82,920	64,711
Deferred income	21	9,334	9,243
Current tax payable	23	1,524	3,810
Deferred tax	24	-	850
Dormancy account liability	25	22,178	20,988
Total Liabilities		2,378,721	1,858,425
Equity			
Unrecallable capital	26	19,721	19,721
Statutory reserves		46,014	43,766
Retained earnings		102,044	95,301
		167,779	158,788
Total Equity and Liabilities		2,546,500	2,017,213

Statement of Cash Flows

	Note (s)	2018 P '000	2017 P '000
Cash flows from operating activities			
Interest reciepts		203,888	183,475
Interest payments		(81,773)	(64,493)
Fees and commission reciepts		11,049	9,448
Rent and other income recieved		2,828	2,704
Cash payments to employees and suppliers		(83,339)	(75,202)
Cash flows from operating activities before changes in operating assets and liabilities		52,653	55,932
Changes in operating assets and liabilities			
Movement in loans and advances to customers		34,892	(372,813)
Movement in amounts due to customers		509,884	256,818
Movements in other assets		(875)	72
Movement in deferred income		91	1,874
Movement in related party balances		(1,803)	368
Movement in dormancy account liability		1,190	3,487
Tax paid	33	(7,620)	-
Net cash (used in)/ from operating activities		588,412	(54,262)
Cash flows from investing activities			
Purchase of property and equipment	15	(923)	(9,020)
Sale of property and equipment	15	103	231
Purchase of other intangible assets	16	(246)	(80)
Movement in fixed deposits with banks		(521,754)	87,768
Net cash from investing activities		(522,820)	78,899
Cash flows from financing activities			
Movement in Government loan		(5,833)	-
Dividends paid		-	(3,979)
Net cash from financing activities		(5,833)	(3,979)
Net movement in cash and cash equivalents for the year		59,759	20,658
Cash and cash equivalents at the beginning of the year		35,016	14,358
Total cash at end of the year	11	94,774	35,016

Statement of Changes in Equity

	Unrecallable capital P '000	Statutory reserve P '000	Retained earnings P '000	Total equity P '000
Balance at 01 April 2016	19,721	39,889	83,670	143,280
Comprehensive income for the year	-	-	15,508	15,508
Transfer to statutory reserve	-	3,877	(3,877)	-
Balance at 31 March 2017	19,721	43,766	95,301	158,788
Comprehensive income for the year	-	-	8,991	8,991
Transfer to statutory reserve	-	2,248	(2,248)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	2,248	(2,248)	-
Balance at 31 March 2018	19,721	46,014	102,044	167,779

Significant Accounting Policies

1. Statement of compliance

Botswana Savings Bank is an entity incorporated under the Botswana Savings Bank Act, 1992. The statutory financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Botswana Savings Bank Act, 1992. These financial statements represent the Bank's statutory financial statements and have been approved by the Board of Directors on the 30 AUGUST 2018.

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 the historic 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 preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 Key sources of estimating uncertainty Allowances for credit losses

The specific counter party component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counter party's financial situation and the net releasable value of any underlying collateral. Each impaired asset is assessed on its merits and the work out strategy and estimate of cash flows considered recoverable are independently approved by the credit department.

Collectively assessed impairment allowances cover credit losses inherent'in portfolios of claims with similar economic characteristics where there is objective evidence to suggest that they contain impaired claims, but individual impaired items cannot yet be identified.

Significant Accounting Policies cont.

1.2 Key sources of estimating uncertainty (continued) Income tax

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentration and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled out to determine the required input parameters based on historical experience and current economic conditions.

Determination of fair values

The determination of fair values of assets and liabilities for which there is no observable market prices requires the use of valuation techniques as described in the accounting policy for financial instruments below. For financial instruments that trade frequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration uncertainty of market factors, pricing assumptions and other risks affecting the instrument. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Income Tax Act was amended during February 2016 to bring all parastatal entities and other state-owned enterprises, which had previously been exempted from income tax, to be within the ambit of the Act. The revised Act allows the Minister of Finance and Economic Development to exempt specific parastatal entities and state- owned enterprises from income tax. The Honourable Minister identified those entities which are to be exempted from income tax in the Income Tax (Bodies Corporate Exempt From Tax) Regulation, 2016 of 1 July 2016. The Bank was not identified as an exempt entity in this regulation and is thus subject to income tax for the first time in the current year.

Accordingly, the Bank has estimated the income tax liability for the current year based on management's best interpretation of the Income Tax Act as it may apply to the Bank. This has required the Bank to make a number of judgments in the calculation of its current and deferred tax charges and balances. The most significant of these judgments are :

- capital allowances on property, plant and equipment existing at the beginning of the financial year have been calculated using the accounting book value of such property and equipment as at 31 March 2016 as proxy for cost in accordance with the Income Tax Act.
- the full cost of computer software has been claimed for income tax purposes.

These judgments maybe challenged by BURS during future financial periods, as and when income tax assessments are submitted, etc. Any changes in the recorded value of current and deferred income tax as a result of different views taken by BURS will be accounted for in the financial statements for the year when such changes occur.

Significant Accounting Policies cont.

1.3 Foreign currency transactions

Transactions conducted in foreign currencies are translated to Botswana Pula at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currency are translated to Botswana Pula at the exchange rate when the fair value was determined. Foreign exchange differences are recognised in profit and loss.

1.4 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 an 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. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

1.5 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Significant Accounting Policies cont.

1.6 Financial assets and liabilities Classification

The Bank classifies its financial assets in the following categories

(a) financial instruments at fair value through profit or loss, and

(b) loans and advances

(c) held to maturity financial assets

Management determines the classification of financial assets at initial recognition.

Financial instruments at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Financial instruments are classified as held for trading if they are;

(a) Acquired or incurred principally for the purpose of selling or repurchasing in the near term;

(b) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or;

(c) A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument

Financial instruments may be designated at fair value through profit or loss (designated under the fair value option) on inception. Financial instruments cannot be taken into or out of this category after inception. Financial instruments designated at fair value are recognised initially at fair value and transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for de- recognition.

Regular way purchases and sale of financial instruments held for trading under the fair value option are recognised on trade date, being the date on which the Bank irrevocably commits to purchase or sell the asset. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost, using the effective interest method. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

Significant Accounting Policies cont.

1.6 Financial assets and liabilities (continued) Loans and advances

They are derecognised when the rights to receive cash flows have expired or when the Bank transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of financial assets are transferred.

Loans and advances extended to members of staff at rates below the ruling market rates are originally recorded at amortised cost, determined based on the effective interest yield method. Under this method, the fair value of the capital value granted is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate. The difference between the capital amount advanced and amortised cost is recognised as an expense when the loan is granted and unwinds to income over the period of the loan based on the effective interest rate yield curve.

Regular way purchases and sale of loans and advances are recognised on contractual settlement. The majority of the Bank's advances are included in the loans and advances category.

Held-to-maturity financial asset

Held-to-maturity financial assets are non-derivate financial assets with fixed or determinable payments and fixed maturities that the Bank's management has positive intention and ability to hold to maturity. If the Bank were to sell other than a significant amount of held-to-maturity assets, the entire category would be reclassified as available- for-sale. Held-to-maturity assets are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, balances with the central bank and other short term highly liquid investments that are readily convertible to known amount of cash, subject to insignificant risk in changes in value. These are used in the management of short term commitments. Cash and cash equivalents are stated at amortised cost using the effective interest method, less any impairment losses.

Fixed deposits/ Investments with Banks

Fixed deposits with Banks are investments with regulated banks with original maturities of one month or more from inception date that are subject to insignificant risk in change in value, and are used by the Bank in the management of its loan commitments.

Fixed deposits with banks are measured at amortised cost using the effective interest method, less any impairment losses.

Financial liabilities

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value through profit or loss, are measured at amortised cost using the effective interest method. Financial liabilities are derecognised when they extinguished.

Significant Accounting Policies cont.

1.6 Financial assets and liabilities (continued) Amounts due to customers

Amounts due to customers on savings and deposit accounts comprise deposits held on behalf the memebers of the public and corporate bodies and are initially recorded at the fair value of the consideration received. Such accounts are subsequently measured at amortised cost determined based on the effective interest yield method. All customer savings and deposit accounts are repayable on demand except where there is an express statement to the contrary.

Borrowings

Borrowings are initially recognised at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using effective interest method.

Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market whenever possible. Where no such active market exists for the particular asset, the Bank uses appropriate valuation techniques to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted by International Financial Reporting Standards.

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired. A financial asset or portfolio of financial assets is impaired and impaimient losses are incurred if, and only if, there is objective evidence of impairement as a result of one or more loss events that occured after the initial recognition of the asset and prior to the reporting date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Bank about the following loss events:

Significant Accounting Policies cont.

1.6 Financial assets and liabilities (continued) Amounts due to customers

i) Significant financial difficulty of the issuer or obligor;

ii) a breach of contract, such as a default or delinquency in interest or principal payments;

iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

v) the disappearance of an active market for that financial asset because of financial difficulties; or

vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

vii) Adverse changes in the payment status of borrowers in the portfolio;

viii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

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

For loans and advances, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Significant Accounting Policies cont.

1.6 Financial assets and liabilities (continued) Amounts due to customers

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is irrecoverable, it is written off against the related allowance account for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance account for loan impairment in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

1.7 Unrecallable capital

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

1.8 Dividend distribution

Dividends declared is done with reference to the Botswana Savings Bank: Act of 1992 at the rate of 25% of the profit for the year. Dividends are recognised as a liability in the period that they are declared by the directors. Dividends declared are recognised directly in equity.

1.9 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.

1.10 Employee benefits

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.

Significant Accounting Policies cont.

1.10 Employee benefits (continued)

Terminal benefits (continued)

This accrual is based on un- discounted 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. 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.

1.11 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 the normal course of business. These transactions are carried out based on mutually agreed terms and conditions.

1.12 Leases

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

Notes to the Financial Statements cont.

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Amendments to IFRS 12: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 12 Disclosures of Interests in Other Entities now provides that if an investment in a subsidiary, associate or joint venture is part of a disposal group that is held for sale, then the disclosure of summary information as per paragraph B10 - B16 of IFRS 12 is not required. IFRS 12 previously only made the exemption for circumstances where the investment itself was classified as held for sale.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The select entity has adopted the amendment for the first time in the 2018 financial statements.

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The select entity has adopted the amendment for the first time in the 2018 financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the select entity:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

Additional guidelines were prescribed for evaluating whether the select entity will have sufficient taxable profit in future periods. The select entity is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The select entity has adopted the amendment for the first time in the 2018 financial statements.

2.2 Standards and interpretations not yet effective

The select entity has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the select entity's accounting periods beginning on or after 01 April 2018 or later periods:

Uncertainty over Income Tax Treatments

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

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

The select entity expects to adopt the interpretation for the first time in the 2020 financial statements.

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

IFRS 16 Leases

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

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

Select Entity as lessee:

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

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

Select Entity as lessor:

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

IFRS 9 is applied to all other modifications not required to be treated as a separate lease.

- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

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

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

The select entity expects to adopt the standard for the first time in the 2020 financial statements.

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

Amendments to IAS 28: Annual Improvements to IFRS 2014 - 2016 cycle

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Further, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity associate or joint venture.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Amendments to IFRS 1: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Transfers of Investment Property: Amendments to IAS 40

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non- monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 01 January 2018.

The select entity expects to adopt the interpretation for the first time in the 2019 financial statements.

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

Amendments to IFRS 4: Insurance Contracts

The amendment provides a temporary exemption that permits, but does not require, insurers, under specified criteria, to apply IAS 39 Financial Instruments: Recognition and Measurement, rather than IFRS 9 Financial Instruments for annual periods beginning before 1 January 2021. The exemption is only available provided the insurer has not previously applied any version of IFRS 9 (with some exceptions) and that the activities are predominantly connected with insurance.

A further exemption has been provided from IAS 28 Investments in Associates and Joint Ventures. In terms of the exemption, an insurer is exempt from applying uniform accounting policies when applying the equity method, insofar as the IAS 39/IFRS 9 exemption is applied. Thus, the relevant accounting policies of the associate or joint venture are retained if the entity applies the IFRS9/ IAS 39 exemption and the associate or joint venture does not apply the exemption, or visa versa.

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

The amendment further permits, but does not require, insurers to apply the "overlay approach" to designated financial assets when it first applies IFRS 9. The overlay approach requires the entity to reclassify between profit or loss and other comprehensive income, an amount which results in the profit or loss of the designated financial assets at the end of the reporting period being equal to what it would have been had IAS 39 been applied to the designated financial assets.

Additional disclosures are required as a result of the amendment.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

The amendment now specifies the treatment of vesting and non-vesting conditions with regards to cash-settled share-based payment transactions. The treatment is essentially similar to the treatment of such conditions for equity-settled share-based payment transactions. That is, non-market vesting conditions are taken into consideration when estimating the number of awards which are expected to vest (and which ultimately vest), while market conditions and other non-vesting conditions are taken into consideration when determining the fair value of the share based payment liability, both initially and subsequently.

The amendment also provides for share-based payment transactions with a net settlement feature for withholding tax obligations. Essentially, where the entity is required to withhold part of the equity instruments equal to the tax obligation, the entity is required to account for the payment to tax authorities as a reduction in equity, except to the extent that the payment exceeds the fair value of the equity instruments withheld at net settlement date. The entity should also disclose the amount that it expects to transfer to tax authorities in terms of such transactions.

The amendment further provides guidance in terms of modifications which convert cash-settled share-based payment transactions to equity -settled share-based payment transactions. For such modifications, the equity- settled share based payment transaction is measured by reference to the fair value of the equity instruments granted at modification date, to the extent to which goods or services have been received. The liability for cash- settled share based payment transactions is derecognised on the modification date. Any difference between the two is recognised immediately in profit or loss.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The select entity expects to adopt the amendment for the first time in the 2019 financial statements.

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

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued)

IFRS 9 Financial Instruments

IIFRS 9 financial instruments issued in November 2009 introduced new requirements for the classification and measurements of financial assets. In July 2014, the IASB issued another revised version of IFRS 9, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted.

Overview

IFRS 9 will fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued) IFRS 9 Financial Instruments

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Bank expects to adopt the standard for the first time in the 2018/19 financial statements. In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances. However, the impact of this standard is currently being assessed.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. Based on the analysis to date, the Bank anticipates a negative effect on its regulatory capital

On-going risk management, operation and finance structure

The Bank will present the proposed operating model to the Supervisory Board in October 2018 and further details will be provided once the new operating structure has been approved.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

Notes to the Financial Statements cont.

2. New Standards and Interpretations (continued) IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The select entity expects to adopt the standard for the first time in the 2019 financial statements.

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

Notes to the Financial Statements cont.

		Note (s)	2018 P '000	2017 P '000
3.	**Net interest income**			
	Interest income			
	Call accounts with other financial institutions		2,107	872
	Other fixed deposits		33,233	22,280
	Loans and advances to customers		175,184	159,399
			210,524	182,551
	Interest expense Ordinary savings		2,119	2,066
	Sesigo savings		7,853	9,380
	Save-As-You-Earn		850	1,050
	Thobo savings		243	285
	National savings certificates (NSC)		652	885
	Corporate deposits		75,422	51,020
	Fixed deposits		9,291	7,921
	Government loan		5,140	5,250
	Transaction account		75	68
			101,645	77,925
	Net interest income		108,879	104,626

Notes to the Financial Statements cont.

		Note (s)	2018 P '000	2017 P '000
4.	**Net fee and commission**			
	Fee and commission income			
	Account maintenance fees		7,176	6,719
	Loan arrangement fees and other income		3,873	2,729
			11,049	9,448
	Fee and commission expense			
	Agency fees		2,634	2,670
	Commissions		5,748	5,163
			8,382	7,833
			2,667	1,615
5.	**Other income**			
	Rental income		2,549	2,486
	Other income		279	218
	Profit/(loss) on disposal of property, plant and equipment		92	132
			2,920	2,836
6.	**Net impairment loss of financial assets**			
	Specific impairment		17,665	7,615
	Portfolio impairment		5,687	2,275
	Recoveries		(33)	(201)
	Net impairment loss on financial assets		23,319	9,689
	Movement on specific impairments			
	Balance at the beginning of the year		26,885	19,270
	Charge for impairment of loans		17,665	7,615
	Balance at the end of the year		44,550	26,885
	Movement on portfolio impairments			
	Balance at the beginning of the year		10,692	8,417
	Charge for impairment of loans		5,687	2,275
	Balance at the end of the year		16,379	10,692
	Balance specific and portfolio impairments at the end of the year	13	60,929	37,577

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000
7. Staff costs			
Salaries, wages and allowances		32,407	31,800
Pension and medical aid contributions		5,889	5,086
Fair value adjustment for staff loans		(872)	(702)
Training and recuritment costs		1,647	1,753
Staff welfare		1,611	2,573
		40,682	40,510

The average number of persons employed by the Bank during the year was 175 (2017: 162)

	Note (s)	2018 P '000	2017 P '000
8. Depreciation, amortisation and impairment losses			
Depreciation	15	4,530	3,813
Amortisation	16	2,375	3,311
		6,905	7,124
9. Administrative and general expenses			
Auditors fees		965	728
Consultancy fees		2,513	2,085
Debt recovery		(39)	209
Directors remuneration for services rendered		321	141
Insurance premiums		729	591
Other operational expenses		5,405	4,587
Overdrawn balances written off		-	32
Property management and security fees		3,084	2,614
Publicity and advertising		4,076	4,324
Repairs and maintenance		2,593	2,271
Software licensing and othet IT costs		5,847	6,801
Stationery, utilities and postage		4,406	4,950
		29,900	29,333

Notes to the Financial Statements cont.

		Note (s)	2018 P '000	2017 P '000
10.	**Income tax expense**			
	Current			
	Current tax on profit for the year		5,334	3,810
	Deferred			
	Deferred tax (benefit)/ expense		(2,397)	850
	Income tax expense		2,937	4,660
	Numerical reconciliation of income tax expense to prima facie tax payable			
	Profit before taxation		11,928	20,168
	Tax at statutory rate of 22% (2017: 22%)		2,624	4,437
	Tax effect of adjustments on taxable income Disallowed expenses		287	223
	Deferred tax relating to prior year		26	-
	Income tax expense		2,937	4,660

With effect from the tax year commencing July 2016, the bank, alongside several other parastals 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.

		2018	2017
11.	**Cash and cash equivalents**		
	Cash and cash equivalents consist of:		
	Cash on hand	4,046	2,818
	Balances with the Bank of Botswana	3,285	2,432
	Bank balances with other banks	87,443	29,766
		94,774	35,016

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

		2018	2017
12.	**Balances with other banks**		
	Fixed deposits with banks	898,242	376,488

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's requirements. Interest rates are negociable on a deal by deal basis.

Notes to the Financial Statements cont.

		Note (s)	2018 P '000	2017 P '000
13.	**Loans and advances to customers**			
	Motor vehicle advances		14,584	17,575
	Residential property loans		752,617	792,990
	Personal loans		774,409	765,032
			1,541,610	1,575,597
	Less impairment provision	6	(60,929)	(37,577)
			1,480,681	1,538,020
	Analysis by period Up to 1 year		24,761	20,603
	Greater than 1 up to 5 years		375,144	421,541
	Over 5 years		1,141,705	1,133,454
			1,541,610	1,575,598
	Sectorial analysis:			
	Central Government employees		1,449,468	1,093,516
	Parastatal employees		92,142	40,136
	Local government employees and other customers		-	441,946
	Impairment provision		(58,790)	(37,578)
			1,482,820	1,538,020
	Analysis of impairment losses on loans and advances Motor vehicle advances		46	41
	Residential property loans		7,112	4,509
	Personal loans		41,043	22,335
			48,201	26,885

The Government of Botswana and certain of its participating agencies/departments, under the agreement dated April 1985, and updated on 3rd April 1995, had guaranteed 100% of all motor vehicle and residential property loans disbursed up to March 1995 and 70% or 100% of all loans disbursed subsequent to that date, depending on the specific employer, including all interest arising on these loans. As a result, interest is not suspended on certain non- performing loans.

Ipelegeng personal loans are advanced to customers who hold SAYE accounts and are secured by Save As You Earn ("SAYE") account balances held with the bank. The customer must maintain the SAYE account balance with at least 60% of the outstanding portion of the loan.

Motor vehicle and residential loans are issued to employees of the Government of Botswana and other parastatal bodies and are secured (either 70% or 100%) by the respective employer.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

13. Loans and advances to customers (continued)

Motheo Personal Loan was introduced 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 P300 000 repayable over 84 months (compared to P200 000 with repayment up to 6 years for Motheo). Express on the other hand is a short term loan for up to 6 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.

14. Balances with related parties

	2018	2017
Amount due from Botswana Postal Services	18,353	16,550

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 the business.

15. Property and equipment

	2018 Cost or revaluation	2018 Accumulated depreciation	2018 Carrying value	2017 Cost or revaluation	2017 Accumulated depreciation	2017 Carrying value
Buildings	26,904	(9,961)	16,943	26,904	(9,424)	17,480
Furniture and fixtures	8,658	(7,676)	982	8,887	(7,561)	1,326
Motor vehicles	3,885	(2,082)	1,803	3,484	(1,567)	1,917
Office and computer equipment	22,474	(14,824)	7,650	22,880	(12,809)	10,071
Capital - Work in progress	2,131	-	2,131	2,333	-	2,333
Total	64,052	(34,543)	29,509	64,488	(31,361)	33,127

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

15. Property and equipment (continued)

Reconciliation of property and equipment - 2018

	Opening balance	Additions	Disposals	Adjust-ments	Deprecia-tion	Total
Buildings	17,480	-	-	-	(537)	16,943
Furniture and fixtures	1,326	66	(1)	222	(631)	982
Motor vehicles	1,917	448	-	-	(562)	1,803
Office and computer equipment	10,071	389	(10)	-	(2,800)	7,650
Capital - Work in	2,333	20	-	(222)	-	2,131
progress	33,127	923	(11)	-	(4,530)	29,509

Reconciliation of property and equipment - 2017

	Opening balance	Additions	Disposals	Adjust-ments	Deprecia-tion	Total
Buildings	17,579	551	-	-	(650)	17,480
Furniture and fixtures	1,278	562	(2)	-	(512)	1,326
Motor vehicles	1,372	1,021	-	-	(476)	1,917
Office and computer equipment	6,921	2,325	(97)	3,097	(2,175)	10,071
Capital - Work in progress	3,713	4,561	-	(5,941)	-	2,333
	30,863	9,020	(99)	(2,844)	(3,813)	33,127

Land and buildings represent Land 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 P68.5 million. This value is based on a valuation conducted by an independent firm of professional valuers as at 24 May 2018 (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.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

16. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	16,031	(11,654)	4,377	15,785	(9,279)	6,506

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	6,506	246	(2,375)	4,377

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software, other	6,894	80	2,844	(3,312)	6,506

The bulk of the cost relate to the ATM project where the Bank acquired an ATM: switch, an Oracle database and additional security features for encryption of card data which were integrated with the core banking system **(refer to below note)**

The remaining portion relate to the purchase of banking software from Craft Silicon in 2008 In terms of the software licence rights, the bank is entitled to use the software and thereafter auto-renew for additional 5 year period. The licence and useful life of the software is extended following any upgrades during the usage of the software.

Notes to the Financial Statements cont.

		Note (s)	2018 P '000	2017 P '000
17.	**Other assets**			
	Accounts receivable and prepayments		4,784	3,856
	Accrued interest		12,825	6,189
	Stock of stationery		1,408	1,461
			19,017	11,506
18.	**Borrowings**			
	Principal amount		108,653	108,653
	Repayment of principal		(5,833)	-
	Interest paid during the year		(5,250)	(5,250)
	Accrued Interest		5,141	5,250
			102,711	108,653

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 an 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 loan term.

The bank has breached the terms of this loan facility by utelising the proceeds of the loan for purpose other than those stipulated in the loan agreement. The bank has voluntarily disclosed this breach to the lender, with a request for condonation of the breach. Until the lender accedes to the bank's request, the loan is immediately collable by the lender.

		2018 P '000	2017 P '000
19.	**Deposits due to customers**		
	Ordinary Savings	107,286	103,875
	Save-As-You-Earn	27,211	26,208
	Sesigo Savings	285,108	282,034
	Thobo Savings	8,915	7,808
	National savings certificates (NSC)	18,398	18,446
	Transactional account	23,287	32,132
	Corporate Savings	13,670	10,660
	Corporate Fixed Deposits	1,438,770	1,015,170
	Retail Fixed Deposits	180,199	153,837
	Special savings account	57,210	-
		2,160,054	1,650,170

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

19. Deposits due to customers (continued)

Ordinary savings, Sesigo savings and Corporate savings are all repayable on demand. Ordinary savings accrue interest at 3.0% (2017: 3.0%) per annum, Sesigo savings accrue interest between 2.0% and 4.5% (2017: between 2.0% and 5.0%) per annum and Corporate savings' interest is negotiable.

All other products are fixed deposits with varying maturities and interest rates. Save-As-You-Eam is a 24 months product and earns interest at 3.0% (2017: 3.5%) per annum. Thobo savings is a 12 month product and earns interest at 3.0% (2017: 3.5%) per annum. National Savings Certificates are a 60 months fixed product and earns interest at 5.0% (2017: 5.5%) per annum. Retail fixed deposits have maturities ranging from 3 months to 24 months and earn interest between 2.5% and 3.3% (2017: between 3.0% and 3.8%). Corporate Fixed deposits are negotiable.

20. Other liabilities

	2018 P '000	2017 P '000
Accruals and interest provisions	75,336	53,648
Other creditors	6,974	10,449
Accrued audit fees	610	614
	82,920	64,711

21. Deferred income

	2018 P '000	2017 P '000
Loan arrangement fees	9,228	9,137
ATM Project grant from Enterplan	106	106
	9,334	9,243

Loan arrangement fees are amortised over the repayment period of the loan. The grant represents funds which were received to fund the ATM project.

22. Dividend payable

	2018 P '000	2017 P '000
Opening balance	-	3,979
Closing balance	-	-
Dividends paid	-	3,979

Section 7(2) of the Botswana Savings Bank Act of 1992 provides that the Board of Directors shall, after allowing for expenses of operations during the year, and making provision for statutory reserve account, bad debts, depreciation of fixed assets and such other contingencies or provisions as are customarily made by financial institutions, determine the amount payable as dividends in any given year.

Notes to the Financial Statements cont.

		Note(s)	2018 P '000	2017 P '000
23.	**Current tax payable (receivable)**			
	Opening Balance		3,810	-
	Current corporate tax		5,334	3,810
	Tax paid during the year		(7,620)	-
	Closing balance		1,524	3,810
24.	**Deferred tax**			
	Deferred tax asset / (liability)			
	Opening Balance		(850)	-
	Credit/(charge) for the year		2,397	(850)
	Closing Balance		1,547	(850)
	The balance comprises temporary differences attributable to:			
	Property plant and equipment		(169)	(100)
	Intangible assets		(963)	(1,431)
	Impairment of loans and advances		1,752	545
	Temporary difference on disallowed expenses		953	136
	Other temporary differences		(26)	-
	Total deferred tax liability		1,547	(850)
25.	**Dormancy account liability**			
	Balance at the beginning of the year		20,988	17,501
	Movement for the year		1,190	3,487
	Balance at the end of year		22,178	20,988

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. This balance was transferred from a reserve account in the prior year to liabilities as this liability is not of an equity nature and its classillcation into equity is not specifically required by the Act.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000
26. Unrecallable capital			
Subscribed			
Authorised 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 Bank's authorised share capital shall be P20million of which the first P5million 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.

27. Statutory reserve

		2018 P '000	2017 P '000
Balance at the beginning of the year		43,766	43,766
Undefined Difference		2,248	-
Balance at the end of year		46,014	43,766

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

28. Contingent liabilities and commitments

		2018 P '000	2017 P '000
Contingencies and capital commitments		117,736	113,892

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.

29. 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. The cost to the Bank is disclosed in note 6.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

30. Events after the reporting period

Other than the facts and developments as detailed in these financial statements, there have been no material changes in the affairs or financial position of the Bank between the year end and the date of the approval of these financial statements that require adjustment to the amount recognised in the financial statements or that require disclosure in the financial statements.

31. Related parties

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. Both organisations are wholly owned by the newly established Botswana Postal Savings Group.

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

Related party balances

	Note (s)	2018 P '000	2017 P '000
Balance due from BPS			
Net balance of fees, deposits and withdrawals made at BPS branches		18,353	16,550
Balance due to related parties			
Net of fees, deposits and withdrawals made at BPS branches		985	1,213
Interest due on Borrowings - Botswana Government		3,544	3,653
		4,529	4,866
Loans and advances Executive Directors			
- Residential Loans		506	1,152
- Personal Loans		226	176
		732	1,328
Related party transactions			
Transaction with Botswana Post			
- Fees and commissions paid to BPS		2,629	2,670
Transactions with Government of Botswana			
- Long-term loan		99,167	105,000
- Interest accrued on the long term loan		3,544	3,653
		102,711	108,653

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000
31. Related parties (continued)			
Compensation to and other key management			
- Salaries and allowances		1,602	423
- Gratuities and leave pay		423	460
- Staff welfare		38	46
		2,063	929

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 9.

32. Financial risk management

The Bank's activities expose it to a variety of risks. Taking measured risks is core to the financial business sector and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and retiiin and minimise potential adverse effects on the Bank'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 foreign 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 loans 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.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

(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).

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.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
31 March 2018 Assets					
Fixed deposits with Banks	898,242	-	-	-	898,242
Loans and advances	9,014	15,747	373,005	1,082,915	1,480,681
Total financial assets	907,256	15,747	373,005	1,082,915	2,378,923
Liabilities					
Deposits due to customers	1,174,164	614,650	321,240	50,000	2,160,054
Borrowings		9,377	23,334	69,999	102,710
Total financial Liabilities	1,174,164	624,027	344,574	119,999	2,262,764
Total interest re-pricing gap	(266,908)	(608,280)	28,4319	62,916	116,159
Effect of a 1% increase on profit	(2,669)	(6,083)	284	9,629	1,161

	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
31 March 2017 Assets					
Fixed deposits with Banks	346,488	30,000	-	-	376,488
Loans and advances	7,305	13,298	421,541	1,095,876	1,538,020
Total financial assets	353,793	43,298	421,541	1,095,876	1,914,508
Liabilities					
Deposits due to customers	1,034,818	344,043	221,309	50,000	1,650,170
Borrowings	108,653	-	-	-	108,653
Total financial Liabilities	1,143,471	344,043	221,309	50,000	1,758,823
Total interest re-pricing gap	(789,678)	(300,745)	200,232	1,045,876	155,685
Effect of a 1% increase on profit	(7,897)	(3,007)	2,002	10,459	1,557

As disclosed above, an increase of 100 basis points in interest rates during the reporting period would have increased the profit for the year by P1.2 million (2017: P 1.6 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.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

Credit risk

Credit risk is the risk that the Bank's customers, clients or counterparties will not be able or willing to pay interest, repay capital or otherwise fulfil their contractual obligations under loan agreements or other credit facilities.

Credit risk also arises through the downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall. Furthermore, credit risk is manifested as sector risk where difficulties experienced by the sector in which the exposure is domiciled may impede payment or reduce the value of the asset.

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

Management of credit risk

The Credit Risk Unit is responsible for portfolio management and risk concentration issues, sector exposure, product risk and credit grading. The Credit Committee is responsible for sanctioning large credit exposures to all customers and counterparties arising from lending and trading activities..

i) Financial assets subject to credit risk

For the purposes of the Bank's disclosures regarding credit quality, its financial assets have been analysed as follows:

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

31 March 2018	Performing P '000	Non-performing but not impaired P '000	Non-performing and impaired P '000	Impairment allowance P '000	Total carrying value P '000
Cash and cash equivalents	94,774	-	-	-	94,774
Fixed deposits with Banks	898,242	-	-	-	898,242
Loans and advances to customers	932,865	520,683	71,683	(44,549)	1,480,682
Balances with related parties	18,353	-	-	-	18,353
Other assets	19,017	-	-	-	19,017
	1,963,251	520,683	71,683	(44,549)	2,511,068

31 March 2017	Performing P '000	Non-performing but not impaired P '000	Non-performing and impaired P '000	Impairment allowance P '000	Total carrying value P '000
Cash and cash equivalents	35,016	-	-	-	35,016
Fixed deposits with Banks	376,488	-	-	-	376,488
Loans and advances to customers	1,027,847	497,953	39,105	(26,885)	1,538,020
Balances with related parties	16,550	-	-	-	16,550
Other assets	11,506	-	-	-	11,506
	1,467,407	497,953	39,105	(26,885)	1,977,580

The performing loan and advances to customers have been netted off against the portfolio impairment provision.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

ii) Maximum exposure to credit risk before collateral held or other credit enhancements

The following table presents the maximum exposure to credit risk before taking account of any collateral held or other credit enhancements after allowance for impairment and the impact of netting where appropriate. For financial assets recognised on the statement of financial position the exposure to credit risk equals their carrying amounts. For financial guarantees granted, the exposure is the maximum committed facilities before any collateral.

	2018 P '000	2017 P '000
On statement of financial position		
Cash and cash equivalents	94,774	35,016
Fixed deposits with banks	898,242	376,488
Loans and advances to customers	1,480,681	1,538,020
Balances with related parties	18,353	16,550
Other assets	19,017	11,506
Total on statement of financial position	2,511,067	1,977,580
Off statement of financial position: Un-drawn commitments for loans	117,736	113,892
Total maximum exposure at 31 March	2,628,803	2,091,472

(iii) Credit quality of financial assets neither past due nor impaired

The Bank assesses the probability of default of individual counterparties using internal rating tools, as advised by the Bank of Botswana, tailored to the various categories of counterparty. Clients of the Bank are segmented into the following three rating classes:

(a) Normal
(b) Special mention
(c) Sub-standard

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

The credit quality of financial assets subject to credit risk, based on the Bank's internal credit ratings, is summarised as follows;

31 March 2018	Gross Normal	Portfolio Impairment Provision	Net Normal
	P '000	P '000	P '000
Cash and cash equivalents	94,774	-	94,774
Fixed deposits with banks	898,242	-	898,242
Loans and advances to customers	1,541,610	(16,379)	1,525,231
Balances with related parties	18,353	-	18,353
Other assets	19,017	-	19,017
Total financial assets subject to credit risk neither past due nor impaired	2,571,996	(16,379)	2,555,617

31 March 2017	Gross Normal	Portfolio Impairment Provision	Net Normal
	P '000	P '000	P '000
Cash and cash equivalents	35,016	-	35,016
Fixed deposits with banks	376,488	-	376,488
Loans and advances to customers	1,575,597	(10,692)	1,564,905
Balances with related parties	16,550	-	16,550
Other assets	11,506	-	11,506
Total financial assets subject to credit risk neither past due nor impaired	2,015,157	(10,692)	2,004,465

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

(iv) Credit quality of financial assets past due but not impaired (continued)

The aging of assets that are past due and not impaired are summarised as follows:

31 March 2018	Past due 1 - 30 days P '000	Past due 31 - 89 days P '000	Total P '000
Residential property loans	71,431	26,689	98,120
Motor vehicle advances	551	778	1,329
Personal loans	395,334	25,900	421,234
	467,316	53,367	520,683

31 March 2017	Past due 1 - 30 days P '000	Past due 31 - 89 days P '000	Total P '000
Residential property loans	77,801	28,479	106,280
Motor vehicle advances	1,318	854	2,172
Personal loans	369,714	19,787	389,501
	448,833	49,120	497,953

(v) Financial assets that are past due and Impaired

The aging of assets that are past due and impaired are summarised as follows;

31 March 2018	Sub-standard (90 - 119 days) P '000	Doubtful (120 - 179 days P '000	Loss (Over 180 days) P '000	Total P '000
Residential property loans	14,928	3,129	8,004	26,061
Motor vehicle advances	130	-	104	234
Personal loans	4,530	7,868	32,990	45,388
	19,588	10,997	41,098	71,683

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

31 March 2017	Sub-standard (90 - 119 days) P '000	Doubtful (120 - 179 days) P '000	Loss (Over 180 days) P '000	Total P '000
Residential property loans	3,592	2,165	6,590	12,347
Motor vehicle advances	60	70	77	207
Personal loans	2,527	3,306	20,718	26,551
	6,179	5,541	27,385	39,105

(vi) Collateral and other credit enhancements held

Assets subject to collateralisation and credit enhancement include motor vehicle and residential mortgage loans. For most forms of security, the collateral given is the guarantee issued by the Government of Botswana of up to 70% of the carrying amount of the loan.

Ipelegeng Personal Loans are secured by the customer's Save-As-You-Earn, Thobo and/or Sesigo savings account. The details of the Collateral held as at year ended against respect buckets is summarised as follows:

31 March 2018	Performing P '000	Non-performing but not impaired P '000	Non-performing and impaired P '000	Total carrying value P '000
Residential property loans	630,534	98,120	26,061	754,715
Motor vehicle advances	13,374	1,329	234	14,937
Personal loans	305,337	421,234	45,388	771,959
	949,245	520,683	71,683	1,541,611

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

31 March 2017	Neither post due nor impaired P '000	Post due but not impaired P '000	Post due and impaired P '000	Specific impairment allowance P '000	Total carrying value P '000
Central government	705,452	378,012	10,052	(5,191)	1,088,325
Parastatals	32,697	7,117	322	(319)	39,817
Local government and others	300,391	112,824	28,731	(21,375)	420,571
Portfolio impairment provision	(10,693)	-	-	-	(10,693)
	1,027,847	497,953	39,105	(26,885)	1,538,020

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 profitability, but also increases the risk of losses.

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

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;

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

(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 2018	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P'000	Liquid P '000	Total P '000
Cash and cash equivalents	94,774	-	-	-	-	94,774
Fixed deposits with Banks	898,242	-	-	-	-	898,242
Loans and advances to customers	9,014	15,747	373,005	1,082,915	-	1,480,681
Balances with related parties	18,353	-	-	-	-	18,353
Property and equipment	-	-	-	-	29,396	29,396
Intangible assets	-	-	-	-	4,377	4,377
Other assets	17,609	-	-	-	1,408	19,017
Total assets	1,037,992	15,747	373,005	1,082,915	35,181	2,544,840

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

31 March 2018 Liabilities	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Liquid P '000	Total P '000
Due to customers	1,174,164	614,650	321,240	50,000	-	2,160,054
Other liabilities	82,920	-	-	-	-	82,920
Deferred income	56	100	2,352	6,826	-	9,334
Current tax liability	1,524	-	-	-	-	1,524
Deferred tax liability	-	1,547	-	-	-	1,547
Borrowings	-	9,377	23,334	69,999	-	102,710
Dormancy account liability	-	-	-	22,178	-	22,178
Total liabilities	1,258,664	625,674	346,926	149,003	-	2,380,267

Net liquidity gap	(220,672)	(609,927)	26,079	933,912	35,181	164,573

31 March 2017 Assets	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Liquid P '000	Total P '000
Cash and cash equivalents	35,016	-	-	-	-	35,016
Fixed deposits with Banks	316,488	60,000	-	-	-	376,488
Loans and advances to customers	7,305	13,298	421,541	1,095,876	-	1,538,020
Balances with related parties	16,550	-	-	-	-	16,550
Property and equipment	-	-	-	-	33,126	33,126
Intangible assets	-	-	-	-	6,506	6,506
Other assets	9,059	986	-	-	1,461	11,506
Total assets	384,418	74,284	421,541	1,095,876	41,093	2,017,212

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

31 March 2017 Liabilities	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Liquid P '000	Total P '000
Due to customers	1,034,818	344,221	221,131	50,000	-	1,650,170
Other liabilities	64,710	-	-	-	-	64,710
Deferred income	44	80	2,533	6,586	-	9,243
Current tax liability	4,677	-	-	-	-	4,677
Deferred tax liability	-	850	-	-	-	850
Borrowings	108,653	-	-	-	-	108,653
Dormancy account liability	-	-	-	20,988	-	20,988
Total liabilities	1,212,902	345,151	223,664	77,574	-	1,859,291
Net liquidity gap	(828,484)	(270,867)	197,877	1,018,302	41,0931	57,921

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.

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:

	2018	2017
Total liquid assets	993,017	399,193
Total deposits	2,160,054	1,650,170
Ratio	46 %	24 %

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. **Financial risk management (continued)**

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.

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 an 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 credit 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.

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

Regulatory guidelines define two tiers of capital resources:

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

(b) Tier 2 capital includes perpetual, medium and long term subordinated debt, general provisions for bad and doubtful debts as well as property and equipment revaluation reserves.

Both tiers can be used to meet trading and banking activity requirements. 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 Janaury 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 15.9% as at 31 March 2018 (2017: 18.2%). 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 Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. 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 2018:

	Note (s)	2018 P '000	2017 P '000
Total borrowings			
Compound instruments	11	107,286	103,875
Less: Cash and cash equivalents		94,774	35,016
Net debt		12,512	68,859
Total equity		167,779	158,778
Total capital		180,291	227,647
Gear ratio		2%	38%

Capital Adequacy	Note Note	Balance P '000	Risk Weight	Weighted Value P '000
Tier 1 - Stated Capital				19,721
Tier 1 - Other revenue reserve				143,681
Tier 2 - General provisions				16,379
Total Unimpaired capital				179,781
Risk Weighted Assets	11	7,331	- %	-
Bank balances with other banks	11	87,443	20 %	17,489
Fixed deposits with banks	12	898,242	20 %	179,648
Loans and advances to customers	13	1,480,681		708,529
Exposures to Government ofBotswana and Bank of Botswana		552,858	- %	-
Past due to Government and Bank of Botswana where specific provision is less than 20% of the outstanding loan		12,607	150 %	18,911
Retail exposures that fully comply with para 7.26 of Capital Value of cash		713,132	75 %	534,849
collateral deducted from Retail exposures				
Value of cash collateral deductedfrom Retail exposures		-	- %	(275)
Past due on Retail portfolios where specific provision is more than 50% of the outstanding loan		7,415	50 %	3,708
Other Non-qualifying residential mortgages (not meeting any of the conditions ofpara 7.28 of the Capital Directive)		187,557	75 %	140,668

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

Capital Adequacy	Note Note	Balance P '000	Risk Weight	Weighted Value P '000
Past due Non qualifying residential mortgages where specific provision is less than 20% of the outstanding loan		7,112	150 %	10,668
Balances with related parties	14	18,353	100 %	18,353
Property and equipment	15	29,509	100 %	29,509
Intangible assets	16	4,377	100 %	4,377
Other assets	17	19,017	100 %	19,017
Total Assets/Risk weighted assets (on balance sheet)		2,544,953		976,922
Total Assets/Risk weighted assets (off balance sheet)	28	117,736	20 %	23,547
Operational Risk weighted assets		-	- %	104,069
Total Assets/Risk weighted assets		2,662,689		1,104,538

Capital Adequacy ratio	15.9 %
Regulatory requirement	15.0 %

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. 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 2017;

Capital Adequacy	Note Note	Balance P '000	Risk Weight	Weighted Value P '000
Tier 1 -Stated Capital				19,721
Tier 1 - Other revenue reserve				148,028
Tier 2 - General provisions				10,692
Total Unimpaired capital				178,441
Risk Weighted Assets	11	5,250	- %	-
Bank balances with other banks	11	29,766	20 %	5,953
Fixed deposits with banks	12	376,488	20 %	75,298
Loans and advances to customers	13	1,538,020		714,501
Exposures to Government of Botswana and Bank of Botswana		593,520	- %	-
Past due to Government and Bank of Botswana where specific provision is less than 20% of the outstanding loan		6,010	150 %	9,015
Retail exposures that fully comply with para 7.26 of Capital Value of cash collateral deducted from Retail exposures		733,567	75 %	550,175
Value of cash collateral deducted from Retail exposures		-	- %	(348)
Past due on Retail portfolios where specific provision is more than 50% of the outstanding loan		5,256	50 %	2,628
Other Non-qualifying residential mortgages (not meeting any of the conditions of para 7.28 of the Capital Directive)		195,293	75 %	146,470
Past due Non qualifying residential mortgages where specific provision is less than 20% of the outstanding loan		4,374	150 %	6,561

Notes to the Financial Statements cont.

	Note (s)	2018 P '000	2017 P '000

32. Financial risk management (continued)

Capital Adequacy	Note Note	Balance P '000	Risk Weight	Weighted Value P '000
Balances with related parties	14	16,550	100 %	16,550
Property and equipment	15	33,127	100 %	33,127
Intangible assets	16	6,506	100 %	6,506
Other assets	17	11,506	100 %	11,506
Total Assets/Risk weighted assets (on balance sheet)		2,017,213		863,441
Total Assets/Risk weighted assets (off balance sheet)	28	113,892	20 %	22,778
Operational Risk weighted assets		-	- %	94,545
Total Assets/Risk weighted assets		2,131,105		980,764
Capital Adequacy ratio				18.2 %
Regulatory requirement				15.0 %

33. Tax paid

	2018 P '000	2017 P '000
Balance at beginning of the year	(3,810)	-
Current tax for the year recognised in profit or loss	(5,334)	(3,810)
Balance at end of the year	1,524	3,810
	(7,620)	-

Notes

Botswana
Savings
Bank

(+267) 367 0000 / (+267) 395 2608
info@bsb.bw
P.O. Box 1150, Gaborone, Botswana
BSB Tshomarelo, Botswana
Corner Lekgarapa / Letswai Road
Plot, 53796 Broadhurst Mall
Gaborone, Botswana