Botswana Savings Bank
Annual Report
2018-2019

BOTSWANA SAVINGS BANK

welcome to smooth banking


welcome to
smooth banking

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welcome to smooth banking

ABOUT US

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INTRODUCTION

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.

Employing 187 employees, Botswana Saving Banks services customers through the country, thrugh the Botswana Postal Services network (Co-Branded Branches) and its stand-alone branches, network of 11 ATMs and 5 Cash Deposit machines.

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.

FINANCIAL HIGHLIGHTS

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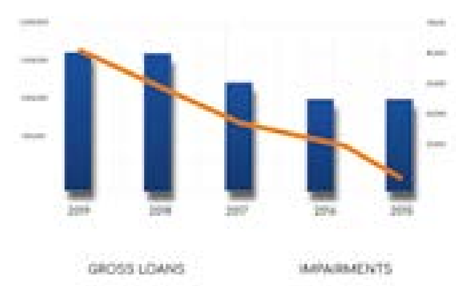
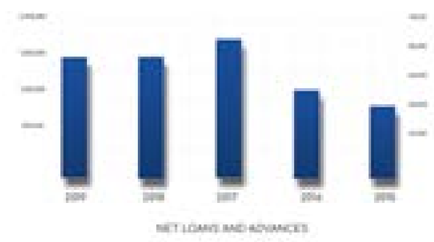
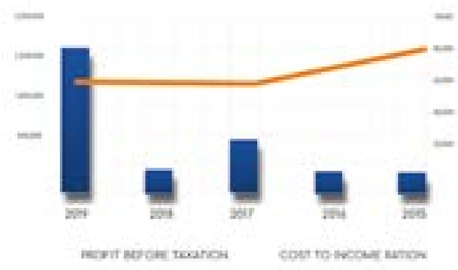
GROSS LOANS VS IMPAIRMENTS



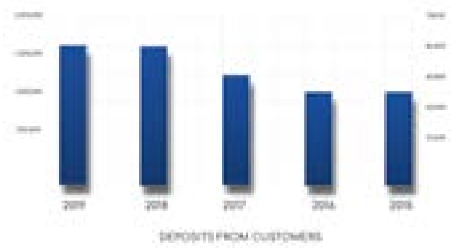
NET LOANS AND ADVANCES



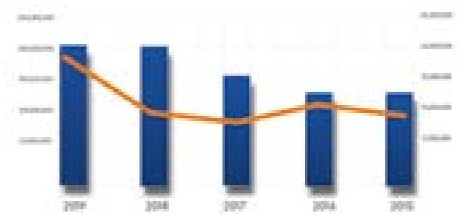
PROFIT BEFORE TAX VS COST TO INCOME



DEPOSITS FROM CUSTOMERS



INCOME VS NON INTREST INCOME



Non-Financial Highlights

In addition to measuring our financial performance, we also measure our non-financial performance. The data focuses on specific financial inclusion parameters and are summarized as follows:

- Improving access to financial solutions for a customer base that is defined as underbanked.
- Increasing access to customers in the most remote areas. BSB launched 3 more ATMs in areas such as Kang, Hukuntsi and Letlhakeng during the current financial year. We continue to invest in these access solutions to improve on these variables going forward. This will allow us to continue providing easier access to our solutions to the underbanked segment, while reducing the costs of providing these services to these markets.

GOVERNANCE

MESSAGE FROM THE CHAIRMAN

It gives me great pleasure to present the Annual Report for Botswana Savings Bank (BSB) for the year ended 31 March 2019. It is indeed an honour to present to our stakeholders, my very first Annual Report as Chairperson of the Board.

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

Financial Highlights

NET INTEREST INCOME

was up by 7% to P117 million (2018: P109million)

OPERATING COST

were up by 18% to P93 million (2018: P79 million)

PROFIT AFTER TAX

was P35 million (2018: P9 million)

NET ADVANCES

were down by 4% to P1.42 billion (2018: P1.48 billion)

CUSTOMER SAVINGS

increased to P 2.18 billion (2018: P2.16 billion)

RETURN ON EQUITY

was 19% (2018: 5%)

Economic Outlook

Inflation remains under control at 3.3% as at end of March 2019 and is forecasted to remain stable in 2019. Low inflation reflects a combination of low domestic demand and modest increases in foreign prices. Real GDP growth of 4.5% was recorded in the fourth quarter of 2018 against 2.9% for 2017. This rise was mainly driven by the continued recovery in the mining sector.

Since the declaration of COVID-19 as a global pandemic by World Health Organisation (WHO) in March 2020, rapid changes in economic activity has been experienced. The preventative measures which are being put in place by countries are impacting negatively on business. The travel restrictions and national lockdowns has affected various business sectors with the tourism and hospitality being the most affected.

Botswana has been impacted as seen from low diamond sales and subsequent downgrading of the country's long-term sovereign bond from "A+" to "BBB+" in March 2020. All these changes are likely to impact on the country's unemployment, economic growth and possible interest rate cut. The forecast GDP is around minus 4% in 2020, down from a Pre-COVID-19 projection of plus 3.5%-4.0% growth. There is a lot of uncertainty in the year ahead, as businesses try to work around the new norm post COVID-19.

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

Ever increasing focus on Regulations

The regulatory environment continue to focus on issues around Know Your Customer (KYC), anti-money laundering and terrorism financing.

The Bank is determined to ensure adequate systems and processes are put in place to remain compliant with evolving requirements emanating from national and international regulators. To reinforce this commitment, the Bank has established a risk department to perform the functions related to risk Management and compliance. The regulatory capital Management requirements is pertinent in the challenging environment and the Bank will endeavor to maintain its capital adequacy ratio in line with the stipulated benchmark and all other regulatory requirements within the regulators range.

Corporate Governance

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

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

Risk Management

Botswana Savings Bank has adopted an Enterprise-wide Risk Management (ERM) based approach which is designed to provide reasonable assurance to achieving the Bank's overall objectives.
The establishment of the Enterprise Risk department during the year under review marks the beginning of a new era in the Bank's journey to achieving a Level 5 risk maturity level, this being the risk Management optimisation level that the Bank aspires to attain.

The key functions within the Enterprise Risk department includes; risk and compliance, credit risk, fraud and investigation and physical security. Through the Enterprise Risk department, the Bank seeks to embed a culture of risk Management across all departments.
The Board is committed to setting the right tone regarding enterprise risk Management and shaping an admirable risk culture. Some of the inherent risk areas in our environment such as; anti-money laundering, countering the financing of terrorism and know your customer (KYC), need to be addressed immediately. The Risk team wishes to take everyone on Board and has already taken strides in educating staff on the identification and prevention of money laundering and financing of terrorism activities. The Enterprise Risk Department will continue to raise awareness until risk Management becomes everyone's business within the Bank.

Performance

The Bank recorded profit of P35 million (2018: P9 million). Despite an increase of 17% in net revenue to P134 million, profit for the year was significantly high due to adjustments of impairment provisions during the financial year. This was a once-off adjustment on adoption of IFRS 9. Owing to the suspension of the Government Employee Motor Vehicle and Residential Property Advance Scheme (GEMVAS) loan, the Bank's loan book declined by 4% to P1.42 billion (2018: P1.48 billion). Our balance sheet recorded a marginal growth of 1%.

Looking Forward

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

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BOARD OF DIRECTORS

KEALEBOGA MOLELOWATLADI
Non-Executive Director Board Chairman

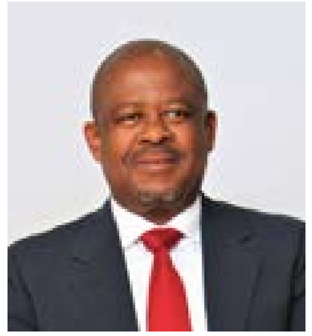
THATAYAONE GABARAANE
Non-Executive Director Vice Board Chairman

MPHO GAOBAKWE
Non-Executive Director

MOSHE C. Z. LIBENGO
Non-Executive Director

ESTHER TUELO LEMO
Non-Executive Director

MATILDA BASINYI
Non-Executive Director



CORNELIUS RAMATLHAKWANE
Non-Executive Director

SARAH MOLALE
Non-Executive Director

THABO MZWINILA
Board Secretary

NIXON MARUMOLOA
Chief Executive Officer

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

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

Corporate Social Responsibility

We, at BSB have fully embraced Corporate Social Responsibility (CSR) through dedicated activities and initiatives. CSR is not a new activity for Botswana Savings Bank, but has developed consistently over the years to become an integral part of our business strategy.

Our investment in CSR activities reflects the importance we attach to it and our commitment to create value for all stakeholders.

We are mindful of our social responsibilities and will maintain a sharp focus on the further enhancement of our CSR objectives and activities. The Board and Management team are committed towards the interests and welfare of the communities it serves. The purpose of our CSR investment is to promote educational, arts and culture, sports and recreation, as well as social and welfare development in Botswana.

Acknowledgement

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

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

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

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

Kealeboga Molelowatladi
Chairman

7 July 2020

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am honoured and privileged to present my first Annual Report as Chief Executive Officer of the Botswana Savings Bank. During the year under review, the Bank focused on execution of the five-year strategic plan which commenced in 2016. The Bank acknowledges that digital transformation that is customer centric will create winning strategies. The Bank embarked on various long-term projects as part of our growth strategy with a focus to increase our footprint in Botswana.

In fulfilling our mandate for financial inclusion, the Bank focused more on expansion in an effort to take our services to the communities that we serve. Our focus in 2019 was on growth, profitability and continued mobilisation and delivery of our inclusive finance agenda to provide simple, appropriate and accessible financial solutions to the under-served in a sustainable manner.

Financial highlights

NET INTEREST INCOME
was up by 7% to P117 million
(2018: P109 million)

OPERATING COSTS
were up 18% to P93 million
(2018: P79 million)

PROFIT AFTER TAX
was P35 million (2018: P9 million)

NET ADVANCES
were down by 4% to P1.42 billion
(2018: P1.48 billion)

CUSTOMER SAVINGS
increased to P2.18 billion
(2018: P2.16 billion).

RETURN ON EQUITY
was 19% (2018: 5%)

The Bank's 2019 financial results reflect a performance growth of 15% pre-tax profit year-on year.

Following the adoption of IFRS 9 during the financial year, a once-off adjustment in respect of impairment provisions was recorded.
The Bank registered total profit of P35 million. Owing to the suspension of the Government Employee Motor Vehicle and Residential Property Advance Scheme (GEMVAS) loan, the Bank's loan book declined by 4% to P1.42 billion (2018: P1.48 billion).

Our balance sheet recorded a marginal growth of 1%.

Liquidity

The Bank continued to maintain a strong liquidity position throughout the financial year.

Management will continue to monitor the Bank's liquidity by maintaining a conservative position and leveraging on low cost funding whenever possible.

CUSTOMER SAVINGS INCREASED TO
P 2.18 billion

PROFIT BEFORE TAX WAS
BWP39m

Risk Management

The Bank recognises that strategy, risk, performance and sustainability are inseparable hence the need to invest in risk Management. During the year under review, a fully resourced Enterprise Risk Department was set up. The key functions include; risk and compliance, credit risk, fraud and investigation and physical security. Various policies in respect of risk Management have been put in place. Training initiatives were carried out to conscientise staff on Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Know Your Customer (KYC) matters. The emphasis was on prevention of money laundering, financing of terrorism within the Bank and continuous detection of related transactions/ activities.

Milestones

The Bank is honoured with the appointment 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. BSB has been aggressive in the execution of this mandate through vigorous campaigns aimed at encouraging long term savings and sensitising our communities on how our products can assist them to achieve their dreams. Our objective is to ensure that we reach our communities in the remote areas of our country so that we can take this journey together. Remoteness should not be a deterring factor inso far as financial service is concerned.

We are committed to taking the service to the people of Botswana. The financial inclusion has been embedded in the Bank's five-year corporate strategic plan.

Financial inclusion remains a priority area and is consistent with the Bank's core mandate of inculcating a culture of savings amongst Botswana as well as providing affordable savings solutions to the community at large. In advancing the financial inclusion agenda, we are proud to announce that BSB launched three Automated Teller Machines (ATMs) in Hukuntsi, Letlhakeng and Kang. This is in partial fulfillment of our strategy and commitment to our communities to ensure that our products and services are accessible to all. It gives us pride to be the sole service provider in these areas where financial services were previously non-existent.

Corporate Social Responsibility

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

During the year under review, the Bank's focus was towards promoting education, arts and culture, sports and recreation as well as social and welfare development in Botswana.

Some of the projects that the Bank invested in include: Nanogang CJSS, Sefophe CJSS, Mathangwane Primary School and Sebina Primary School. We believe learners are motivated when they compete and hence our continued support towards the annual prize giving ceremony for schools. We also believe that computer literacy contributes significantly to early child learning. This has prompted us to donate computers and printers to primary schools in the northern district which we believe will contribute towards building a computer literate nation. The Bank is committed to making quarterly donations to Adopt a Person Home Based Care for the upkeep of the home for underprivileged members of the community. This is just a few of the many projects that we support in the communities that we serve. Giving back to the community remains a priority for BSB, and the Bank will continue to advocate for community involvement throughout the country.

Looking Ahead

Digital transformation remains a priority area in the implementation of our strategic plan. Management is working tirelessly to ensure that this dream is realised alongside our strategy. We are confident that the Bank's transition to digitalization will have a significant impact on the way we do business.

Moving the Bank towards a digitalised future world is critical for the convenience of our customers. As we move away from traditional banking, we are determined to service our customers in their search for innovative and cost-effective solutions, speed and flexibility.

During the year under review, the Bank reviewed its product offerings and identified areas of improvement. Product enhancement will be one of the key areas of focus in the coming year to ensure that our products remain relevant. The Bank will also accelerate the development of new product offerings in response to the changing needs and priorities of our customers.

As the Bank migrates into the digital space, special skills will certainly emerge. BSB is committed to investing in the acquisition of relevant skills both internally and externally. At BSB, we value our people, and have created a conducive environment where talent is nurtured. We believe that it is the commitment and dedication of our people that will take us to where we want to be. No price can be put on this invaluable resource. In order to advance our agenda, each one of us should get involved.

The COVID-19 pandemic is certainly the most challenging issue the world is faced with as this has affected economic activity. Botswana is already experiencing the effect of the global growth slowdown. As the world grapples with the impact of COVID-19 pandemic, the Bank needs to be actively looking for opportunities that could come from the after-effects of the pandemic. Management's focus in the coming year will be to identify low hanging fruits that the Bank can exploit.

Conclusion

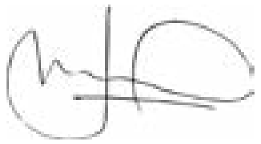
Finally, I would like to express my sincere gratitude to the BSB Board of Directors and the Government of the Republic of Botswana for the trust and confidence they have shown in me. It has been a great privilege to work alongside them. It is no doubt that without their support it would not have been possible to implement our strategy.

I wish to appreciate and applaud the Management team for their concerted efforts in the Bank's great achievement. The Bank requires a Management team with skills and ambition to take the opportunities that lay ahead. It is our dedicated and committed employees who turn the Management team's ideas into reality at the sharp end of the business.

Their continued support to the Bank over the years has been instrumental in our enduring success. We will continue to invest in our people as they are our pillar in driving the great success the Bank has realised to date.

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

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



Nixon Marumoloa
Chief Executive Officer

SENIOR MANAGEMENT

NIXON MARUMOLOA
Chief Executive Officer

BEATRICE M. MBULAWA
Director: Support Services

VACANT
Director: Operations

TSHOLOFELO KOKORWE
Head: Sales

BOMOLEMO SELALEDI
Head: Marketing & Corporate Affairs

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

DEPARTMENTAL REPORTS

STRATEGY & INNOVATION

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

At the beginning of the year under review, Government being the Bank's sole shareholder solidified the decision to not include BSB in the amalgamation of BotswanaPost and Botswana Couriers. This set the course and tone of the strategic annual plan of Growth and Digitisation, derived from the overarching 2016-2021 corporate strategy.

Financial Inclusion

During the year under review, BSB remained the Bank with the largest footprint in Botswana through the agency relationship with Botswana Post.

The Bank's ATMs roll-out strategy focused on underbanked or excluded communities was successfully achieved with ATMs implemented in the Kgalagadi and Kgatleng regions.

Digital Transformation

Over the last decade, there has been unconceivable transformation from traditional brick and mortar banking into digital banking space. Mobile Network Operators as well as FinTech's have moved into payments solutions.

The Bank has positioned itself to take advantage of the existing and emerging digital technologies to adapt and reinvent itself.

Plans and implementation to introduce digital channels are well underway and expected to GO-LIVE in the 2019/20 financial year.

Growth Strategy

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

1. Big data/Data mining
2. Market analysis and improved product offering
3. Forging strategic partnerships
4. Improved operational efficiencies through digitisation
5. Improvement of brand equity

High Performance Culture

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

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ENTERPRISE RISK MANAGEMENT

Through the Enterprise Risk Department, the Bank's key objective is to optimize the attainment of the strategic objectives and operational excellence. Furthermore, the Bank aims at managing the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Botswana Savings Bank has embarked on a journey of achieving a level 5 risk maturity level, being the risk Management optimisation level. The Bank recognises that strategy, risk, performance and sustainability are inseparable.

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

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

During the year under review, strides were attained in strengthening the Enterprise Risk Department. Recruitment of staff members was concluded, completing the complement for the department both at middle and senior Management level. Subsequent to the reporting date, a Board Risk and Compliance Committee of the Board was constituted, which will support Governance Infrastructure for Risk Management within the Bank, for the year under review risk matters were presented to the Finance Risk and Audit Committee. Botswana Savings Bank has modernised its policy and aligned them to the 2016 – 2021 Strategy Plan and to better place the Bank for compliance to regulatory requirements. The following instruments were approved by the Board;

Operational Risk Management Framework

This framework provides guidance to the Bank on the risk of loss resulting from inadequate or failed processes, people and systems or external factors. The framework is premised on ISO 31000 and COSO Framework.

Risk & Compliance

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

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

Credit Risk

In pursuing the mandate and strategic objectives, the Bank has remained prudent in extending facilities and ensuring that the credit assessment is aligned with the policies in place. Impairments have however been a challenge during the year under review, owing to the elevated impairments suffered. Collections and recovery measures have been strengthening by reviewing the credit policy and appointing a legal panel as a key partner driving the recovery objective. The recovery rate has however been above the set target for the year.

Challenges:

Key challenges experienced during the financial year included;

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

Such challenges have given rise to elevated impairments during the year under review.

The application of IFRS 9 provision has had an adverse impact on the impairments suffered by the Bank, as the standard transitioned from a loss provisioning model to a forward looking or expected provisioning method.

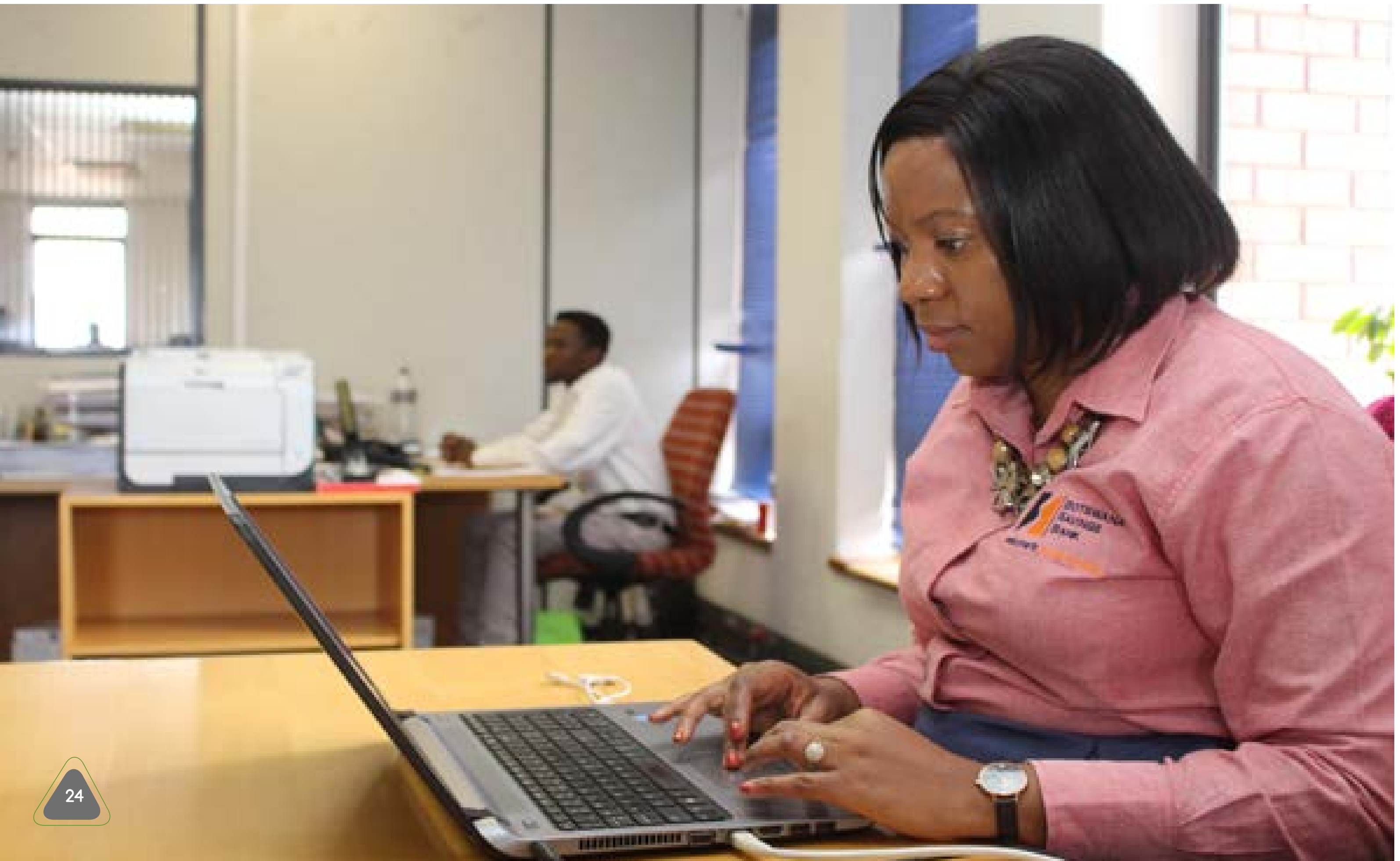
Credit Committee

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

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

Frequency of Meeting

Credit Committee meetings are conducted on a monthly basis, the Bank met the required number of meetings in the financial year 2018/2019, this being in compliance with the terms of reference of the committee.



MARKETING & CORPORATE AFFAIRS

The Marketing & Corporate Affairs Department is responsible for creating and enhancing public awareness of the Botswana Savings Bank, by positioning the BSB brand/image internally and externally through product advertising, systematic campaigns and corporate social responsibility initiatives.

During the year under review the Bank focused on rolling targeted product solutions to its customers to increase revenue. Various campaigns were conducted which encouraged long term savings. Progressive roll out of ATMs countrywide to increase footprint, brand visibility and financial inclusion uptake. Tshomarelo House Head office was prominently branded to improve on the brand visibility. 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.

To further reinforce Botswana Savings Bank financial inclusion mandate, the Bank hosted its annual flagship event " The World Savings Day" in October 2019. As a corporate citizen, Botswana Savings Bank believes in the responsibility to give back and make a positive impact in the communities in which we operate. The Bank executes its corporate social responsibility (CSR) mandate by identifying deserving beneficiaries, by supporting various social responsibility projects, enriching and uplifting the lives of many people in need across the country.

Through its Corporate Social Responsibility Programme the Bank extends financial, social and humanitarian support to organizations that are building strong and resilient communities. During the year under review (2018/2019) Botswana Savings Bank has contributed towards promoting education, 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. To-date BSB has invested in worthy projects throughout the country, some of which included:

- Nanogang Secondary School
- Sefophe Junior Secondary School
- Mathangwane Primary School
- Sebina Primary School
- Home Based Care
- Desert Bush Walk
- Kgari Sechele

Looking Ahead

A number of initiatives will be driven to improve efficiencies, new product enhancement offerings, product campaigns Branch and ATM expansion, re-branding and product positioning, CSR activities – worthwhile contribution in enhancing the lives of the needy community, Staff Volunteer Programme to expand community outreach.

CENTRAL PROCESSING

It enables the Bank to carry out all processing activities at one particular point while only front end activities are carried out at the different branches of the Bank. This is aimed at providing the branch banking staff with an opportunity for cross selling and up selling products. For the year under review, a new insurance services provider, Old Mutual Life was brought on Board as the new Credit Life services provider for the Bank loan customers.

The insurance covers both death and disability such that should a customer pass on or be incapacitated while still having a loan with the Bank, then the insurance settles the outstanding loan balance. The cover also offers a P10,000 funeral cover to the beneficiaries should the customer pass on while the loan is still running.

Looking Ahead

Automation of the manual processes is underway in support of the current digitisation strategy. Introduction of the Point of Sale (POS) service is expected to result in the phasing out of the current savings passbook for both Ordinary and Sesigo savings accounts. This endeavor will facilitate real time processing of customer transactions at Post Offices and will tremendously improve service to customers. This will also be instrumental in the accurate capitalisation of interest in customer accounts.

Our people are key in achieving the envisioned customer centric culture and this is an opportune moment to recognise their efforts in improving customer service for the period under review. The financial year under review.

The department recognises CX as a function of the product offerings; people, place/channel and process amongst others. Feedback from our clients point to the fact that they require convenience and value for their money. We therefore look forward to:

- Automation of Agency Banking. This will enable straight through processing of transactions from Botswana Post and/or any potential partner. Clients are not happy with the current +/- 10 days processing.

- Expansion of distribution channels. To deliver on the "smooth banking experience" the department is looking forward to implementation of self-service channels; online & mobile (USSD & App) to afford clients banking at their own convenience. This will conform to our values of placing the "customer first" through "smooth" and "borderless" financial solutions. Further to these e-channels our clientele should expect more branches and deployment of ATMs within strategic locations across the country. These will be supported by a fully-fledged 24/7 Contact Centre.

The proposed Product review exercise will create value by introducing some tailor-made products in line with customer expectations.

The Bank placed the "customer first" in every decision relating to product features. Our service is underlined by BOTHO.

The front-line team is looking forward to serving clients diligently with a smile. Automation of agency banking and introduction of self-service channel will now enable our people to focus on the client and less on processing.

To make the current financial year even more exciting for our clients, the Bank is planning to conduct a comprehensive customer satisfaction survey. This will enable the Bank to respond better to customer requirements.

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INTERNAL AUDIT

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

Internal Audit conducts its activities in line with the International Professional Practices Framework (IPPF) which is issued by The Institute of Internal Auditors (IIA).

This highlights the Internal Audit department's dedication to aligning to international standards and promoting high quality assurance services.

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

SALES

The key mandate for the Sales department is to improve the Bank's financial position and in turn improve the shareholder's value in terms increased of profitability. Primarily, this will be achieved through the sale of the Bank's products and services such as loans and deposit accounts.

The department focuses on the creation of a high-performance culture and staff retention through talent Management. To achieve this, the department engages in targeted relevant staff training and providing the necessary tools of trade.

During the financial year under review, revenue increased. At the beginning of the year, in April 2018, revenue was P18, 833,884 compared to P19,021,028 recorded at the end of the financial year on the 31 st April 2019, hence showing an increase of P20,000.00 over the year. The Sales team continued to embark on sales campaigns which was meant to grow the loan book. The campaigns were held at various areas including Maun, Ghanzi, Hukuntsi and Kang. The Bank is currently in the process of resuscitating GEMVAS in order to generate significant returns and growth of the loan book. The number of accounts has been fluctuating during the financial year. However, the growth stabilized towards the end of the year.

Sales team continuously embarked on several initiatives geared towards increasing the uptake of accounts. Among others, we have a bulk sms system that enable the team to sell through the mobile platform. In addition to bulk messaging, the team was able to cross-sell and increase product uptake per customer

HUMAN CAPITAL

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

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

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

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

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

FINANCIAL STATEMENTS

for the year ended 31 March 2019

General Information

Board of Directors

Name	Position	First Appointed	Expiry/Terminated
Mr K. Molelowatladi	Chairman	01/07/2018	30/06/2022
Mr T. Gabaraane	Vice Chairman	01/05/2015	30/06/2021
Mr M. C. Z Libengo	Member	01/04/2015	30/06/2019
Mrs M. Gaobakwe	Member	01/02/2015	30/06/2019
Mr N. Marumoloa	Chief Executive Officer	01/04/2018	Further notice
Ms O. Basinyi	Member	01/11/2017	31/10/2021
Mr C. Ramatlhakwane	Member	01/07/2018	Further notice
Mrs S. M. Molale	Member	01/07/2018	30/06/2022
Mrs E. T. Lemo	Member	01/07/2018	30/06/2022
Mrs J. Mmereki White	Former Chair	01/04/2016	30/06/2018

Registered office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountant
Registered Auditor

Bankers

Bank of Botswana
First National Bank Botswana
Bank Gaborone
BancABC
Capital Bank

Director's Responsibility Statement

The Directors are required In terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial Information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express on independent opinion on the financial statements.

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

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

The External Auditor is responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditor and their report is presented on pages 40 to 43.

Approval of the financial statements

The financial statements of Botswana Savings Bank, as set out on pages 44 to 106, were approved by the Board of Directors on 07th July 2020 and were signed on their behalf by

Director
Chairman

Director
Chief Executive Officer

Financial Statements for the year ended 31 March 2019

Independent Auditor's Report to the Shareholder of Botswana Savings Bank

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Savings Bank (the "Bank") as at 31 March 2019, 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 **40** to **106** comprise of:

- the statement of financial position as at 31 March 2019;
- 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;
- a summary of significant accounting policies; and
- notes to the financial statements.

Basis for opinion

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

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

Independence

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

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, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matter that relates to the audit of the financial statements of the current period in the table below.

Independent Auditor's Report to the Shareholder of Botswana Savings Bank (continued)

Key Audit matter	How our Audit addressed the key audit matter
Assessment of allowances for expected credit losses on Loans and advances. The Bank has adopted IFRS 9 - Financial Instruments (IFRS 9) for the first time in the 2019 reporting period. (Previously IAS 39 - Financial Instruments: Recognition and Measurement was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly. The introduction of the requirements of IFRS 9 required allowances to be considered on an expected loss basis, which - when compared to the previous incurred loss basis - was expected to have a material impact on the Bank's financial condition. With the adoption of IFRS 9, the Bank developed its own impairment model to calculate Expected Credit Losses ("ECLs"). **In determining the ECLs, the following key judgements were applied by the Bank:** • Choosing an appropriate model and assumptions for the measurement of ECLs; • Determining appropriate Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") applying to loans and advances; • Determining criteria for significant increase in credit risk ("SICR"); • Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECLs; and • Establishing portfolios of similar loans and advances for the purposes of measuring ECLs on a collective basis.	Our audit of the allowance for ECLs of loans and advances to customers included the following: • We assessed the accounting policies relating to determination of ECLs on loans and advances to customers and found these to be in accordance with the requirements of IFRS 9. • We utilised our actuarial expertise to assess the appropriateness of the model used by the Bank, including IFRS 9 compliance, and ensured that the model was consistently applied to all loan and advance portfolios. We noted that the model was appropriate and there were no inconsistencies in the manner that it was applied across the loan and advance portfolios. • We tested (on a sample basis) the underlying information with respect to loans and advances and portfolios of loans and advances utilised in the model to underlying accounting records and other information maintained by the Bank and found no exceptions. • Using our actuarial expertise, we evaluated the reasonableness of key judgmental inputs used in the model, including: - the PDs applied; - the LGDs applied; - the EADs applied; and - the definition and application of SICR. We are satisfied that the judgements applied are in line with our understanding.

Independent Auditor's Report to the Shareholder of Botswana Savings Bank (continued)

Key Audit matter

The impairment of loans advances to customers was considered to be of most significance to the current year audit due to the following:

- The first time adoption of IFRS 9 by the Bank,
- The degree of judgement applied by in determining the PD, LGD and EAD, and
- The degree of judgement applied in determining the SICR thresholds.

This Key Audit Matter refers to the following key disclosures in the financial statements:

- Accounting policies "1.2 Key sources of estimation uncertainty", "1.6 Financial assets and liabilities - IFRS 9 (Policy applicable after 1 April 2018)";
- Notes to the financial statements "2.1 Standards and interpretations effective and adopted in the current year - Adoption of IFRS 9 Financial instruments";
- Notes to the financial statement s "6 Net impairment loss of financial assets"; and
- Notes to the financial statement s "13 Loans and advances to customers";
- Notes to the financial statements "31 Financial risk Management I (b) Credit risk",

How our Audit addressed the key audit matter

- We independently re-performed the valuation methodology and compared our results to those of the Bank and determined that the Bank's estimates are within a reasonable range of outcomes.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the document titled "Botswana Savings Bank Financial statements for the year ended 31 March 2019", Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially 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.

Independent Auditor's Report to the Shareholder of Botswana Savings Bank (continued)

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 cost significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Individual practicing member: Rudi Binedell
Membership number: 20040091

Gaborone
23 September 2020

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2019 P '000	2018 P '000
Interest income		217,318	210,524
interest expense		(99,964)	(101,645)
Net interest income	3	**117,354**	**108,879**
Fee and commission income		19,366	11,049
Fee and commission expense		(9,123)	(8,382)
Net fee and commission Income	4	**10,243**	**2,667**
Net operating income		**127,597**	**111,546**
Other income	5	6,415	2,920
Total income		**134,012**	**114,466**
Net impairment loss of financial assets	6	(975)	(23,319)
Net income		**133,037**	**91,147**
Employee benefits	7	(48,652)	(40,682)
Operating lease expenses		(2,296)	(1,732)
Depreciation and amortisation	8	(6,847)	(6,905)
Administrative and general expenses	9	(35,662)	(29,900)
Profit before tax		**39,580**	**11,928**
Taxation	10	(4,342)	(2,937)
Profit for the year		**35,238**	**8,991**
Other comprehensive income			
Total comprehensive income for the year		**35,238**	**8,991**

Statement of Financial Position as at 31 March 2019

	Note(s)	2019 P '000	2018 P '000
Assets			
Cash and cash equivalents	11	242,602	94,774
Balances with other banks	12	813,127	898,242
Balances with related parties	14	46,468	18,353
Other assets	17	18,212	19,017
Loans and advances to customers	13	1,416,359	1,480,681
Deferred tax	23	4,068	1,547
Property and equipment	15	31,218	29,509
Intangible assets- Computer software	16	2,094	4,377
Total Assets		**2,574,148**	**2,546,500**
Equity and Liabilities			
Liabilities			
Current tax payable	18	5,669	1,524
Other liabilities	19	80,807	82,920
Deposits due to customers	20	2,175,357	2,160,054
Borrowings	21	96,660	102,711
Deferred income	22	5,042	9,334
Dormancy account liability	24	24,002	22,178
Total Liabilities		**2,387,537**	**2,378,721**
Equity			
Unrecallable capital	25	19,721	19,721
Reserves		54,823	46,014
Retained income		112,067	102,044
		186,611	**167,779**
Total Equity and Liabilities		**2,574,148**	**2,546,500**

Statement of Changes in Equity

	Unrecolloble capital P '000	Statutory Reserves P '000	Retained earnings P '000	Total equity P '000
Balance at 01 April 2017	19,721	**43,766**	93,301	158,788
Profit for the year	-	-	8,991	8,991
Other comprehensive income				
Total comprehensive income for the year	-	-	**8,991**	8,991
Transfer between reserves	-	2,248	(2,248)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	**2,248**	(2,248)	-
Balance at 01 April 2018	19,721	**46,014**	102,044	167,779
Profit for the year	-	-	35,238	35,238
Other comprehensive income				
Total comprehensive income for the year	-	-	**35,238**	35,238
Transfer between reserves	-	-	8,809	(8,809)
Effects of IFRS 9 implementation	-	-	(16,406)	(16,406)
Total contributions by and distributions to company recognised directly in equity	-	**8,809**	(25,215)	(16,406)
Balance at 31 March 2019	19,721	**54,823**	112,067	186,611

Statement of Cash Flows

	Note (s)	2019 P '000	2018 P '000
Cash flows from operating activities			
Interest receipts		218,426	203,888
Interest payments		(106,887)	(81,773)
Fees and commission receipts		19,366	11,049
Rent and other income received		6,416	2,828
Cash payments to employees and suppliers		(91,210)	(83,339)
Cash flows from operating activities before changes in operating assets and liabilities		**46,111**	**52,653**
Changes in operating assets and liabilities			
Movement in loans and advances to customers		64,432	34,892
Movement in amounts due to customers		15,303	509,884
Movements in other assets		(303)	(875)
Movement in deferred income		(4,292)	91
Effects of IFRS 9 implementation		(16,406)	-
Movement in related party balances		(28,115)	(1,803)
Movement in dormancy account liability		1,824	1,190
Tax paid	30	(2,718)	(7,620)
Net cash generated from/(used in) operating activities		**75,836**	**588,412**
Cash flows from investing activities			
Purchase of property and equipment	15	(7,288)	(923)
Sale of property and equipment	15	(1)	103
Purchase of other intangible assets	16	-	(246)
Movement in fixed deposits with banks		85,115	(521,754)
Net cash from investing activities		**77,826**	**(522,820)**
Cash flows from financing activities			
Movement in Government loan		(5,834)	(5,833)
Net movement in cash and cash equivalents for the year		**147,828**	**59,759**
Cash and cash equivalents at the beginning of the year		94,774	35,015
Total cash at end of the year	11	**242,602**	**94,774**

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 Tuesday, 07 July 2020

1.1 Basis of preparation

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

The financial statements have been prepared on the historic cost basis, except where otherwise stated. The financial statements incorporate the following accounting 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 estimation uncertainty

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

Probability of default
PDs are used as a key component in the determination of ECLs and SICR. BSB has developed PD-models, largely based on expert judgements, for exposures for which no external rating is available. To ensure IFRS 9 compliance, the Bank estimates 'point-in-time' PDs, based on monthly rating movements and produces a rating migration matrix using the Markov-Chain algorithm. The historical rating migration matrix is adjusted for forward looking macro economic information (FU) through an overlay econometric model that includes covariates such as commodity prices, exchange rates, inflation rates etc. For staging purposes, monthly credit ratings are used which are adjusted for forward-looking information. BSB applies three internally developed scenarios based on economic forecasts which are consistent with Inputs to other relevant estimates within the financial statements. The proposed macroeconomic forecasts are benchmarked with an external macroeconomic forecast to ensure the external validity of the scenarios. The scenarios are approved in the Asset and Liability Committee (ALCO). In doing so, BSB ensures that the PDs are reasonable and supportable.

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

- 0.03% for Ipelegeng loans:
- 45.9% for Residential Property loans;
- 0.64% for Motor vehicle loans; and
- 52.4% far all other unsecured personal loans.

Accounting Policies

1.2 Key sources of estimation uncertainty (continued)

Exposure at default
The EAD far loans and far interest-bearing securities is based on contractual repayments owed by the obliger over a 12-month or lifetime period. Voluntary repayments or early redemptions are taken into consideration when calculating the EAD historically infrequent. In case of committed (off-balance sheet) facilities, the maximum exposure is adjusted in order to reflect the expected drawdown behaviour far either a 12-month or lifetime period (in accordance with the impairment stage).

Determination of fair values
The determination of fair values of assets and liabilities far which there is no observable market prices requires the use of valuation techniques as described in the accounting policy far 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.

Income tax
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 parastotal 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.

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 31March 2019 as proxy far 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 far the year when such changes occur.

Accounting Policies

1.3 Translation of foreign currencies

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

1.4 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

Turnover comprises of revenue taken from account related charges from the customers such as non-sufficient funds fees, overdraft charges, late fees, over-the-limit fees, wire transfer fees, monthly service charges These fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, etc. are recognised at the point in time of transactions with customers and payment is received monthly.

1.6 Financial assets and financial liabilities - IFRS 9 (Policy applicable after 1 April 2018)

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in statement of changes in net assets available for benefits. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

Accounting Policies

1.6 Financial assets and financial liabilities - IFRS 9 (Polley applicable after 1 April 2018) (continued)

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

Financial assets

Classification and subsequent measurement
From 1 April 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

1. Fair value through profit and loss (FVPL): or
2. Fair value through other comprehensive income (FVOCI); or
3. Amortised cost

The classification requirements for debt instruments are described below:

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

Classification and subsequent measurement of debt instruments depend on:

1. The Bank's business model for managing the asset; and
2. The cash flow characteristics of the asset.

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

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

Fair value through other comprehensive Income (FVOCI):
Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements In the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss recognised in "Net Investment Income". Interest income from these financial assets are included in "Interest Income" using the effective interest rate method.

Fair value through profit or loss:
Assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within the 'Non-operating income' in the period in which it arises. The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Interest income from these financial assets is included in 'interest and similar income' using the effective interest rate method.

Accounting Policies

1.6 Financial assets and fInonclol lIobIlltles - IFRS 9 (Policy applicoble after 1 April 2018) (continued)

Business model:
The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows arising from the sale of assets. If neither is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key Management personnel, how risks are assessed and managed and how Managers are compensated.

Solely payments of principal and Interest (SPPI):
Where the business model is to hold assets to coiled contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flow represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

(b) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank's Management has elected, at initial recognition, to irrevocably designate equity investments at fair value through other comprehensive income. These investments are held for purposes other than to generate investment returns. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other Income when the group's right to receive payments is established.

(c) impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

(d) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as profit share/ equity-based returns that substantially affect the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.

Accounting Policies

1.6 Financial assets and financial liabilities - IFRS 9 (Policy applicable after 1 April 2018) (continued)

Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

A substantial modification of the contractual cash flows results in the Bank derecognising the original financial asset and recognising a 'new asset' at fair value and recalculating a new effective interest rate for the asset. The date of renegotiation is consequently considered to the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognitlon.

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

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

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

Financial liabilities

(a) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives. Financial guarantee contracts and loan commitments.

(b) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

1.7 Financial Instruments: IAS 39 comparatives

Classification
The Bank classifies its financial assets into the following measurement categories: those to be measured at amortised cost those to be measured at fair value (either through other comprehensive income, or through profit or loss) loans and receivables; and available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are Initially recognised at fair value, and transaction costs are expensed in profit or loss.

Accounting Policies

1.7 Financial Instruments: IAS 39 comparatives (continued)

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest role method. Interest calculated using the effective interest rate method is recognised in profit or loss.

Loans and advances to customers, due from other banks, cash end balances with the Central Bank and other assets are classified in this category.

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention end ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in the profit or loss.

Available-for-sale
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale instruments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes In interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Financial liabilities
The Bank recognises a financial liability when it becomes a party to the contractual terms of the financial instrument. The Bank classifies its financial liabilities in the following categories:

- at amortised cost: and'- financial liabilities at fair value through profit or loss.
- financial liabilities are initially recognised at fair value, being its issue proceeds (fair value of consideration received) net of transaction costs incurred, for all financial liabilities not carried at fair value through profit or loss.

At amortised cost
The liability is subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the liability using the effective interest rate method.

The dividends on preference shares are recognised in the profit or loss as interest expense on an amortised cost basis using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Accounting Policies

1.7 Financial Instruments: IAS 39 comparatives (continued)

Classified in this category are due to other banks, deposits, debts securities in issue and other liabilities.

Financial liabilities at fair value through profit or loss

This category comprises two sub-categories, namely:

- financial liabilities classified as held for trading; and
- financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedges. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'. The Bank designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently.

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

Determination of fair value
Specific valuation techniques used to value financial

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date; and
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

Derecognltlon
The Bank derecognises a financial asset when:

- the contractual rights to the asset expire; or where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank determines whether it has retained control of the financial asset. In this case:

- if the Bank has not retained control. it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or

Accounting Policies

1.7 Financial instruments: IAS 39 comparatives (continued)

- if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Bank derecognises a financial liability when it is extinguished i.e. when the obligation specified In the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cashflows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is atleast 10 percent different from the discounted present value of the remaining cashflows of the original financial liability.

Off-setting financial Instruments
Financial assets and liabilities are off-set and the net amount reported in the statement of financial position when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

impairment of financial assets
From 1 April 2018, the Bank has applied IFRS 9 and classifies its financial assets and the impairment thereof accordingly. For detail disclosure on impairment of financial assets under IFRS 9, refer to note 1.6 above.

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

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

(i) significant financial difficulty of the issuer or obligator:

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

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

(iv) it 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 group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

- adverse changes in the payment status of borrowers in the Bank; or
- national or local economic conditions that correlate with defaults on the assets in the Bank.

Accounting Policies

1.7 Financial Instruments: IAS 39 comparatives (continued)

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the 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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

impairment of loans and advances
impairment losses are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. impairment losses are calculated on individual loans and on group of loans assessed collectively. impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

i) Individually assessed loans and advances (specific impairment)
All loans and advances are assessed on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is Impaired. The criteria used to determine that there is such objective evidence include the loss events described above. For those individually significant loans where objective evidence of impairment exists, impairment losses are determined considering the aggregate exposure to the client and the realisable value of security (or other credit mitigants) and likelihood of successful repossession. For those loans where objective evidence of impairment exists, but which are not individually significant, the required specific impairment is determined in a manner which is consistent with that of portfolio assessment described below.

ii) Collectively assessed loans and advances (portfolio impairment)
Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated portfolio impairment. The calculation is based on the incurred but not identified ("IBNR") model, which takes into cognisance that it may take a period of time before Management becomes aware of an objective evidence that a loan is impaired. Key inputs into this model are the historical average of probability of default and the historic average loss given default. The emergence period is also factored into the model, which represents Management's view of the how long it takes for the objectlve evidence to become known to Management.

To the extent that the unidentified impairments are insufficient to meet the minimum regulatory general provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to non distributable reserves.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

Accounting Policies

1.7 Financial Instruments: IAS 39 comparatives (continued)

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

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

Restructuring policies and practices are based on indicators or criteria which, in the judgment of Management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

Restructuring activities include extended payment arrangements, approved external Management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

1.8 impairment of non financial assets

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

Irrespective of whether there is any Indication of impairment, the company also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

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

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

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

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

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

Accounting Policies

1.8 impairment of non financial assets (continued)

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

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

1.9 Property, plant and equipment

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

Item	Depreciation method	Average useful life
Buildings	Straight line	50 years
Leasehold property	Straight line	Unexpired period of the lease
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	5 years
Office and computer equipment	Straight line	5 years

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

1.10 Unrecallable capital

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

1.11 Transactions with Botswana Postal Services

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

Accounting Policies

1.12 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. This accrual is based on undiscounted current wage and salary rates. However, all other employees are members of the Bank's pension scheme.

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

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

1.13 Related party transactions

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

1.14 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.

1.15 Intangible assets- Computer software

An intangible asset is recognised when:

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

Intangible assets- Computer software are initially recognised at cost.

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1.15 Intangible assets- Computer software (continued)

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

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

it is technically feasible to complete the asset so that it will be available for use or sale.

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

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

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

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets-computer software.

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

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

Amortised cost and effective Interest rate
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Accounting Policies

1.17 The classificalion requirements for equity Instruments are described below:

Debt Instruments
Debt instruments are those instruments that meet the definition of a financiol liability from the issuer's perspective, such as loans, Government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:
- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

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

Fair value through profit or loss:
Assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss. Interest income from these financial assets is included in 'Interest income'.

Business model assessment:
The business model reflects how the Bank's manages it's assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPTL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key Management personnel, how risks are assessed and managed and how Managers are compensated. For example, the liquidity portfolio of assets, which is held by the Bank as part of liquidity Management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Solely Payments of Principal and Interest (SPPI):
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent the 'SPPI test'. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Accounting Policies

The Bank reclassifies debt investments when and only when its business model far managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Subsequent measurement
Subsequent to initial measurement, financial assets at FVTPL such as equity investments are measured at fair value. Net gains and losses, including any interest or dividend Income, are recognised in profit or loss.

Financial assets at amortised cost such as cash and cash equivalents, accounts receivables due from participating employers and other third parties are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity Instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank measures all equity investments at fair value through profit or loss. The Bank does not designate equity Investments as fair value through other comprehensive income (FVOCI) irrespective of the investment horizon. Gains and losses on equity investments at FVTPL are included in the statement of changes in net assets available far benefits. Dividend income is recognised upon declaration.

Cash and cash equivalents
Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the Management of short-term commitments, other than collateral provided in respect of derivatives and securities borrowing transactions. Cash and cash equivalents are measured at amortised cost.

impairment of financial assets
The Bank recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost such accounts receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognises lifetime ECL for accounts receivables. The expected credit losses on these financial assets are estimated using simplified ECL model based on the provision matrix. The ECL model takes into account Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Derecognltion of financial assets
The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the centre recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of changes in net assets available for benefits.

Accounting Policies

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

Derecognition of financial liabilities
The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of changes in net assets available for benefits.

Notes to the Financial Statements

2. New Standards and Interpretations

2.1 Standards and Interpretations effective and adopted in the current year

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

Adoption of IFRS 9 Financial Instruments
The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a transition date of 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of the standard, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section below.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

(a) Classification and measurement of financial Instruments

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 April 2018 are compared as follows:

Financial assets	IAS 39 Measurement category	IFRS 9 Carrying amount P'000	Measurement category	Carrying amount P'000
Cash and cash equivalents	Amortised cost (Loans and receivables)	94774	Amortised cost (Loans and receivables)	94,774
Balances with other banks	Amortised cost (Loans and receivables)	898,242	Amortised cost (Loans and receivables)	898,242
Loans and advances to customers	Amortised cost (Loans and receivables)	1,480,681	Amortised cost (Loans and receivables)	1,464,275
Balances with related parties	Amortised cost (Loans and receivables)	18,353	Amortised cost (Loans and receivables)	18,353
Other assets	Amortised cost (Loans and receivables)	19,017	Amortised cost (Loans and receivables)	19,017
Financial liabilities				
Borrowings	Amortised cost (Loans and receivables)	102,711	Amortised cost (Loans and receivables)	102,711
Deposits due to customers	Amortised cost (Loans and receivables)	2,160,054	Amortised cost (Loans and receivables)	2,160,054
Other liabilities	Amortised cost (Loans and receivables)	82,920	Amortised cost (Loans and receivables)	82,920

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed an analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 April 2018:

Financial asset	IAS 39 carrying Amount 31 March 2018	Reclassi-fication	Remeasure-ments	IFRS 9 carrying Amount 1 April 2018
Amortised cost - Financial assets	P'000	P'000	P'000	P'000
Cash and cash equivalent				
Closing balance under IAS 39 and opening balance under IFRS 9	94,774	-	-	94,774
Due from other banks				
Closing balance under IAS 39 and opening balance under IFRS 9	898,242	-	-	898,242
Balances with related parties				
Closing balance under IAS 39 and opening balance under IFRS 9	18,353	-	-	18,353
Loans and advances to customers				
Closing balance under IAS 39	1,480,681			
Remeasurement: Expected Credit Loss (ECL)			(16,406)	
Opening balance under IFRS 9				1,464,275
Other assets				
Closing balance under IAS 39 and opening balance under IFRS 9	19,017	-	-	19,017
Total financial assets measured at amortised cost	2,511,067	-	(16,406)	2,494,661

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 Incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 April 2018:

	Loan loss allowances under IAS 39	Reclassi-fication	Remeasure-ments	Loan loss allowances under IFRS 39
	P'000	P'000	P'000	P'000
Measurement category				
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)				
Loans and advances to customers	60,929	-	16,406	77,335

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.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

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 company has adopted the amendment for the first time in the 2019 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 company has adopted the amendment for the first time in the 2019 financial statements.

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.

The effective date of the amendment is for years beginning on or after 01 January 2018. The company has adopted the amendment for the first time in the 2019 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 company has adopted the interpretation for the first time in the 2019 financial statements. The impact of the interpretation is set out in note Changes in Accounting Policy.

Amendments to IFRS 4: Insurance Contracts
The amendment provides a temporary exemption thot 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, on 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 vice versa.

Notes to the Financial Statements

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 company has adopted the amendment for the first time in the 2019 financial statements. The impact of the amendment is set out in note Changes in Accounting Policy.

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 company has adopted the amendment for the first time in the 2019 financial statements. The impact of the amendment is set out in note Changes in Accounting Policy.

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

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 derecognlsed 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 company has adopted the amendment for the first time in the 2019 financial statements. IFRS 9 Financial Instruments

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

IFRS 9 issued in November 2009 introduced new requirements for the classificotion and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include

a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

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

The company has adopted the standard for the first time in the 2019 financial statements. The impact of the standard is set out in note Changes in Accounting Policy.

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 31Revenue - Barter Transactions Involving Advertising Services.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

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 company has adopted the standard for the first time in the 2019 financial statements. The impact of the standard is set out in note Changes in Accounting Policy.

2.2 **Standards and Interpretations not yet effective**

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2019 or later periods:

Prepayment Features with Negative Compensation - Amendment to IFRS 9

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

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

It is unlikely that the amendment will have a material impact on the company's financial statements. Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

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

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

It is unlikely that the amendment will have a material impact on the company'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 company are as follows:

Company as lessee:

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

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 on 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 on 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

2. New Standards and Interpretations (continued)

Company 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 company 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 company's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the company's financial statements is expected to be as follows:

Notes to the Financial Statements

		2019 P'000	2018 P'000
3.	**Net Interest income**		
	Interest income		
	Call accounts with other financial institutions	4,314	2,107
	Other fixed deposits	41,970	33,233
	Loans and advances to customers	171,034	175,184
		217,318	**210,524**
	Interest expense		
	Ordinary savings	2,153	2,119
	Sesigo savings	6,521	7,853
	Save-As-You-Earn	680	850
	Thaba savings	163	243
	National savings certificates (NSC)	111	652
	Corporate deposits	78,602	75,422
	Fixed deposits	6,915	9,291
	Government loan	4,742	5,140
	Transaction account	77	75
		99,964	101,645
	Net interest income	**117,354**	108,879
4.	**Net fee and commission**		
	Fee and commission income		
	Account maintenance fees	7,444	7,176
	Loan arrangement fees and other income	11,922	3,873
		19,366	**11,049**
	Fee and commission expense	3,284	2,634
	Agency fees	5,839	5,748
	Commissions	**9,123**	**8,382**
		10,243	**2,667**
5.	**Other income**		
	Rental income	2,540	2,549
	Other income	3,876	279
	Profit/(loss) on disposal of Property, plant and equipment	(1)	92
		6,415	**2,920**

Notes to the Financial Statements

		Note	2019 P'000	2018 P'000
6.	**Net impairment loss of financial assets**			
	Specific impairment		9,627	17,665
	Portfolio impairment		(8,488)	5,687
	Recoveries		(164)	(33)
	Net impairment loss on financial assets		**975**	**23,319**
	Movement on specific Impairments			
	Balance at the beginning of the year		44,550	26,885
	IFRS 9 prior year adjustments		3,799	-
	Specific impairment		9,627	17,665
	Balance at the end of the year		**57,976**	**44,550**
	Movement on portfolio Impairments			
	Balance at the beginning of the year		16,379	10,692
	IFRS 9 Day one Adjustment		4,118	5,687
	Balance at the end of the year		**20,497**	**16,379**
	Balance specific and portfolio Impairments at the end of the year	13	**78,473**	**60,929**
7.	**Employee Benefits**			
	Salaries, wages and allowances		38,049	32,407
	Pension and medical aid contributions		6,768	5,889
	Fair value adjustment for staff loans		(65)	(872)
	Training and recruitment costs		2,372	1,647
	Staff welfare		1,528	1,611
			48,652	**40,682**
	The average number of persons employed by the Bank during the year was 185 (2018: 175)			
8.	**Depreciation and amortisation**			
	Depreciation	15	4,563	4,530
	Amortisation	16	2,284	2,375
			6,847	**6,905**

Notes to the Financial Statements

		2019 P'000	2018 P'000
9.	**Administrative and general expenses**		
	Auditors fees	2,064	965
	Consulting fees	2,114	2,513
	Debt recovery	(15)	(39)
	Directors remuneration for services rendered	371	321
	Insurance premiums	729	729
	Other operational expenses	6,957	5,405
	Overdrawn balances written off	15	-
	Property Management and security fees	2,980	3,084
	Advertising and publicity	4,955	4,076
	Repairs and maintenance	4,673	2,593
	Software licensing and other IT costs	6,466	5,847
	Stationery, utilities and postage	4,353	4,406
		35,662	29,900
10.	**Income tax expense**		
	Current		
	Current tax on profit for the year	6,863	5,334
	Deferred		
	Deferred tax (benefit)/ expense	(2,521)	(2,397)
	Income tax expense	**4,342**	**2,937**

Numerical reconciliation of Income tax expense to prima facie tax payable.

Reconciliation between applicable tax rate and average effective tax rate.

	2019	2018
Applicable tax rate	22.00 %	22.00 %

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

11. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019 P'000	2018 P'000
Cash on hand	8,732	4,046
Balances with Bank of Botswana	4,166	3,285
Bank balances with other Banks	229,704	87,443
	242,602	**94,774**

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

12. Balances with other banks

	2019 P'000	2018 P'000
Balances due from other banks	813,127	898,242

Notes to the Financial Statements

12. Balances with other banks (continued)

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

13. Loans and advances to customers

	Note	2019 P'000	2018 P'000
Motor vehicle advances		9,546	14,584
Residential property loans		688,771	752,617
Personal loans		796,515	774,409
		1,494,832	1,541,610
Less impairment provision	6	(78,473)	(60,929)
		1,416,359	**1,480,681**
Analysis by period			
Up to 1 year		31,506	24,761
Greater than 1 up to 5 years		506,365	375,144
Over 5 years		956,961	1,141,705
		1,494,832	**1,541,610**
Sectorial analysis:			
Central Government employees		1,050,282	1,234,601
Parastatal employees		45,353	84,555
Local Government employees and other customers		399,197	222,454
impairment provision		(78,473)	(60,929)
		1,416,359	**1,480,681**
Analysis of specific impairment losses on loans and advances			
Motor vehicle advances		66	114
Residential property loans		6,458	9,462
Personal loans		51,452	34,974
		57,976	**44,550**

The Government of Botswana and certain of its participating agencies/departments, revised their loan agreement in respect of motor vehicle and residential property loans disbursed with effect from the 1st January 2019. The Government gurantees 70% of the loans.

Ipelegeng personal loans are advanced to customers who hold SAYE, Sesigo, Thobo and Ordinary accounts and are secured bythese account balances held with the Bank. The customer must maintain these accounts 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 70% by the respective employer.

Notes to the Financial Statements

	2019 P'000	2018 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. Loans to shareholders

	2019 P'000	2018 P'000
Amount due from Botswana Postal Services	46,468	18,353

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

	2019 P'000 Cost or revaluation	2019 Accumulated depreciation	2019 Carrying value	2018 P'000 Cost or revaluation	2018 Accumulated depreciation	2018 Carrying value
Buildings	27,970	(10,567)	17,403	26,904	(9,961)	16,943
Furniture and fixtures	9,002	(8,150)	852	8,658	(7,676)	982
Motor vehicles	3,879	(2,690)	1,189	3,885	(2,082)	1,803
Office and computer equipment	28,290	(17,631)	10,659	22,474	(14,824)	7,650
Capital - Work in progress	1,115	-	1,115	2,131	-	2,131
Total	70,256	(39,038)	31,218	64,052	(34,543)	29,509

Reconciliation of property and equipment - 2019

	Opening balance	Additions	Adjustments	Depreciation	Total
Buildings	16,943	1,066	-	(606)	17,403
Furniture and fixtures	982	344	-	(474)	852
Motor vehicles	1,803	-	-	(614)	1,189
Office and computer equipment	7,650	5,878	-	(2,869)	10,659
Capital - Work in progress	2,131	-	(1,016)	-	1,115
	29,509	7,288	(1016)	(4,563)	31,218

Notes to the Financial Statements

	2019 P'000	2018 P'000

15. Property and equipment (continued)

Reconciliation of property and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	17,480	-	-	-	(537)	16,943
Furniture and fixtures	1,326	66	-	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 progress	2,333	20	-	(222)	-	2,131
	33,127	923	(11)	-	(4,530)	29,509

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.

16. Intangible assets - Computer software

	2019 P'000 Cost / Valuation	2019 Accumulated amortisation	2019 Carrying value	2018 P'000 Cost / Valuation	2018 Accumulated amortisation	2018 Carrying value
Computer software, other	16,031	(13,937)	2,094	16,031	(11,654)	4,377

Reconciliation of intangible assets - computer software - 2019

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

Reconciliation of intangible assets- computer software - 2018

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

17. Other assets

	2019 P'000	2018 P'000
Trade receivables	5,242	4,784
Accrued interest	11,717	12,825
Stock of stationery	1,253	1,408
	18,212	19,017

Notes to the Financial Statements

		2019 P'000	2018 P'000
18.	**Current tax payable**		
	Opening Balance	1,524	3,810
	Current corporate tax	6,863	5,334
	Tax paid during the year	(2,718)	(7,620)
	Closing balance	5,669	1,524
19.	**Other liabilities**		
	Trade payables	70,621	75,336
	Other creditors	8,400	6,974
	Accrued audit fees	1,786	610
		80,807	82,920

Notes to the Financial Statements

		2019 P'000	2018 P'000
20.	**Deposits due to customers**		
	Ordinary savings	111,513	107,286
	Save-As-You-Earn	25,714	27,211
	Sesigo savings	271,805	285,108
	Thobo savings	8,525	8,915
	Transactional account	28,028	23,287
	National savings certificates (NSC)	17,624	18,398
	Corporate Fixed Deposits	1,507,585	1,438,770
	Corporate savings	19,914	13,670
	Retail fixed deposits	118,162	180,199
	Special savings account	68,487	57,210
		2,175,357	**2,160,054**

Ordinary savings, Sesigo savings and Corporate savings are all repayable on demand. Ordinary savings accrue interest at 3,0% (2018: 3.0%) per annum, Sesigo savings accrue interest between 2.0% and 4.5% (2018: between 2.0% and 4.5%) per annum and Corporate savings interest is negotiable.

All other products are fixed deposits with varying maturities and interest rates. Save-As-You-Eam is a 24 months product and earns interest at 2.0% (2018: 3.5%) per annum. Thobo savings is a 12 month product and earns interest at 3.0% (2018: 3.0%) per annum. National Savings Certificates are a 60 months fixed product and earns interest at 3.5 (2018: 5.0%) per annum. Retail fixed deposits have maturities ranging from 3 months to 24 months and earn interest between 2.5% and 3.3% (2018: between 2.5% ond 3.3%). Corporate Fixed deposits are negotiable.

		2019 P'000	2018 P'000
21.	**Borrowings**		
	Principal amount outstanding at beginning of year	102,711	108,653
	Repayment of principal	(5,833)	(5,833)
	Interest paid during the year	(3,545)	(5,250)
	Accrued Interest	3,327	5,141
		96,660	**102,711**

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.

		2019 P'000	2018 P'000
22.	**Deferred income**		
	Loan arrangement fees	4,936	9,228
	ATM Project grant from Enterplan	106	106
		5,042	**9,334**

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

Notes to the Financial Statements

		2019 P'000	2018 P'000
23.	**Deferred tax**		
	Deferred tax asset / (liability)		
	At beginning of year	1,547	(850)
	Credit/(charge) for the year	2,521	2,397
	Closing Balance	**4,068**	**1,547**
	The balance comprises temporary differences attributable to:		
	Property and equipment	(527)	(169)
	Intangible assets	(461)	(963)
	impairment of loans and advances	4,495	1,752
	Temporary differences on disallowed expenses	520	953
	Other temporary differences	41	(26)
	Total deferred tax liability	**4,068**	**1,547**
24.	**Dormancy account liability**		
	Balance at the beginning of the year	22,178	20,988
	Movement for the year	1,824	1,190
	Balance at the end of year	**24,002**	**22,178**

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 classification into equity is not specifically required by the Act.

		2019 P'000	2018 P'000
25.	**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,

		2019 P'000	2018 P'000
26.	**Statutory reserve**		
	Balance at the beginning of the year	46,014	43,766
	Movement for the year	8,809	2,248
	Balance at the end of year	**54,823**	**46,014**

Notes to the Financial Statements

		2019 P'000	2018 P'000

26. Statutory reserve (continued)

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 toss has been applied against retained earnings

		2019	2018
27.	**Contingent liabilities and commitments**		
	Contingencies and capital commitments	121,541	117,736

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.

28. 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 7.

29. Events after the reporting period

During late 2019 a new highly infectious and potentially fatal strain of the coronavirus ("COVID-19") emerged globally. The COVID-19 outbreak was declared a global pandemic by the World Health Organisation on 11 March 2020 and Botswana reported its first cases of the virus in late March 2020. The public health response to the COVID-19 pandemic in other countries led to business interruptions, economic turmoil and severe stock market losses.

To aid in combating the spread of the virus in Botswana, on the 31st March 2020, His Excellency President Dr. Mokgweetsl Masisi announced a six months national State of Emergency and a national lockdown - including "stay at-home" directive and significant restrictions on business activity and movements, which commenced on the 3rd April 2020.

The consequences of these actions on the Botswana economy are expected to be significant and are likely to impact BSB's customers and operations in the short to medium term. Given the likely magnitude of such impact and the Bank's operations, the Executive Management and Board have undertaken a detailed assessment to determine likely areas to be impacted by the economic consequences of the public health responses to the pandemic.

It is still too early (and the situation remains too fluid) to fully understand the severity of the economic impact and its long-term implications on BSB, its customers and the broader Botswana economy. However, using available information and likely impacts, the Bank has determined that the most likely areas of impact will be:

- declining interest income because of reductions in lending rates by the Bank of Botswana;
- delayed settlements and increasing defaults on loans and advances because of economic strain experienced by customers;
- delayed settlements on loans and advances through restructuring of loan terms and repayment holidays; and
- possible increased cost of funding as deposits are withdrawn to supplement income.

Notes to the Financial Statements

	2019 P'000	2018 P'000

29. Events after the reporting period (continued)

Taking into account various plausible impact scenarios and information available at the time of approving the annual financial statements, the Bank assessed that it has sufficient cash and liquid assets available to meet its obligations as they fall due and to remain a going concern far from the ensuing twelve months.

The situation remains highly dynamic and new impacts on the business may emerge or the anticipated impact of those identified may materially change, especially if the pandemic spreads widely and business interruptions continue for an extended period. Consequently, the Bank will continue to monitor the impact of the developing situation on its business and make appropriate adjustments to its operations as may be required.

30. Tax paid

	2019 P'000	2018 P'000
Balance at beginning of the year	(1,524)	(3,810)
Current tax for the year recognised in profit or loss	(6,863)	(5,334)
Balance at end of the year	5,669	1,524
	(2,718)	(7,620)

31. 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 retain 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

(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.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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.

31 March 2019	0 - 3 months P '000	3-12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Assets					
Fixed deposits with Banks	813,127	-	-	-	813,127
Loans and advances	1,412,093	4,266	-	-	1,416,359
Total financial assets	2,225,220	4,266	-	-	2,229,486
Liabilities					
Deposits due to customers	1,115,581	659,484	349,820	50,472	2,175,357
Borrowings	-	9,160	23,334	64,166	96,660
Total financial Liabilities	1,115,581	668,644	373,154	114,638	2,272,017
Total Interest re-pricing gap	1,109,639	(664,378)	(373,154)	(114,638)	(42,531)
Effect of a 1% Increase on profit	11,096	(6,644)	(3,732)	(1,146)	(425)

31 March 2018	0 - 3 months P '000	3-12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Assets					
Fixed deposits with Banks	898,242	-	-	-	898,242
Loans and advances	1,475,992	4,689	-	-	1,480,681
Total financial assets	2,374,234	4,689	-	-	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	70,000	102,711	
Total financial Liabilities	1,174,164	624,027	344,574	120,000	2,262,765
Total interest re-pricing gap	1,200,070	(619,338)	(344,574)	(120,000)	116,158
Effect of a 1% increase on profit	12,001	(6,193)	(3,446)	(1,200)	1,162

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financiai risk Management (continued)

As disclosed above, an increase of 100 basis points in interest rates during the reporting period would have a negative yield of P0.8 million (2018: P 1.2 million). On the other hand, a 100 basis point decrease in interest rates during the reporting period would have had the equal but opposite effect on the reported profit for the year to the amounts disclosed above, on the basis that all other variables remain constant.

Credit risk

Credit risk measurement

a) Loans and advances (including loan commitments and guarantees)

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

The Bank has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Bank considers three components, namely:

(i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations:
(ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default' (EAD); and
(iii) the expected loss on the defaulted obligations (the 'loss given default') (LGD). This is similar to the approach used for the purpose of measuring Expected Credit Loss (ECL) under IFRS 9.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel committee on banking regulations and the supervisory practices (the Base! committee) and are embedded in the Bank's daily operational Management,

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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

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

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank,
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Please refer to note 3.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 3.2.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be carried forward-looking information. Note 3.2.2.4 includes an explanation of how the Bank has incorporated this in its ECL models, further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 1.2.2.5).

The following diagram summarises the impairment requirements under IFRS 9:

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

Significant Increase In credit risk (SICR)
The Bank considers a financial instrument to have experienced an increase in credit risk when one or more of the of the following quantitative , qualitative or backstop criteria have been met:

Qualitative criteria
Accounts are classified on a watch list when there is qualitative information available on the client's credit risk increasing. These accounts are moved over to stage 2. The criteria used to identify SICR are monitored and reviewed periodically for the appropriateness by the independent Credit Risk team.

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

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 30 June 2019.

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

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

Quantitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- It is becoming probable that the borrower will enter bankruptcy

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

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

Measuring ECL-Explanation of inputs, assumptions and estimates on techniques
The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default, defined as follows:

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

Forward -looking Information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forecast of economic variables, regression analysis and expert judgement is applied and confirmed through internal governance structures in order to apply a Base, Upside and Downside scenario of the forward looking view for the ECL calculation.

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loan

		Decrease in marco economic factors		Increase in marco economic factors
Macroeconomic factors	1%	2%	1%	2%
Interest	2.3%	4.6%	(2.0)%	(3.6)%
BSE	0.4 %	0.8%	(0.4)%	(0.7)%
Exch Rate	(0.1)%	(0.2)%	0.1%	0.2%
GDP	0.1 %	0.2%	(0.1)%	(0.2)%

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/ external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail - Groupings for collective measurement

- Product type
- Repayment type
- Collateral type

Corporate - Groupings for collective measurement

- Collateral type
- Product type

All stage 3 exposures for retail and corporate are assessed individually.

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial Instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- impact on the measurement of ECL due to changes in PDs, EADs and LCDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslotions for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 1.2.10)

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

	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Loss allowance as at 01 April 2018	14,000	14,986	48,348	77,334
Net transfers to stage	7,888	1,656	9541	0,498
Net transfers out of stage	(1,347)	(6,083)	(3,068)	(10,498)
Net transfers in/(out) of stage	6,541	(4,427)	(2,114)	
Provision for the period	(11,417)	814	11,742	1,139
Loss allowance as at 31 March 2019	**9,124**	**11,373**	**57,976**	**78,473**

Notes to the Financial Statements

	2019 P'000	2018 P'000
Maximum exposure to credit risk before collateral held or other credit enhancements-All Financial instruments.		
Credit risk exposures relating to on-statement-of-financial-posltion assets are as follows:		
Cash and cash equivalents	242,602	94,774
Balances due from other banks	813,127	898,242
Gross loans and advances to customers		
Motor vehicle advances	9,546	14,584
Residential property loans	688,771	752,617
Personal loans	796,515	774,409
Other assets	18,212	19,017
Total on-statement of financial position exposure	2,568,773	2,553,643

31. Financial risk Management (continued)

	2019 P'000	2018 P'000
Credit risk exposure relating to off-statement-of-financial-position items are as follows:		
Contigent liabilities and capital committments	121,541	117,736
Total off-statement-of-financlal position exposure	121,541	117,736
Total credit risk exposure	**2,690,314**	**2,671,379**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 March 2019, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

The most significant exposures are derived from personal loans.

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

- The Bank employs a range of policies and practices to mitigate credit risk.
- Mortgage loans, which represent the biggest group in the loans and advances to customers portfolio, are backed by collateral.
- All financial assets, other than special mention and non-performing loans and advances, are neither post due nor impaired.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

01 April 2018	Gross Exposures (P' 000)				Expected Credit Loss (ECL) (P' 000)				Default Rates/Coverage Ratio (%)			
Credit rating	1-2	3-4	5		1- 2	3-4	5		1- 2	3-4	5	
Staging	Stage 1	Stage 2	Stage 3	Total exposure	Stage 1	Stage 2	Stage 3	Total IFRS 9 ECL	Stage 1	Stage 2	Stage 3	Total
Loan performance	Performing	Under-performing	Non-performing		Performing	Under-performing	Non-performing		Performing	Under-performing	Non-performing	
Products (Loans & Advances)												
Ipelegeng **loans**	509	103	23	635	6	2		9	1.18%	1.94 %	4.35%	1.42 %
Motor vehicle **advances**	12,458	1,737	501	14,696	46	44	87	177	0.37%	2.53%	17.37%	1.20%
Residential property **loans**	591,287	124,987	38,441	754,715	3,912	9,567	7,467	20,946	0.66%	7.65%	19.42 %	2.78 %
Personal loan	655,974	83,263	43,842	783,079	10,036	5,372	40,973	56,381	1.53%	6.45 %	93.46 %	7.20%
Total	**1,260,228**	**210,090**	**82,807**	**1,553,125**	**14,000**	**14,985**	**48,528**	**77,513**	**1.11 %**	**7.13 %**	**58.60 %**	**4.99%**

31 March 2019	Gross Exposures (P' 000)				Expected Credit Loss (ECL) (P' 000)				Default Rates/Coverage Ratio (%)			
Credit rating	1-2	3-4	5		1- 2	3-4	5		1- 2	3-4	5	
Staging	Stage 1	Stage 2	Stage 3	Total exposure	Stage 1	Stage 2	Stage 3	Total IFRS 9 ECL	Stage 1	Stage 2	Stage 3	Total
Loan performance	Performing	Under-performing	Non-performing		Performing	Under-performing	Non-performing		Performing	Under-performing	Non-performing	
Products (Loans & Advances)												
Ipelegeng loans	392	86	90	568	3	2	2	7	0.77%	2.33%	2.22%	1.23%
Motor vehicle advances	7,678	1,506	365	9,549	49	47	66	162	0.64%	3.12%	18.08 %	1.70%
Residential property loans	552,126	100,035	36,924	689,085	1,106	7,838	7,628	16,572	0.20%	7.84%	20.66 %	2.40 %
Personal loan	721,598	29,479	57.898	802,975	7,964	3,484	50,283	61,737	1.10%	11.82 %	96.89 %	7.69%
Total	1,281,794	131,106	89,277	1,502,177	9,122	11,371	57,979	78,472	0.71 %	8.67%	64.94%	5.22%

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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

Credit grade	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Investment grade	705,437	-	-	705,437
Standard monitoring	-	576,357	-	576,357
Special monitoring	-	-	131,106	131,106
Default	-	-	81,932	81,932
Gross carrying amount	**-**	**576,357**	**213,038**	**1,494,832**
Loss allowance	(9,124)	(11,373)	(57,976)	(78,473)
Carrying amount	**696,313**	**564,984**	**155,062**	**1,416,359**

Risk limit control and mitigation policies
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk are approved by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

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

Placements with banks, including loans and advances to banks, are subject to the normal credit process. Credit limits to these banks takes into consideration ratings performed by external rating agencies.

Some other specific control and mitigation measures are outlined below:

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

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

- cash deposited with and ceded to the Bank;
- deposit with any registered financial institution and ceded to the Bank;
- life assurance policies with a confirmed surrender value; and
- any other form of tangible collateral security subject to approval by the Board credit committee.
  Collateral per class of loans and advances:

Mortgages:
First, second and third covering bond cession of fire policy.

Instalment finance:
The instalment finance contract binds the article as security.

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

Suretyships

Registered cession of life insurance policy

Cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors.

Valuation methodologies (which includes applying a hair-cut to the fair value of collateral depending on a number of factors) and the period of validity on collateral are outlined in established policies, which are approved by the Board.

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

All articles financed by the Bank must be comprehensively insured.

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

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. **Financial risk Management (continued)**

ii) Credit-related commitments

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

Credit quality of loans and advances

i. Credit quality and Management of loans and advances

Initial applications

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

- background;
- needs;
- financial position;
- security;
- desirability;
- profitability; and
- recommendation - positive / negative aspects.

Subsequent credit assessments

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

- Excesses are reported and reviewed on a daily basis .
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, letters of credit and foreign exchange contracts, floor plans, savings accounts in overdraft and bad debts written off within branch mandates.
- The credit department submits a monthly report to the executive Management team and a more detailed report to the Board of Directors on a quarterly basis regarding the status of the credit portfolio of the Bank.
- Monthly statistics per product are used to monitor the quality and Management of the loan portfolio per branch.
- All transfers to the legal collections branch with an impairment provision higher than P2,000 are scrutinised by the credit department and categorised under:

Notes to the Financial Statements

	2019 P'000	2018 P'000

31 **Financial risk Management (continued)**

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

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

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

	2019 Loans and advances to customers P'000	2019 Due from other banks P'000	2018 Loans and advances to customers P'000	2018 Due from other banks P'000
Neither past due nor impaired	705,437	-	693,743	-
Past due but not individually impaired	707,463	-	776,575	-
Individually impaired	81,932	-	71,292	-
Gross	1,494,832	-	1,541,610	-
Less: allowance for impairment	(78,473)	-	(77,334)	-
Net	1,416,359	-	1,464,276	-

a) Loans and advances neither past due nor impaired

Loans and advances to banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Loans and advances to customers in this category primarily comprise structured finance to large corporate clients, which have no evidence of a deterioration of credit quality. The breakdown by class of loans and advances is as follows:

	2019 P'000	2018 P'000
Motor Vehicle	9,184	14,195
Residential loans	652,161	716,274
Individual loans	751,555	739,849
	1,412,900	1,470,318

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the Bank's internal credit ratings, was as follows:

	2019 P'000	2018 P'000
Loans granted within the last 12 months, with no history of default	164,428	178,441
Loans granted within the last 12 months, with minor history of default	160,838	153,106
Loans granted prior to the last 12 months, with no history of default	749,551	787,808
Loans granted prior to the last 12 months, with minor history of default	343,412	370,979
	1,418,229	1,490,334

b) Loans and advances past due but not individually impaired

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

31 March 2019	Current P '000	Past due up to 30 days P '000	Past due 31 - 60 days P '000	Past due 81 - 90 days P '000	Past due more than than 90 P '000	Total P '000
Residential property loans	373,422	178,704	92,332	7,702	36,611	688,771
Motor vehicle advances	6,154	1,524	1,394	112	362	9,546
Personal loans	325,861	396,128	25,761	3,805	44,960	796,515
	705,437	576,356	119,487	11,619	81,933	1,494,832

31 March 2018	Current P '000	Past due up to 30 days P '000	Past due 31 - 60 days P '000	Past due 61 - 90 days P '000	Past due more than than 90 P '000	Total P '000
Residential property loans	360,887	230,400	108,780	16,207	36,343	752,617
Motor vehicle advances	8,870	3,588	1,227	511	388	14,584
Personal loans	323,986	332,497	76,791	6,575	34,560	774,409
	693,743	566,485	186,798	23,293	71,291	1,541,610

c) Loans and advances individually impaired

Loans and advances are managed with reference to the days in arrears. Days in arrears are calculated based on the amount past due relative to the instalment amount. Loans and advances outstanding for longer than 90 days are considered non-performing and are included in stage 3 for the loss allowance calculation. As determined by the regulatory requirements, any asset which is overdue 30 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment in accordance with the stage 2 calculations. The Bank follows a more conservative approach than the regulators and already classifies loans in 0-30 days on a watchlist, where, on a case-by-case basis, indicators of a possible future loss event exist. Additionally, loans that are made to a specific industry or individuals that are not past due, but we deem to be risky are assessed and in certain instances subject to impairment in accordance with the stage 2 calculations. Loans categorised on the watchlist are performing but subject to the impairment in accordance to the IFRS 9 calculations.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

31 March 2019	Motor Vehicle advances	Residential property loans	Personal loans	Total
Current	6,154	373,422	325,861	705,437
Past due up to 30 days	1,524	178,704	396,128	576,356
Past due 31-60 days	1,394	92,332	25,761	119,487
Past due up to 61-90 days	112	7,702	3,805	11,619
Past due more than 90 days	362	36,611	44,960	81,933
	9,546	688,771	796,515	1,494,832
Fair value of collateral	9,549			9,549
Total	9,549			9,549
impairment raised against unsecured amounts	(9,549)			(9,549)
Net exposure				

31 March 2018	Motor Vehicle advances	Residential property loans	Personal loans	Total
Current	8,870	360,887	323,986	693,743
Past due up to 30 days	3,588	230,400	332,497	566,485
Past due 31-60 days	1,227	108,780	76,791	186,798
Past due up to 61-90 days	511	16,207	6,575	23,293
Past due more than 90 days	388	36,343	34,560	71,291
	14,584	752,617	774,409	1,541,610
Fair value of collateral	14,697			14,697
Total	14,697			14,697
impairment raised against unsecured amounts	(14,697)			(14,697)
Net exposure				

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any overcollateralised portion of a loan is excluded from the value of tangible collateral. Impairments are raised for under-collateralised non-performing loans, resulting in a net exposure of nil. Further information of the impairment allowance for loans and advances to customers is provided in note 6.

	2019 P'000	2018 P'000
Cash and cash equivalents	242,602	94,774
Balances with other banks	813,127	898,242
Other assets	18,212	19,017
	1,073,941	1,012,033

* Other assets excluded statutory balances

No impairment has been raised against these assets.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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

31 March 2019	Carrying amount P'000	Investment grade (AAA to BBB) P'000	Unrated P'000	Total P'000
Cash and cash equivalents	242,602		242,602	242,602
Balances with related parties	46,468		46,468	46,468
Balances with other banks	813,127		813,127	813,127
Other assets	18,212		18,212	18,212
Non-financial assets	33,312		33,312	33,312
Total assets (excluding loans and advances and other securities)	1,153,721		1,153,721	1,153,721

31 March 2018	Carrying amount P'000	Investment grade (AAA to BBB) P'000	Unrated P'000	Total P'000
Cash and cash equivalents	94,774		94,774	94,774
Balances with related parties	18,353		18,353	18,353
Balances with other banks	898,242		898,242	898,242
Other assets	19,017		19,017	19,017
Non-financial assets	33,886		33,886	33,886
Total assets (excluding loans and advances and other securities)	1,064,272		1,064,272	1,064,272

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

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

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

Repossessed collateral

The Bank obtains assets by taking possession of collateral held as security. The value of the assets still on the statement of financial position for 31 March 2019 was P1,388,000 (2018: P411,000). Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

Credit risk weighted amounts

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

31 March 2019 Counterparties	Exposure P'000	impairment P'000	Risk weighted amounts P'000	Written-off P'000
Sovereign and Central Bank	4,164			
Bank	813,127			
Residential mortgage properties	688,771	41,614	486,008	
Others		806,061	36,859	7,430
	2,312,123	78,473	493,438	

31 March 2018 Counterparties	Exposure P'000	impairment P'000	Risk weighted amounts P'000	Written-off P'000
Sovereign and Central Bank	3,285			
Bank	898,242			
Residential mortgage properties	752,617	34,110	541,096	
Others	788,993	26,819	11,762	
	2,443,137	60,929	552,858	

Only claims on banks are risk-weighted based on external credit assessment, The Bank utilises available external rating agencies' ratings on both short-term and long-term exposures.

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

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

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

31 March 2019	Cash and balances with the Central Bank P '000	Financial asset at fair value through profit and loss P '000	Due from other banks P '000	Loans and advances to staff P '000	Loans and advances to customers P '000	Other assets P '000	Total P'000
Finance and insurance	4,166	-	813,127	63,435	-	-	880,728
Government	-	-	-	-	1,050,282	-	1,050,282
Other	-	-	-	-	381,121	259,496	640,617
	4,166	-	813,127	63,435	1,431,403	259,496	2,571,627
31 March 2018							
Finance and insurance	3,285	-	898,242	62,903	-	-	964,430
Government	-	-	-	-	1,234,601	-	1,234,601
Other	-	-	-	-	244,106	-	244,106
	3,285	-	898,242	62,903	1,478,707	-	2,443,137

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

Liquidity risk

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank's liquidity risk. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances 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;
(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.

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued) ii)

Exposure to liquidity risk

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

Maturity analysis table

31 March 2019 Assets	0-3 months P '000	3 -12 months P '000	1 - 5 years P '000	Over 5 years P '000	liquid P'000	Total P'000
Cash and cash equivalents	242,602	-	-	-	-	242,602
Fixed deposits with Banks	813,127	-	-	-	-	813,127
Loans and advances to customers	5,535	18,705	506,360	885,759	-	1,416,359
Balances with related parties	46,468	-	-	-	-	46,468
Property and equipment	-	-	-	-	31,218	31,218
Deferred Tax	-	4,068	-	-	-	4,068
Intangible assets		-	-	-	2,094	2,094
Other assets	18,212	-	-	-		18,212
Total assets	1,125,944	22,773	506,360	885,759	33,312	2,574,148
Liabilities	**P'000**	**P '000**	**P '000**	**P '000**	**P '000**	**P'000**
Due to customers	1,115,580	654,440	355,337	50,000	-	2,175,357
Other liabilities	80,807	-	-	-	-	80,807
Deferred income	5,042	-	-	-	-	5,042
Current tax liability	5,669	-	-	-	-	5,669
Borrowings	-	10,500	10,500	75,660	-	96,660
Dormancy account liability	-	-	-	24,002	-	24,002
Total liabilities	1,207,098	664,940	365,837	149,662	-	2,387,537
Net liquidity gap	(81,154)	(642,167)	140,523	736,097	33,312	186,611

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

31 March 2018 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	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	-	-	-	-	29,509	29,509
Deferred tax	-	1,547	-	-	-	1,547
Intangible assets	-	-	-	-	4,377	4,377
Other assets	17,609	-	-	-	1,408	19,017
Total assets	1,037,992	17,294	373,005	1,082,915	35,294	2,546,500
Liabilities	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**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
Borrowings	-	9,377	23,334	70,000	-	102,711
Dormancy account liability	-	-	-	22,178	-	22,178
Total liabilities	1,258,664	624,127	346,926	149,004	-	2,378,721
Net liquidity gap	(220,672)	(606,833)	26,079	933,911	35,294	167,779

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:

	P'000	P'000
Total liquid assets	1,058,198	993,017
Total deposits	2,175,358	2,160,054
Ratio	49 %	46 %

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. 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.

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 January 2016, the Bank is fully compliant following a parallel run from 2014. The regulator has advised the adoption of the following approaches:

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. Financial risk Management (continued)

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 16.5% as at 31 March 2019 (2018:15.9%). 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

	2019 P'000	2018 P'000

31. Financlai 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 2019:

Capita! Adequacy	Note	Balance	Risk Weight	Weighted Value
	Note	P '000		P '000
Tier 1 - Stated Capital				19,721
Tier 1 - Other revenue reserve				166,721
Tier 2 - General provisions				13,050
Total Unimpaired capital				199,661
Risk Weighted Assets				
Cash & Cash Equivalents	11	12,898	- %	-
Balances due from other banks	12	1,042,831	20 %	208,566
Loans to group companies	13	1,416,359		713,105
Exposures to Government of Botswana and Bank of Botswana		493,431	- %	-
Post due to Government and Bank of Botswana where specific				
provision is		17,156	150 %	25,734
less than 20% of the outstanding loan				
Retail exposures that fully comply with para 7.26 of Capita!				
Value of cash		725,240	75 %	543,930
collateral deducted from Retail exposures				
Value of cash collateral deducted from Retail exposures			- %	(205)
Past due on Retail portfolios where specific provision is				
more than 50% of the outstanding loan		(379)	50 %	(190)
Other Non-qualifying residential mortgages		170,042	75 %	127,532
(not meeting any of the conditions of para				
7.28 of the Capitol Directive)				
Past due Non qualifying residential mortgages where specific				
provision is		10,869	150 %	16,304
less than 20% of the outstanding loan				
Loans to (from) shareholders	14	46,468	100%	46,468
Property and equipment	15	31,218	100%	31,218
Intangible assets	16	2,094	100%	2,094
Other assets	17	18,212	100%	18,212
Total Assets/Risk weighted assets (on balance sheet)		2,570,080		1,019,663
Total Assets/Risk weighted assets (off balance sheet)	27	121,541	20 %	24,308
Operational Risk weighted assets		-	- %	111,538
Total Assets/Risk weighted assets		2,691,621		1,155,509
Capital Adequacy ratio				16,5 %
Regulatory requirement				15.0 %

Notes to the Financial Statements

	2019 P'000	2018 P'000

31. 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;

Capita! Adequacy	Note	Balance	Risk Weight	Weighted Value
	Note	P '000		P '000
Tier 1 -Stated Capital				19,721
Tier 1 - Other revenue reserve				134,690
Tier 2 - General provisions				21,497
Total Unimpaired capital				175,908
Risk Weighted Assets		7,331	-%	
Bank balances with other Banks		87,443	20%	17,489
Balances due from other banks	12	898,242	20%	179,648
Loans to group companies	13	1,480,681		708,529
Exposures to Government of Botswana and Bank of Botswana		552,858	- %	-
Past due to Government and Bank of Botswana where				
specific provision is less than 20%		12,607	150 %	18,911
of the outstanding loan				
Retail exposures that fully comply with para 7.26 of Capital		713,132	75%	534,849
Value of cash collateral deducted				
from Retail exposures				
Value of cash collateral deducted from Retail exposures		-	-%	(275)
Past due on retail portfolios where specific provision is		7,415	50 %	3,708
more than 50% of the outstanding loan				
Other non-qualifying residential mortgages (not meeting		187,557	75%	140,668
any of the conditions of para 7.28 of the Capitat Directive)				
Past due non qualifying residential mortgages where specific		7,112	150 %	10,668
provision is less than 20% of the outstanding loan				
Loans to (from) shareholders	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)		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

	2019 P'000	2018 P'000
32. 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

	2019 P'000	2018 P'000
Balance due from BPS		
Net balance of fees, deposits and withdrawals made at BPS branches	46,468	18,353
Balance due to related parties		
Interest due on Borrowings - Botswana Government	3,327	3,544
Capitol due on borrowings - Botswana Government	93,333	99,167
	96,660	**102,711**

Related party transactions

	2019 P'000	2018 P'000
Compensation to Directors and other key Management		
- Salaries and allowances	1,602	1,602
- Gratuities and leave pay	423	423
- Staff welfare	38	38
	2,063	**2,063**

Loans to Non-Executive Directors are made in the ordinary course of business on normal commercial terms. Loans to employees (including Executive Directors) are mode 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. °

Notes

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