





TABLE OF CONTENTS

ABOUT BOTSWANA SAVINGS BANK 4

VISION, MISSION AND VALUES 5

GENERAL INFORMATION 6

FINANCIAL HIGHLIGHTS 7

GOVERNANCE 11

Chairman's Report

Board of Directors

Chief Executive Officer's Report

Executive Management

Senior Management

DEPARTMENTAL REPORTS 25

Strategy & Innovation

Marketing & Corporate Affairs

Enterprise Risk Management

Central Processing

Internal Audit

Sales

Human Capital

Client Services

Information Communication Technology

Finance

Board Secretarial and Legal Department

ANNUAL FINANCIAL STATEMENTS 51

Director's Responsibility Statement

Independent Auditor's Report

Statement of Profit or Loss and Other Comprehensive Income

Statement of Financial Position

Statement of Changes in Equity

Statement of Cash Flows

Accounting Policies

Notes to the Annual Financial Statements





About Botswana Savings Bank

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

The Bank is governed by an Independent Board of Directors which reports to the Ministry of Finance and Economic Development. Botswana Savings Bank is supervised by the Central Bank. The Bank is a member of the World Savings Bank Institute - an association of Savings Banks represented in over 90 countries worldwide.

With two hundred and twenty-three employees (223), Botswana Savings Bank services customers throughout the country through the Botswana Postal Services (core branded), seven stand-alone branches and a network of fifteen ATMs (ten slimline ATMs and five deposit accepting ATMs).



VISION

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

VALUES

CUSTOMER FIRST

Products and Services are 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.

MISSION

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





General Information

> BUSINESS

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

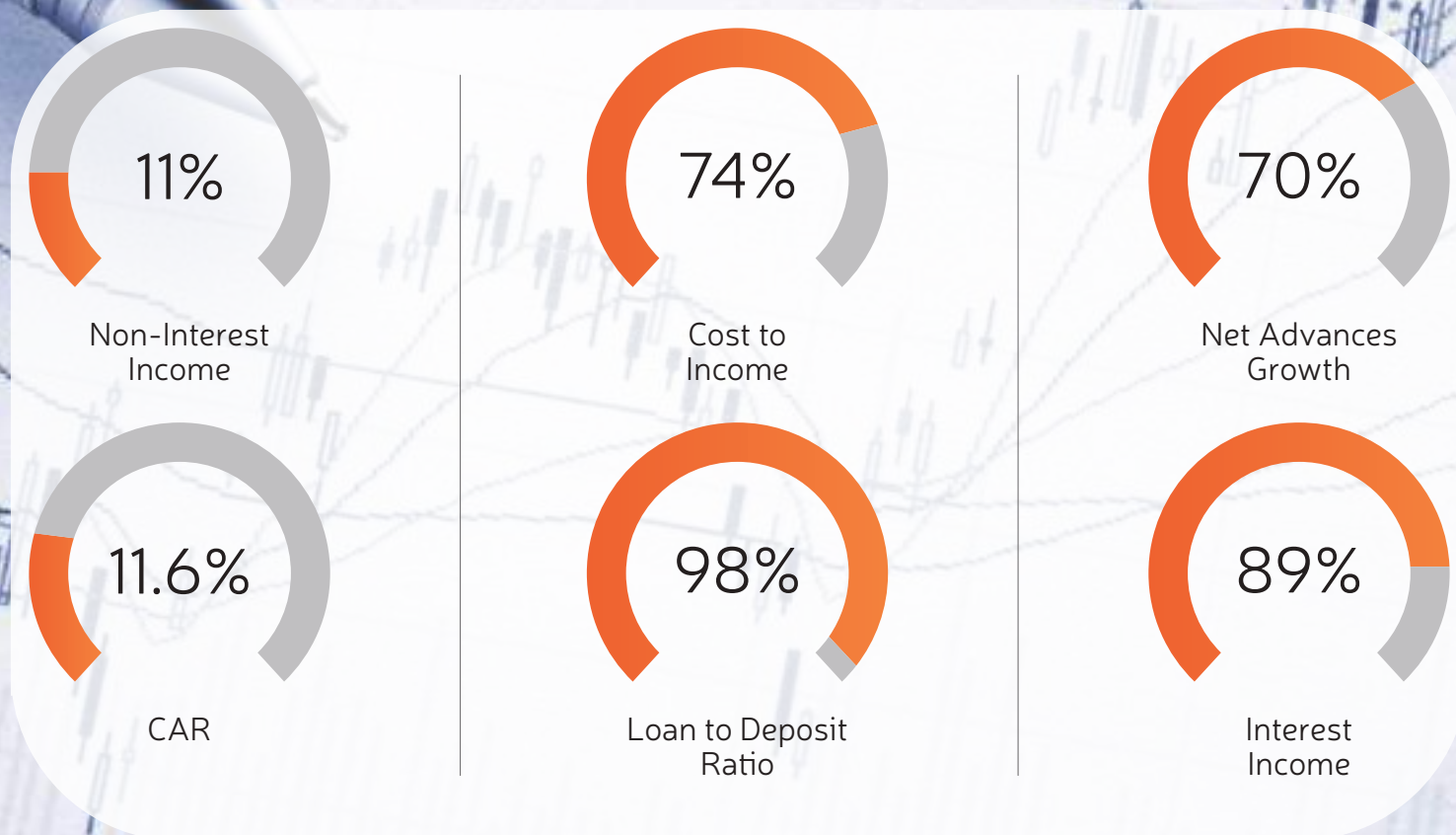
A Transition Act (The BSB Transition Act 2012) has been passed by Parliament to allow BSB to convert to a public company named the “Botswana Savings Bank Limited”. However, the decision to transform the bank from a statutory bank to a commercial bank has been deferred until further notice.

NAME	POSITION	APPOINTED	EXPIRY DATE
Mr K Molelowatladi	Chairperson	01/07/2018	30/06/2022
Mr T Gabaraane	Deputy Chairperson	01/05/2015	30/06/2021
Mr M C Z Libengo	Member	01/04/2012	30/06/2021
Mrs M Gaobakwe	Member	01/02/2015	30/06/2021
Ms O Basinyi	Member	01/11/2017	31/10/2021
Mr C Ramathlakwane	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
Mr N Marumoloa	Chief Executive Officer	01/04/2018	Further notice

REGISTERED OFFICE	AUDITOR
Botswana Savings Bank Tshomarelo House Cnr Letswai/Lekgarapa Rd Broadhurst Mall P.O. Box 1150 Gaborone	PricewaterhouseCoopers Certified Public Accountants Registered Auditor

Financial Highlights

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



P 3.09 bil
Balance Sheet



223
Employees



15
ATMs

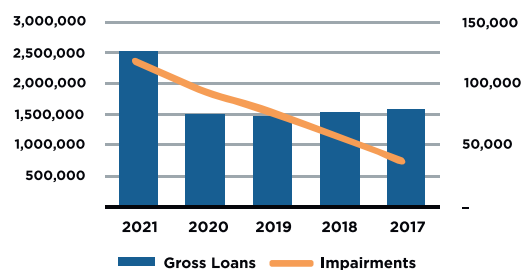


07
Branches

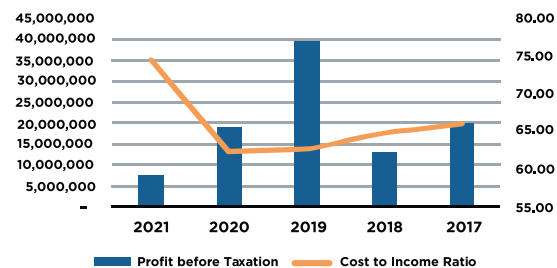


Financial Graphs

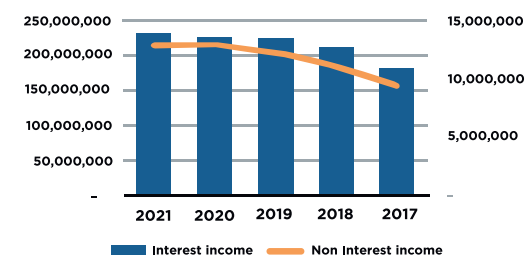
Gross Loans vs Impairments



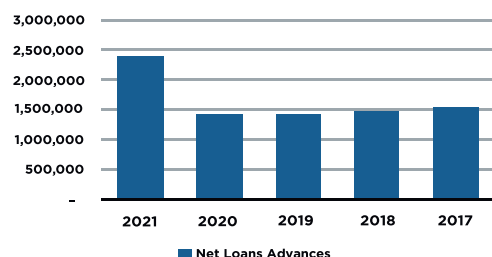
Profit Before Tax vs Cost To Income



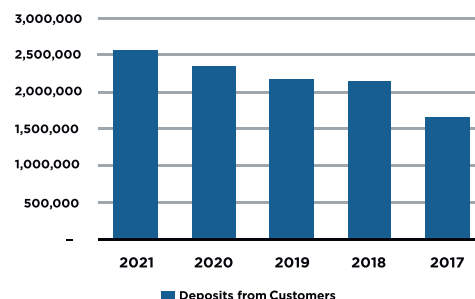
Interest vs Non Interest Income

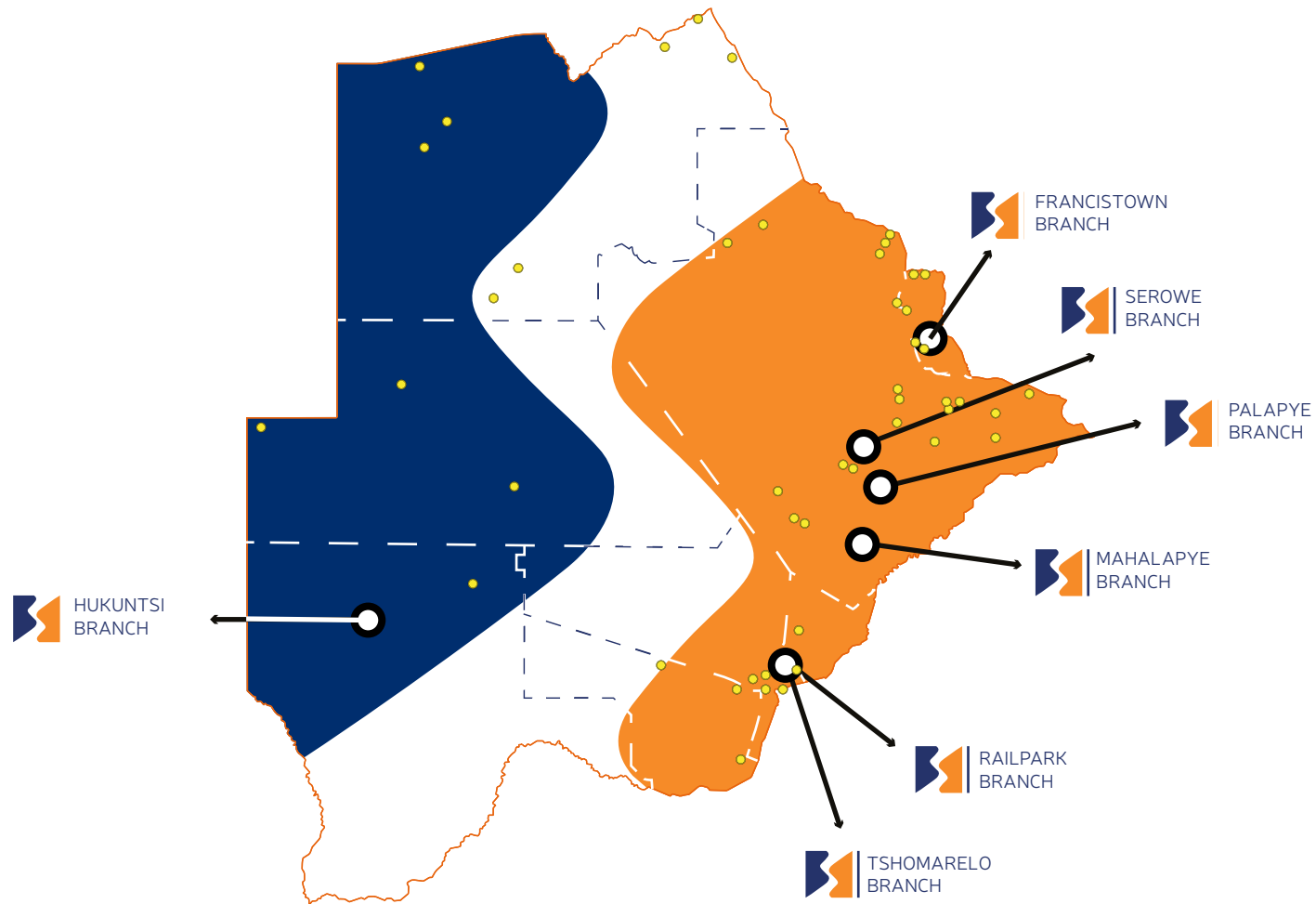


Net Loans and Advances



Deposits from Customers







> It gives me great pleasure and is indeed an honour to present the Annual Financial Statements for Botswana Savings Bank (BSB) for the year ended 31st March 2021 to our stakeholders as Chairperson of the Board.

The history of BSB stretches back more than 20 years. Initially established in the 1960s, the Bank has since experienced transformational growth, moving from a traditional bank to a 21st-century financial institution with branches in Gaborone, Francistown, Serowe, Mahalapye, Palapye and Hukuntsi. We continue to increase our physical proximity to our 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 banking solutions across the country.

9%
INCREASE IN
CUSTOMER SAVINGS

Chairman's Report (continued)

Financial Highlights are

- > Net interest income increased by 21% to **P129 million** (2020: P107 million)
- > Operating costs were up 13% year on year to **P120 million** (2020: P106 million)
- > Profit after tax was **P5.24 million**, down from 2020 profit of **P13.8 million**.
- > Net advances were up at **P2.40 billion** (2020: P1.41 billion)
- > Customer savings were up 9% to **P2.56 billion** (2020: P2.34 billion)
- > Return on Equity was 2.61% (2020: 6%)

Economic Outlook

Inflation remained high at 5.6% as at the end of March 2021, remaining above the bound of the Bank's medium-term objective range of 3-6 percent. High inflation reflects a combination of tax increments and increases in prices due to the impact of COVID-19. Real GDP decline was 7.9% in the twelve months to December 2020, compared to increase of 3% recorded in 2019. This is attributable to weakened global demand for rough diamonds due to the oversupply in the polishing and retailing industries, leading to lower mining production.

The Bank has most certainly been impacted by the COVID-19 protocols. The Government's preventative measures, which were, of course, necessary, negatively impacted the businesses' operations. There is much uncertainty in the bank's year ahead, as businesses try to work around the new norm post-COVID-19.

It is encouraging to note that the Government of Botswana has taken steps to assist entities to recover from the COVID-19 impact to ensure business continuity.

However, we remain confident that in all these adversities, the Bank will be able to identify opportunities to exploit.

Ever Increasing Focus on Regulations

The regulatory environment continues to focus on issues around Know Your Customer (KYC), Anti-Money Laundering and Terrorism Financing.

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

Corporate Governance

Strong governance is integral to the long-term success of the Bank, and the Board is committed to upholding the values of corporate governance including, accountability, integrity, transparency, and being 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 apply its recommended practices in a way that is appropriate for the Bank. Our view is that mindful application harnesses the benefits of corporate governance in the interests of the Bank. Our overall objective is to maintain sound corporate governance, which is an essential element of good corporate citizenship. Corporate governance is no longer viewed as a compliance exercise but a lever for value creation. This can only be achieved when our Board Members live our values.

Risk Management

Credit, Market and Operational risks have remained on the Bank's radar of significant risks while looking closely at other risks that the Bank is exposed to. This is done through the structured governance structures in place, such as the Risk & Compliance Committee and the Board. The Bank continued to modernise its processes, reviewing existing policies as well as developing new ones in other areas. Among the policies reviewed were: human capital, anti-money laundering/countering the financing of terrorism, risk management and governance. The focus during the year was on the roll-out and implementation of such policies. Monitoring of risks was enhanced by setting and cascading

the risk appetite determined into thresholds and limits across operations.

Capacity building initiatives were rolled out during the year, targeting Fraud Risk Management and Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT) and Know-Your-Customer (KYC) related areas. The aim was to enable the staff members to execute their responsibilities in various areas of the Bank adequately.

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

Performance

The Bank recorded a profit after tax of P5.24 million (2020: P13.8 million). The decline in profit was attributable to high operating expenses compounded by lower grant income. The Bank's balance sheet grew by 7% to P3.1 billion in March 2021 (2020: P2.9 billion).

Strategy

We must mention that our Strategy came to an end on 31st March 2021 and that owing to COVID-19 uncertainty, it was extended by a year.

Forward Looking

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 focusing on increasing our footprint in Botswana. This includes opening 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 the lack of integration of systems. The Bank is working on implementing new systems to improve the Bank's efficiency and effectiveness.

We are looking forward to phasing out 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 creating value for all stakeholders. We are mindful of our social responsibilities and will maintain a sharp focus on further enhancing 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, 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 for supporting me as Chairperson of the Board. I must say that I have a strong team behind me, and I commend them for their continued support and commitment to the Bank. Together we can achieve more.



Kealeboga Molelowatladi
Chairperson

Board of Directors



NAMES

1. Kealeboga Molelowatladi
> Board Chairperson

2. Thatayaone Gabaraane
> Deputy Chairperson
> Chairperson, Staff Rewards & Remuneration Committee

3. Nixon Marumoloa
> Chief Executive Officer

4. Sarah Molale
> Board Member

5. Mpho Gaobakwe
> Board Member

6. Matilda Basinyi
> Board Member
> Chairperson, Board Tender Committee

7. Moshe Libengo
> Board Member
> Chairperson, Finance & Audit Committee

8. Esther Lemo
> Board Member
> Chairperson, Risk & Compliance Committee

9. Cornelius Ramatlhakwane
> Board Member



“gae lame”

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SAVINGS
BANK**
welcome to smooth banking

Chief Executive Officer's Report



> The 2020 International Monetary Fund Annual Report declared 2020 to be “a year like no other”. The reason, of course, was the COVID-19 pandemic, which has swept around the globe, transforming the way we live, work and conduct business. Following a year of robust financial results in 2021, the Bank began the financial year optimistic about its prospects for the year ahead. However, everything changed as the impact of the COVID-19 pandemic began to be felt across the world.

These unprecedented challenges were addressed right away with establishing a COVID-19 Management Team as early as April 2020. The Bank responded swiftly to protect the health and safety of its people and to ensure the stability of the business. We strictly adhered to the measures and protocol prescribed by the local authorities across our branch network and promptly deployed the necessary Information Technology infrastructure to enable our staff, where possible, to work remotely from home with Virtual Private Network (VPN) access under a solid information security framework.



P2.40 Bn

NET LOANS AND ADVANCES

The early priority for the Bank was to protect its employees, preserve capital and liquidity, as well as to conduct loan book reviews aimed at identifying any vulnerabilities in individual clients, sectors and geographies that could arise from the pandemic. Working closely with our regulators, we supported our clients with loan restructurings, providing them with appropriate relief during the crisis.

Financial Performance

Financial Highlights are

- > Net interest income increased by 21% to **P129 million** (2020: P107 million)
- > Operating costs were up 13% year on year to **P120 million** (2020: P106 million)
- > Profit after tax was **P5.24 million**, down from 2020 profit of **P13.8 million**.
- > Net advances were up at **P2.40 billion** (2020: P1.41 billion)
- > Customer savings were up 9% to **P2.56 billion** (2020: P2.34 billion)
- > Return on Equity was 2.61% (2020: 6%)

Liquidity

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

Risk Management

As a result of the COVID-19 pandemic, we reviewed our loan book portfolio per sector and associated exposures across all products in the Bank. In order to appropriately estimate the Expected Credit Loss (ECL) for our portfolio as a result of the pandemic, we used the most recent macro-economic data, along with economic forecasts while estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well as the potential trajectory of the subsequent recovery.

Milestones

Despite the unprecedented challenges of the year, with our prudent strategy and adaptive mindset, I am delighted to share that 2020 witnessed a few remarkable achievements for the Bank in line with our strategic value drivers:

A key pillar of the Bank's strategy is to improve the financial inclusion of Botswana, and as part of that mandate, we opened a fully-fledged branch in Palapye in November 2020. Completion of other branches in Molepolole, Kanye and Gumare is scheduled to be concluded in June 2021. The new branches will enable us to increase the size of our reach almost two times, significantly expanding our market share in unbanked areas of Botswana.

Botswana Savings Bank has been awarded the 2021 Best Savings Bank in Botswana by the Global Banking & Finance Review 2021. Global Banking & Finance Review is a leading international online and print magazine, which has evolved from the growing need to have a more balanced view for informative and independent news within the financial community. Contributors for this publication provide quality and in-depth insight, providing leading players and key figures with up-to-date information within the finance sector.

Corporate Social Responsibility

As a corporate citizen, Botswana Savings Bank believes that the responsibility to give back and make a positive impact on 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.

Looking Ahead

It is anticipated that the introduction of the COVID-19 vaccine will help the global economy to recover as the pandemic is brought under control while trade and confidence improve. The IMF's projections continue to expect an expansion of about 5% in 2021, acknowledging that uncertainties may persist. The Bank will focus on different sectors in its markets of operation to continue its growth and build the Bank of the future.

We are committed to enhancing our business with future-proof technology and operating model. The Bank will also be rolling out ground-breaking digital banking solutions while the creation of a new strategy is underway, with plans for rollout in the 2021/2022 financial year.

Ground-breaking changes will be made on key operating model issues, which relate to passbook operations, as well as Agency Banking partners and partnerships as we go into the future. However, customer centricity will continue to be a work in progress as we try to retain and improve our product offering as well as distribution channels.

Conclusion

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

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

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

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

POLOKELO YAME, KE BOKAMOSO JWAME



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Executive Management



-
1. Pedzani Tafa > Director, Operations
-
2. Nixon Marumoloa > Chief Executive Officer
-
3. Kabelo Ngwako > Director, Support Services
-

Senior Management Team



1. Mike Dube > Head-Finance

2. Tsholofelo Kokorwe > Head-Sales

3. Kabelo Ngwako > Head-ICT

4. Kagiso Balopi > Head-Enterprise Risk Management

5. Obusitswe Keabaitse > Head-Client Services

6. Amogelang Mathake > Head-Strategy & Innovation



-
7. Thabo Mzwini > Head-Legal & Board Secretary
-
8. Patrick Mmusi > Head-Internal Audit
-
9. Bomolemo Selaledi > Head-Marketing & Corporate Affairs
-

-
10. Tebogo Mogotsi > Head-Human Capital
-
11. Beauty Bareki > Head-Central Processing
-



welcome to *smooth banking*

Botswana Savings Bank Embraces The BW Mask Challenge

#BWMaskchallenge
#LetsDefeatCovid-19Together
#ArefenyengCovid-19Mmogo

www.bsb.bw

Departmental Reports





 > Head, Strategy & Innovation

 > Amogelang Mathake

> Strategy & Innovation

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

Strategy Performance

March 2021 marked the end of the Bank's (5) five-year strategy, which was from April 2016 to March 2021. In the just ended strategy, successes were achieved through collective effort from the Bank's loyal customers, a team of high performing staff and valuable strategic partners.

Key achievements within the 5-year strategic period included:

Service Accessibility

For the year under review, a new branch in Palapye was opened, fully equipped with all BSB services, including cash transactions, account opening, loan applications and Automated Teller Machine (ATM).

In the subsequent financial year, four (4) new branches being two (2) smart branches and two (2) full branches, were planned to become operational in Gumare, Kanye, Molepolole and Maun, as part of the financial inclusion drive. As at the end of the 2020/2021 financial year, Gumare, Kanye and Molepolole were at completion stages and expected to become operational by June 2021.

Digital Transformation

Through the digitisation drive, the Bank managed to add one more Automated Teller Machine (ATMs) in Palapye. Six (6) new ATMs have been procured to equip all upcoming new branches in Gumare, Kanye, Molepolole and Maun, and further two (2) off-site ATMs to be implemented in selected strategic locations.

The Bank plans to expand its digitilisation drive by implementing an improved Core Banking System coupled with its associated digital channels within the ensuing year. These digital channels will also introduce new Point of Sale machines (POS), allowing the customers to manage their accounts from the ATM. The digitalised system will ensure even smoother banking at BSB, faster turnaround times, and better services harnessing the greatest potentials of technology.

Growth Strategy

In implementing a growth strategy, management planned to focus on completing the following strategic areas in the 2021/2022 financial year:

- > Improve the Bank's liquidity
- > Implement the digitisation programme
- > Implement the talent management plan
- > Ensure a high-performance culture





> Head, Marketing and Corporate Affairs



> Bomolemo Selaledi

> Marketing & Corporate Affairs

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

Achievements and Milestones for the Year under Review

During the year under review, the Bank focused on rolling out its revised and enhanced product solutions to its customers to increase revenue. Various campaigns were conducted, which encouraged long term savings.

In March 2020, a brand and product positioning campaign-#AreyengBSB was launched to market. This ushered in the newly revamped BSB products to the market through various media platforms. The marketing campaign communicated a call to action, connoting that all roads lead to BSB.

This newly revamped BSB products includes:

Loans Product

- > Eezi Auto Loan
- > Express Loan
- > Lecha Personal Loan
- > Homeline Property Loan
- > Ipelegeng Loan



Savings Products

- > Letlole National Savings Certificate
- > Ordinary Savings Account
- > Save As You Earn
- > Sesigo Savings Account
- > Thobo Savings Account
- > Fixed Deposit Account

This resulted in an increased brand presence and visibility on the digital media platforms.

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 all people. To further reinforce Botswana Savings Bank financial inclusion mandate, the Bank hosted its annual flagship event, "The World Savings Day", in October 2020. Due to the COVID-19 pandemic, the flagship event was held internally with minimal celebrations. However, a publicity campaign on World Savings Day was held on social media.

Corporate Social Responsibility

Corporate Social Responsibility activities require a strategic approach since they play a major role in establishing and reinforcing BSB's reputation and image. As a corporate citizen, Botswana Savings Bank believes in the responsibility to give back and positively impact the communities in which we live and work is not just a social agenda. Giving back to the Community remains a priority for BSB, and the Bank will continue to advocate for community involvement throughout the country.

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. Through its Corporate Social Responsibility Programme, the Bank extends financial, social and humanitarian support to organisations that are building strong and resilient communities.

During the year under review (2020/2021), Botswana Savings Bank has contributed towards promoting education as well as social and welfare development in Botswana.

The CSR Policy includes a Staff Volunteer Programme named "I Care" that encourages staff involvement in expanding community outreach activities. The following projects were delivered under the "I Care" Staff Programme during the year 2020/2021:

Distribution of Face Masks: A total of 1500 face masks were donated to primary school students across the country. The primary schools that benefited were in

- Serowe (Mannathoko Primary School)
- Mabeleapodi (Mabeleapodi Primary School)
- Hunhukwe (Hunhukwe Primary School)
- Bonwapitse (Bonwapitse Primary School)
- Matshelagabedi (Matshelagabedi Primary School) and
- Matsiloje (Matsiloje Primary School)

Lecha Assembly Area: An assembly area was constructed in the village of Mafungo-Hubona at Mphinyane Primary School with a capacity of sheltering 500 students. The assembly area is named after the Lecha Personal Loan.

Digital Transformation

Looking at the current market needs and trends, the Bank is embarking on a digital transformation process in order to transition and make the Bank even more relevant to the market.

In the quest to fulfil the mandate of financial inclusion, digitalisation is the path that will help the Bank cut across the different products and services. Sustainable BSB customer service expands its footprint, thereby creating visibility for the products and services, sustainably service customers.





> Head, Enterprise Risk Management



> Kagiso Balopi

> Enterprise Risk Management

There are five units within the Enterprise Risk Management Department:

- i. Credit Risk & Collections
- ii. Risk & Compliance (AML/CFT)
- iii. Fraud & Investigations
- iv. Physical Security
- v. Safety Health & Environment

In rolling out the Strategic Plan, risks and opportunities are contained within the set risk appetite levels. One of the prime responsibilities of the Department is to provide assurance to the Board of Directors, in line with the combined assurance model. The Enterprise Risk Department performs a second line of defence role, with business being the first line of defence and Internal Audit being the 3rd line of defence.

Below are the key responsibilities carried out by the Enterprise Risk Department:

- > Promoting of a risk awareness culture to support the effective rollout of risk management.
- > Instil risk management across all business units of the Bank through training and collaborating with staff members.
- > Consistent implementation of the risk policies across all levels of the Bank and facilitates an integrated approach towards risk management, which subsequently informs the treatment strategies, resource prioritisation and allocation.
- > Safety Health & Environment protocols are driven from this Department and have been instrumental in curbing the spread of COVID-19 among the workforce and our customers.

> The Department continued its drive to build awareness across the Bank in fraud risk management. An Ethics Line has been introduced during the year to promote ethical conduct and discourage undesirable practices.

> Physical Security plays a pivotal role in safeguarding the assets of the Bank, through continuous surveillance of assets across the Bank.

> The Department ensures that credit risk is in line with the risk appetite as determined by the Bank by assessing loan applications, managing the loan portfolio, and collecting from non-performing loans.

> Matters pertaining to the discipline of Anti-Money Laundering / Countering the Financing of Terrorism & Proliferation Financing are handled through the Enterprise Risk Department.

Achievements of the 2020/2021 Financial Year

During the year under review, strides were made in advancing the Bank towards greater risk maturity levels. A spectrum of key policies was modernised, aligning with changes in the legislation and best practice.

In response to the COVID-19 pandemic, measures were introduced to ensure business resilience and continued extension of services to the valued customers on a consistent basis. Working-From-Home initiatives were rolled out throughout the Bank, ensuring that decongestion was attained, thereby reducing the chances of spreading the

deadly coronavirus.

For sectors hard-hit by COVID-19, loan repayment relief covering a period of up to a year were extended to customers in good standing.

The Way Forward: Looking Ahead

At the backdrop of the 2016-2021 Strategic Plan is a gap strategy tailored for a one-year period, which will usher the Bank in the 2022 – 2025 Strategic Plan. The gap strategy will ensure the bedding down of the digital agenda to its logical conclusion. Focus in the financial year 2021/2022 will be premised in risk management relating to the implementation of the Core Banking System, Omni-Channels and the core dependencies to ensure the rollout is executed in time, within cost and at the aspired quality.

Credit, Market and Operational risks have remained on the Bank's radar of significant risk while looking closely at other risks that the Bank is exposed to. This is done through the structured governance structures in places, such as the Risk & Compliance Committee and the Board. The Bank continued to modernise its processes, reviewing some existing policies as well as developing new ones in other areas. Among the policies reviewed include human capital, anti-money laundering/ countering the financing of terrorism, risk management and governance. Focus during the year was on the rollout and implementation of such policies. Monitoring risks was enhanced by setting and cascading the risk appetite determined into thresholds and limits across operations.

Capacity building initiatives were rolled out during the year, targeting Fraud Risk Management and Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT) and Know-Your-

Customer (KYC) related areas. The aim is to enable the staffers to adequately execute their responsibilities in various areas of the Bank.

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

In accordance with Principle II of King IV, the governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives. As a way of strengthening governance measures, the Bank has adopted the King IV Governance Code with implementation to be carried out in subsequent financial periods in a phased manner.

Digitalisation and Risk Management

The Department will also be automating its operations during the upcoming Strategic Plan. Amongst other functions, the new digitalised system will better assess and categorise the Banks customers. This process will help in providing better, tailor-made solutions for each customer.

As the banking sector is transforming, BSB had to move with time, giving customers value while broadening the Bank's income base.

> COMPLIANCE REPORT

Compliance is a critical element for effectively carrying out business in an ethical manner. The Board of Directors has approved a Compliance Policy, which provides guidance on the adherence of policies, regulations and financial services laws. Through the various compliance initiatives and programs, the Bank minimizes compliance risk. The Board is supported by the Risk & Compliance Committee in ensuring governance in the compliance discipline. This Committee promotes the independence of the Compliance Unit from the business activities of the Bank, and further ensures that the unit's roles are executed adequately.

At Botswana Savings Bank, compliance is the responsibility and shared accountability of the Board of Directors, Management and Staff. The responsibility for ensuring compliance with laws, rules and standards, lies with each and every staff member. Collectively full compliance must be achieved. The Bank recognizes that employees are central to the compliance system of the Bank.

A risk universe has been determined to guide in managing compliance risk across the Bank. This includes detailing the applicable pieces of legislation. The Bank maintains a constructive working relationship with various regulatory agencies whereby clarification on specific laws is freely sought and cumulative knowledge is gained on laws and regulations over time.

The Compliance Unit of the Bank serves as the coordinator, adviser and overseer of the compliance process across the Bank. This unit is an independent function that defines, advises, monitors and reports on the Bank's compliance. Furthermore, this unit assists the Bank in managing its compliance risk, which can be defined as the risk of legal or regulatory sanctions, financial or reputational loss that the Bank may suffer as a result of its failure to comply with all applicable laws, regulations, code of conduct and standards of good practice. The unit ensures staff training on compliance matters and dissemination of banking laws, rules and regulations across the Bank. The compliance process is supported by the following elements:

- > Compliance policies and procedures.
- > Training of personnel.
- > Monitoring progress on the implementation of compliance initiatives and programs.
- > Compliance Audit; and
- > Customer complaints process.



 > Head, Central Processing

 > Beauty Bareki

> Central Processing

Central Processing Department is responsible for backend customer transactions processing of both savings and loans transactions. It acts as a support to Branch activities to facilitate customer satisfaction by processing transactions within stipulated Turn Around Times (TAT).

The department engages in continuous process improvement to ensure smooth and timely service delivery. Automation of processes remains critical to enhancing processing TATs and, subsequently, customer satisfaction.

2020/2021 Financial Year Milestones

During the 2019/2020 financial year, the Department focused on re-engineering processes to improve turnaround times. The Fund Transfer Process was developed and piloted with other banks, centralising transfer of funds. It will be rolled out together with the new Core Banking System.

For managing risks, the Department developed a policy on the management of card ordering and distribution, which is now in use. This assisted in handling of debit cards.

The Path to Digitalisation

The Central Processing Department will assist the Bank in its path to digitalisation and is looking forward to the transformation as a critical milestone. Automating processes, operations and enhanced data integration will improve the timeliness and accessibility of BSB services. This digital transformation will offer competitive products and services, further improving customer service and satisfaction and the Bank's market share.



 > Head, Internal Audit

 > Patrick Mmusi

> Internal Audit

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

Internal Audit conducts its activities in line with the International Professional Practices Framework (IPPF), 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 by performing audit engagements, follow-ups, and closure of issues raised by the Internal Audit Department, external auditors, Botswana Accountancy Oversight Authority (BAOA) and Bank of Botswana reviews.

Digital Transformation

On the path to digitalisation, the Bank improved its information systems, enhancing the level of assurance. The Internal Audit Department checks if the system functions appropriately, address internal data problems and verifies if the system is instrumental.

The Department has formulated automated controls improving governance policies, processes and systems. Using computer-aided audit techniques will change the way the Department conducts its activities. The digitalised system improves reporting, accuracy and integrity. The Department can now generate more accurate and timely reports and enhance the monitoring of the Banks performance.

The Future is Digital

The Internal Audit Department encourages and supports the Bank's digital transformation, reducing manual processes and minimising human errors.

A digitalised future ensures process efficiency, accuracy and reliability of the Bank. Digital data points out a clear audit trail tracking information access authorities and responsibilities.

The Department will assist the Bank's digitalisation process by giving internal support and internal audits, ensuring that the Bank meets its goal through providing an effective systematic approach to governance.





 > Head, Sales

 > Tsholofelo Kokorwe

> Sales

The objective of the Sales Department is to improve the Bank's financial position and improve the Shareholder's value in terms of profitability. This objective is achieved by selling the Bank's products and services, which loans and deposit accounts.

We continue to make in-roads into credit risk market using different sales initiatives. The Bank remains focused on increasing the number of deductions from source contracts to manage while growing the loan book simultaneously.

Milestones 2020/2021

Recently, the Sales Department introduced the direct sales agent model to ensure increased loan book growth. The model has proved successful and has contributed significantly to the Bank's growth. There is emphasis on sales from other banking channels, including the branch network, to increase client outreach.

The Department has contributed immensely towards growth of the Lecha Personal Loan, sourcing large deposits for the Bank.

Path to Digitalisation


Once fully digitalised, the Bank's efficiency will be enhanced and services optimised, resulting in improved customer satisfaction. The Department has an instrumental direct sales agent's team consisting of 13 units

that prepare the Bank for the rollout of its digitalisation efforts. Other activities preparing the digitalisation of the Bank include management of data, identification of loan expiration and communication on the maturity of savings accounts.

The automation of manual processes to a digital approach eases sales and the identification of allocation of products.





 > Head, Human Capital

 > Tebogo Mogotsi

> Human Capital

The Human Capital Department is mandated to ensure all business areas achieve excellence through implementing the key Talent Management principles.

In the quest to build and manage a high-performance culture, Botswana Savings Bank provides a secure working environment through its robust Human Capital Policies, making BSB an employer of note.

2020/2021 Milestones

For the year under review, the Human Capital Department notes the following milestones

- 1) Human Capital Policy Implementation
- 2) Records Management Policy Implementation
- 3) Organisational Review
- 4) Records Management System
- 5) Talent Management
- 6) Business Facilities Support System

The Policies have improved turnaround times and guided decision-making processes at Botswana Savings Bank.

The implemented Records Management System and Policy further increased the Bank's efficiency and improved turnaround times.

The organisational review that has been underway since 2020 has taken shape and will be implemented in the new financial year (2021/2022). This review will enhance the Bank's productivity and efficiency.

Digital Transformation

The Human Capital Department is responsible for a variety of services such as staff welfare, payroll, training and performance management, staff development as well as records management.

These services will be remodelled along with the Bank's digital transformation journey. The Department will change from manual to a paperless system, managing and accessing Human Resource files electronically and conducting training online.

The Human Capital Department is the primary contact responsible for training the new Core Banking System (CBS), ensuring that the recruited personnel are equipped with the necessary skills and knowledge to execute it. Training will commence in the new financial year (2021/2022) to equip staff with the skills to sensitise the clients on the new system.





> Head, Client Services



> Obusitswe Keabaitse

> Client Services

Customer-first. A commitment we made to serve BSB clientele diligently under all circumstances. Earlier this year, we made a promise to shorten turnaround times and improve convenience. Most of our valued customers expressed disappointment on the continuous usage of “bukana-ya-poso”, which restricts account access to the trading hours while the rest of the world moved on to digital channels. The Bank values customer feedback, considerable investment has been made to replace the Core-Banking System (CBS), introducing digital channels such as online as well as mobile banking and wallets. Our digital journey has started as well as we will continue implementing the new digital solutions in the new financial year (2021/2022).

In addition to the existing branch and ATM network, one additional branch has been opened for customer convenience in Palapye, fully equipped with all BSB services, including cash transactions, account opening, loan applications and Automated Teller Machine (ATM).

We pride ourselves with the BSB team, particularly the front-line service team at the branches. Our service delivery is driven by BOTHO and based on customer feedback. We appreciate our client's feedback, helping the Bank to identify weaknesses and strengths for continuous improvement. Customer service training, coaching and mentoring is provided to the front-line team to ensure best service delivery. The Bank will soon embark on a “customer service culture transformation journey” to further improve service delivery.

COVID-19 continued affecting service delivery negatively. Our response to the pandemic and positive cases improved with time and we appreciate our customer's patience during these trying times.



> Head, ICT & MIS



> Kabelo Ngwako



> Information Communication Technology

The role of the Information Communication Technology & Management Information System (ICT&MIS) Department within the Bank is to ensure the following:

1. The Security of BSB's Information Assets.
2. The continuous modernisation, deployment and support of the Bank's IT infrastructure.
3. Implementation of Business Applications that support the Bank's objectives, as well as their continuous support and maintenance.
4. Business Process Automation, in line with the requirements of the Bank. Management Information Systems to support decision making and
5. Office Automation

Milestones 2020/2021

For the period under review (2020/2021), the ICT & MIS Department focused on the following:

1. Cybersecurity

The Bank undertook an ambitious but very critical programme to address the cybersecurity space and its associated issues. Policy development, including a cybersecurity framework, was done, which then informed the Bank's approach in rolling out this programme. The implementation was completed with BSB now having a better security posture than it had prior to embarking on this programme.

2. Preparations for the implementation of the Core Banking System and Digital Channels Project

The ICT & MIS Department was crucially involved in the preparatory work for the two important projects of the Bank: the Core Banking System and The Digital Channels project. These projects are very critical for the Bank as they transition BSB into a modern bank that embraces technology as a critical component of improving future service delivery.

3. Modernisation of IT Infrastructure

In preparation for the new Core Banking Platform that the Bank plans to implement, the Department continued with its plans of modernising the ICT Infrastructure in order to make sure it is ready to host and support the new platforms as the Bank continues on its digitalisation journey. Replacement of critical hardware, as well as the introduction of more efficient technologies, continued throughout the period under review.

4. Implementation of Point of Sale (POS)

As part of its digitilisation programme, the Bank undertook a project to implement Point of Sale (POS) . The ICT & MIS Department took the lead in making sure that POS was successfully implemented.





 > Head, Finance

 > Mike Dube

> Finance

The Finance Department is responsible for providing strategic direction, planning, implementing, coordinating and controlling the Bank's accounting, financial management and procurement functions. The Department is responsible for the timely preparation and maintenance of accurate budgets, accounting and financial reports, as well as ensuring strict adherence to established accounting systems procedures and International Financial Reporting Standards (IFRS).

The Department has four core support functions:

1. Treasury Management

The function provides direction and influences business decisions through financial forecasts and projects. This function deals with liquidity, Capital Adequacy Requirement (CAR), deposits and placements.

2. Regulatory Compliance

Ensures that the Bank submits timely statutory returns to relevant authorities. These include Bank Of Botswana (BOB), Botswana Unified Revenue Service (BURS), Botswana Accountancy Oversight Authority (BAOA), Ministry of Finance and Economic Development (MFED) the Board and Board Committees.

3. Financial Reporting and Control

The function is responsible for the overall development and management of the Bank's budget. It ensures quality and timely reporting in accordance with IFRS. Management accounts, annual financial statements, board pack and audits are all under this function.

4. Procurement

Implements efficient procurement systems for the Bank in accordance with the best procurement standards. This is to ensure compliance, efficiency and value for money.

Milestones

Despite the unprecedented challenges of the year, with our prudent strategy and adaptive mindset, the financial year ending March 2021 witnessed a few remarkable achievements for the Department:

> BSB Financial statements approval turnaround time improved immensely, within the six months regulatory requirement as per the Banking ACT, producing a clean audit and an Unqualified Audit Report.

Looking Ahead

It is anticipated that the introduction of the COVID-19 vaccine will help the global economy to recover as the pandemic is brought under control and trade and confidence improve. The Finance Department is committed to enhancing our business with future-proof technology and operating model. We plan to do, amongst other things, automate our procurement processes, manage CAR and liquidity and furthermore on training, development and staff retention.





> **Head, Legal and Board Secretary**



> **Thabo Mzwini**

> Legal & Governance

The Board Secretary and Legal Department (BSLD) provides legal and secretarial services and advice to the statutory instruments of the Bank. In addition, BSLD provides legal advice on the administration, operations and financial activities of the Bank. BSLD ensures that the Bank's activities and operations are consistent with the constitutive documents and other legal instruments of the Bank, policies, and as appropriate, with the norms and principles of international and commercial law and the best practices of banking in general.

As the Bank operates at the intersection of public and private law, the BSLD ensures that the Bank functions at the highest possible level whilst fulfilling its mandate to its stakeholders in government and the private sector.

BSLD is divided into two main functions: the Board Secretarial function and the Legal and Governance Function.

Board Secretarial Function

The Board Secretarial function is tasked with producing accurate, timely, consistent and reliable stakeholder reports as well as providing advice on the laws and regulations governing the Bank business and the Bank's procedures, as well as monitoring compliance regularly and reporting to the Board.

The Board Secretarial Function ensures adherence to sound corporate governance principles and practices aligned to international best practices. Most importantly, the Board Secretarial function prepares agenda and requisite documents for the Board of Directors Meetings and arranges Board of Directors' Meetings and prepares minutes for those meetings and monitors implementation in accordance with the resolution of those meetings.

> **Corporate** Governance

1. Composition of the Board (BSB Act, Section)

Section 5(2) of the Botswana Savings Bank outlines the composition of the Board, which comprises the Chairman and eight other members. The constitution of the Board is as follows:

- > Three (3) members appointed by the Minister from the public service, one (1) of whom shall be appointed Chairman.
- > Four (4) members appointed by the Minister from the private sector.
- > The Director General of Botswana Postal Services and the Managing Director of the Bank shall be ex-officio members.
- > The term of a member shall be four (4) years with eligibility for re-appointment to a second term.
- > The remuneration of the members is in line with the Government of Botswana sitting allowance guidelines.

2. Compliance

The Board Charter stipulates that a minimum of four (4) meetings be held in a year. In the year under review, all the Committees and the Main Board have fulfilled the minimum requirement. The Board of Directors further undertook a Board Assessment and Evaluation process from 7 - 9 April 2021, where compliance to existing frameworks and processes was discussed.

3. Board Committees (TORs)

3.1 Finance & Audit Committee (FAC): The purpose of the FAC is to review and monitor the effectiveness of the company, controls in the areas of financial performance, liquidity risk and regulatory compliance.

3.2 Staff Rewards & Remuneration Committee (SRRC): The SRRC is tasked with providing oversight authority and overseeing the overall human resources strategy and implementation thereof for the Bank.

3.3 Board Tender Committee (BTC): The BTC is tasked to ensure the implementation and compliance with the Bank tender regulations, procurement policies and make the necessary recommendations to the Board as well as to engage in the highest level of ethical practice in integrity, objectivity, accountability and transparency, with zero tolerance to corruption, bribery or yielding to any form of undue inducements.

3.4 Risk Compliance Committee (RCC): The purpose of the RCC is to review and monitor the effectiveness of the Bank's controls in the areas of operational risk, legal and regulatory compliance.

4. Corporate Governance Code adopted

Botswana Savings Bank has adopted King IV Corporate Governance Code; with the implementation being at its infancy stage, the roll-out of the code is expected in the subsequent financial year.

5. Digitalisation Strategy

Our digital journey continued in the financial year 2021/2022 and was informed by the BSB 2022 Strategic Plan, an extension of the BSB Strategic Plan 2016 – 2021.

BOARD OF DIRECTORS	DATE OF FIRST APPOINTMENT	PROFESSIONAL/ACADEMIC QUALIFICATIONS	BOARD COMMITTEES MEMBERSHIP
Mr Kealeboga Molelowatladi (Non-Executive Director) Board Chairperson	> 01 July, 2018	> Association of Chartered Certified Accountants (ACCA) and Bachelor of Commerce	> Board Chairperson
Mr Thatayaone Gabaraane (Non-Executive Director) Deputy Chairperson	> 01 May, 2015	> Masters in Business Administration	> Deputy Board Chairperson > Chairperson, Staff Rewards & and Remuneration Committee
Mrs Sarah M. Molale (Non-Executive Director) Board Member	> 01 July, 2018	> Masters Degree in Finance > Post Graduate Diploma in Financial management > Bachelor of Commerce (Accountancy)	> Finance and Audit Committee Member > Risk and Compliance Committee Member
Mr Moshe C. Zila Libengo (Non-Executive Director) Board Member	> 01 April, 2012	> Botswana Institute of Chartered Accountants (BICA) > Masters of Business Administration (MBA) > Fellow Membership of AAT (FMAAT) > Fellow membership of AAT (ACCA)	> Chairperson, Finance Risk & Audit Committee > Board Member, Botswana Oil Limited
Mrs Mpho Gaobakwe (Non-Executive Director) Board Member	> 01 February, 2015	> LLB (University of Botswana)	> Staff and Remuneration Committee Member > Tender Committee Member

BOARD OF DIRECTORS	DATE OF FIRST APPOINTMENT	PROFESSIONAL/ACADEMIC QUALIFICATIONS	BOARD COMMITTEES MEMBERSHIP
Ms Matilda Ontlametse Basinyi (Non-Executive Director) Board Member	> 01 November, 2017	<ul style="list-style-type: none"> > ACCTECH > Masters of Commerce (Accounting and Finance) > Bachelor of Commerce in Accounting 	<ul style="list-style-type: none"> > Chairperson, Board Tender Committee > Finance and Audit Committee Member
Mrs Esther Tuelo Lemo (Non-Executive Director) Board Member	> 01 July, 2018	<ul style="list-style-type: none"> > 1991 Associate Diploma in Banking – The Institute of Bankers in Southern Africa – Johannesburg > Licentiate Diploma in Banking > Certificate in Banking > 2001 Senior Certificate in Preaching EMMU Methodist Church of Southern Africa Pretoria 	<ul style="list-style-type: none"> > Chairperson. Risk and Compliance Committee > Staff and Remuneration Committee Member
Mr Cornelius Ramatlhakwane (Non-Executive Director) Board Member	> 01 July, 2018	<ul style="list-style-type: none"> > MSc – Strategic Management (Derbyshire University) > Certificate – Management Studies (MANCOSA) > Executive Development Program (Stellenbosch University) > Institute of Directors (South Africa) Member > Association of Accounting Technicians (AAT) Member 	<ul style="list-style-type: none"> > Risk and Compliance Committee Member
Mr Nixon Marumoloa (Executive Director) Board Member	> 01 April, 2018	<ul style="list-style-type: none"> > Bachelor of Arts (Economics Administration) > Insurance (Certificate of Proficiency) > MBA (ongoing studies) 	<ul style="list-style-type: none"> > Staff and Remuneration Committee Member > Finance & Audit Committee Member > Board Tender Committee Member > Risk and Compliance Committee Member



Director's Responsibility Statement

The Directors are required in terms of the Botswana Savings Bank Act of 1992 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditor is engaged to express an independent opinion on the annual financial statements.

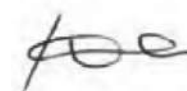
The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate

segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead. The external auditor is responsible for independently auditing and reporting on the bank's annual financial statements. The annual financial statements have been examined by the bank's external auditor and their report is presented on pages 52 to 57.

Approval of the Financial Statements

The annual financial statements of Botswana Savings Bank, as set out on pages 58 to 154, were approved by the board of directors on 16th August 2021 and were signed on their behalf by



K. Molelowatladi
Chairman



N. Maromoloa
Chief Executive Officer



Independent Auditor's Report

To the Shareholder of Botswana Savings Bank

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Savings Bank (the "Bank") as at 31 March 2021, 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 58 to 154 comprise of:

- the statement of financial position as at 31 March 2021;
- 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;
- the notes to the financial statements, which include a summary of significant accounting

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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



Independent Auditor's Report [continued]

Key Audit Matter	How our audit addressed the key audit matter
<p>Expected credit losses ("ECL") on loans and advances</p> <p>Refer to the following notes to the financial statements for disclosure relating to this key audit matter:</p> <ul style="list-style-type: none"> • note 1.8 (Financial instruments - Credit risk measurement); • note 1.24 (a) (Key sources of estimation uncertainty - Measurement of Expected credit losses (ECL)); • note 6 (Net impairment loss of financial assets); • note 14 (Loans and advances to customers); and • note 32 (Financial risk management - Credit risk). <p>At 31 March 2021, gross loans and advances to customers amounted to BWP2.52 billion, against which an ECL of BWP119.6 million was recognised.</p> <p>The measurement of ECL on loans and advances requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The Bank has developed statistical models to support the quantification of credit risk.</p> <p>Key areas of significant management judgement and estimation applied in the measurement of ECL on loans and advances include:</p> <ul style="list-style-type: none"> • the evaluation of significant increase in credit risk ("SICR") and default criteria in order to determine an appropriate risk stage for each loan or • loan portfolios; 	<p>Our audit addressed the key audit matter as follows:</p> <p>For a sample of loans and advances, we agreed the loans and advances utilised in the models</p> <p>to underlying data, accounting records and other information such as loan agreements, maintained by the Bank. We noted no exceptions.</p> <p>Making use of our actuarial expertise, we reperformed and assessed the reasonableness of the ECL calculation by performing the following procedures:</p> <ul style="list-style-type: none"> • We obtained a detailed breakdown of the Bank's exposures by product type and independently calculated the risk stage for each loan or loan portfolios. While we noted some errors in the Bank's staging calculations, these did not have a material impact on the ECL. • We performed an independent estimation of the ECL on loans and advances by calculating a base case ECL, which incorporated SICR adjustments, before considering forward-looking indicators/COVID-19 impacts to identify any gaps within the modelling components. We then compared the results against the Bank's ECL before forward-looking indicators/COVID-19 impacts were taken into account. No material differences were noted.



Independent Auditor's Report [continued]

Key Audit Matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> input assumptions to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). More details of the input assumptions are disclosed in note 1.24 to the financial statements; and the incorporation of forward-looking macro-economic indicators in the SICR assessment and ECL measurement, including the impacts of the COVID-19 pandemic on the measurement of ECL on loans and advances. <p>We determined the measurement of ECL on loans and advances to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECL, and the magnitude of the ECL recognised as at 31 March 2021.</p>	<p>We performed an independent assessment of the ECL on loans and advances taking into account forward- looking information and the potential COVID-19 impacts on PDs and LGDs. Due to the uncertainty in the current economic outlook, we considered a lower and upper bound scenario to reflect the uncertainty. We found that the Bank's estimate of ECL after forward-looking information was not materially different from our independently determined range of estimated outcomes.</p>
<p>ECL on related party receivable</p> <p>Refer to the following notes to the financial statements for disclosure relating to this key audit matter:</p> <ul style="list-style-type: none"> note 1.24 (Key sources of estimation uncertainty - Related parties); note 6 (Net impairment loss of financial assets - Related party impairments); note 15 (Balances with related parties); and note 33 (Related parties). 	<p>Our audit addressed the key audit matter as follows:</p> <p>Making use of our actuarial expertise, we performed the following procedures:</p> <ul style="list-style-type: none"> We read the Bank's working files for ECL on related party receivable to obtain an understanding of the approach followed by the Bank in calculating the ECL on the receivable from BPSL.



Independent Auditor's Report [continued]

Key Audit Matter	How our audit addressed the key audit matter
<p>At 31 March 2021, balances with related parties comprise an amount of BWP65.9 million due from the Botswana Postal Services Limited ("BPSL"). Due to the poor remittance history in the current year, the Bank recognised an impairment loss of BWP8.5 million against the receivable. The Bank determined the ECL on the amount due from BPSL using the same methodologies applied as set out in the key audit matter above.</p> <p>Significant judgement and estimation were applied in determining the loss given default ("LGD") of the receivable. In determining the LGD, the Bank applied judgement and estimation in determining the recovery rate in the event of liquidation and the probability of liquidation of BPSL. Further disclosures of the judgements, estimation and methodologies applied in determining the LGD are made in note 1.24 to the financial statements.</p> <p>We determined the measurement of ECL on the receivable from BPSL to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECL, and the magnitude of the ECL recognised as at 31 March 2021.</p>	<ul style="list-style-type: none">• We performed an independent recalculation of the ECL using<ul style="list-style-type: none">• benchmark LGD parameters derived from Basel guidelines for subordinated debt and industry benchmarks for public sector entities; and• an estimated liquidation probability (PD) based on comparable S&P default rates for CCC/C rated counterparties. <p>Based on our work performed, the ECL recognised by the Bank was found to be within an acceptable range of estimated outcomes.</p>



Independent Auditor's Report [continued]

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Botswana Savings Bank Annual Financial Statements for the year ended 31 March 2021", which we ", which we obtained prior to the date of this auditor's report and the other sections of the document titled "Botswana Savings Bank Annual Report 2021", which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation 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.

Independent Auditor's Report [continued]

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

- attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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:
Registration number: 20040091
Rudi Binedell

Gaborone
8 September 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2021

Note(s)	2021 P '000	2020 P '000
Interest income	230,543	226,421
Interest expense	(101,112)	(119,741)
Net interest income	129,431	106,680
Fee and commission income	13,676	12,952
Fee and commission expense	(8,771)	(10,117)
Net fee and commission income	4,905	2,835
Net operating income	134,336	109,515
Other income	10,100	7,423
Revenue from government grant	1,577	40,000
Total income	146,013	156,938
Net impairment loss of financial assets	(17,532)	(31,722)
Net income	128,481	125,216
Employee benefits	(57,651)	(58,344)
Depreciation and amortisation	(11,878)	(8,816)
Administrative and general expenses	(51,279)	(38,944)
	7,673	19,112
Profit before tax		
Taxation	(2,438)	(5,336)
	5,235	13,776
Profit for the year		
Other comprehensive income	-	-
Total comprehensive income for the year	5,235	13,776

Statement of Financial Position

As at 31 March 2021

	2021 P' 000	2020 P' 000
Assets		
Cash and cash equivalents	391,413	383,178
Balances with other banks	113,428	937,585
Balances with related parties	57,428	79,979
Other assets	10,653	13,974
Loans and advances to customers	2,397,099	1,413,644
Deferred tax	29,912	26,967
Property, plant and equipment	53,251	37,489
Right-of-use assets	32,078	24,709
Intangible assets	9,828	919
Current tax receivable	486	-
Total Assets	3,095,576	2,918,444
Equity and Liabilities		
Liabilities		
Current tax payable	-	28,930
Borrowings	84,481	90,621
Other liabilities	78,159	101,360
Deposits due to customers	2,564,195	2,343,408
Government grant	99,423	101,106
Lease liabilities	35,367	26,220
Dormancy account liability	28,329	26,412
Total Liabilities	2,889,954	2,718,057
Equity		
Share capital	19,721	19,721
Reserves	59,577	58,267
Retained income	126,324	122,399
	205,622	200,387
Total Equity and Liabilities	3,095,576	2,918,444

Statement of Changes in Equity

For the year ended 31 March 2021

	Unrecallable apital P '000	Statutory reserve P '000	Retained income P '000	Total equity P '000
Balance at 01 April 2019	19,721	54,823	112,067	186,611
Profit for the year	-	-	13,776	13,776
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	13,776	13,776
Transfer between reserves	-	3,444	(3,444)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	3,444	(3,444)	-
Balance at 01 April 2020	19,721	58,267	122,399	200,387
Profit for the year	-	-	5,235	5,235
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	5,235	5,235
Transfer between reserves	-	1,310	(1,310)	-
Total contributions by and distributions to owners of company recognised directly in equity	-	1,310	(1,310)	-
Balance at 31 March 2021	19,721	59,577	126,324	205,622
Note(s)	26	27		

Statement of Cash Flows

	2021 P '000	2020 P '000
Cash flows from operating activities		
Interest receipts	235,657	229,768
Interest payments	(112,479)	(104,561)
Fees and commission receipts	13,676	12,952
Rent and other income received	10,025	7,303
Cash payments to employees and suppliers	(121,699)	(106,220)
Movement in Government Grant	-	40,000
Cash flows from operating activities before changes in operating assets and liabilities	25,180	79,242
Changes in operating assets and liabilities		
Movement in loans and advances to customers	(1,003,701)	(19,906)
Movement in amounts due to customers	220,787	168,051
Movements in other assets	(1,793)	891
Movements in other liabilities	(5,537)	11,740
Movement in Deferred Income	(106)	-
Movement in related party balances	29,259	(48,730)
Movement in dormancy account liability	1,917	2,410
Tax paid	(34,799)	(4,974)
Net cash generated from operating activities	(768,793)	188,724

Statement of Cash Flows [continued]

Cash flows from investing activities

Purchase of property, plant and equipment	(21,759)	(10,962)
Sale of property, plant and equipment	75	275
Proceeds from Government Grant	-	101,000
Purchase of other intangible assets	(10,760)	(2)
Receipts from fixed deposits with banks	936,558	972,632
Payments into fixed deposits with banks	(112,401)	(1,097,090)
Net cash (used in/) from investing activities	791,713	(34,147)

Cash flows from financing activities

Payment of Government loan Principal	(5,833)	(5,833)
Payment of Government loan Interest	(4,375)	(4,667)
Lease liability payments - Principal	(2,252)	(1,775)
Lease liability payments - Interest	(2,225)	(1,726)
Net cash used in financing activities	(14,685)	(14,001)
Net movement in cash and cash equivalents for the year	8,235	140,576
Cash and cash equivalents at the beginning of the year	383,178	242,602
Total cash and cash equivalents	391,413	383,178

Accounting Policies [continued]

For the year ended 31 March 2021

1. Statement of Compliance

The statutory financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC). These financial statements represent the Bank's statutory financial statements and have been approved by the Board of Directors on Friday, 16th August 2021.

1.1. Basis of Preparation

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

The financial statements have been prepared on historical cost basis, except where otherwise stated. The financial statements incorporate the following accounting policies which are consistent with those applied in the previous year except where otherwise stated. The estimates and underlying assumptions are reviewed on an on-going basis and these relate mainly to the fair valuation of staff loans that attract interest lower than market rates, assessment of residual values and useful lives of property and

equipment and estimation of the impairment losses on the loans and advances due from customers. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.2. Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments is recognised on an accrual basis using the effective interest 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.

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.

Accounting Policies [continued]

For the year ended 31 March 2021

1.3 Revenue from Contracts with Customers

The bank applies IFRS 15 Revenue from Contracts with Customers, which replaced IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 contains a single model that establishes a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise Revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is transferred to the customer. Fees and commissions charged for services provided by the bank are recognised as the services are provided, for example on completion of an underlying transaction.

The bank recognises revenue from the following major sources:

- Fees and commissions income

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The bank recognises revenue when it transfers control of a product or service to a customer.

Fees and Commission Income

Fees and commission comprises fees 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 and monthly service charges. These fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, etc. are recognised at the point in time of transactions with customers and payment is received monthly.

1.4 Other Income

Other income comprises income from

- rentals,
- Botswana Post interest charges,
- Social benefits allowance fees,

- Rooftop satellite hosting fees and
- other non-operating revenue streams

These incomes are recognised in profit and loss when they are earned.

1.5 Deferred Income

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

1.6 Agency Fees

The bank has entered into an agreement with Botswana Post for the provision of banking services to its clients. Botswana Post is entitled to an agency fee payable monthly in arrears upon submission of a monthly transaction report. The fees are recognised as an expense directly to the profit and loss.

Accounting Policies [continued]

For the year ended 31 March 2021

1.7 Employee Benefits

Short-term Employee Benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, constructive obligation to make such payments as a result of past performance.

Terminal Benefits

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

Leave Pay Accrual

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

1.8 Financial Instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments. Broadly, the classification possibilities, which are adopted

by the bank, as applicable, are as follows: Financial assets which are debt instruments:

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

Financial liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. The adoption of IFRS 9 has had no significant effect of the bank's accounting policies related to financial liabilities and derivatives.

Under IFRS 9, on initial recognition, financial liability is measured at:

- Amortised cost.

derives the 'exposure at default' (EAD); and (iii) the expected loss on the defaulted obligations (the 'loss given

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

Credit Risk Measurement

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The bank has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the bank considers three components, namely: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the bank 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 Basel committee) and are embedded in the bank's daily operational management.

(i) Probability of default (PD)

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

(ii) Exposure at default (EAD)

The exposure at default under Basel II and IFRS 9 will take into account an 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. A description of how the bank determines when a significant increase in credit risk has occurred is explained further below.

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. A description of how the bank defines credit-impaired and default is explained further below.
- Financial instruments in Stage 1 have their ECL
- measured at an amount equal to the portion of lifetime expected credit losses that result

from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is explained further below.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should carry

forward-looking information. Note 32 includes an explanation of how the bank has incorporated this in its ECL models.

Further explanation is also provided on how the bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 32)

The following Table summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

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

Significant Increase in Credit Risk

The bank considers a financial instrument to have experienced an increase in credit risk when

one or more of the of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

Accounts are classified on a watch list when there is qualitative information available such as changes in internal or external credit ratings,

sector lending limits, changes in issuing terms of new loans and or significant deterioration in macro-economic variables indicating an increase in the borrower's credit risk. These accounts are moved over to stage 2.

The criteria used to identify SICR are monitored and reviewed periodically for the

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

appropriateness by the independent Credit Risk team.

Backstop

A backstop is applied and the financial instruments considered to have experienced a significant increase in credit risk if the borrower

is more than 30 days past due on its contractual payments.

The bank has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2021

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 unlikelihood 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.

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

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

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

(PD), Exposure at Default (EAD) and Loss Given Default, defined as follows:

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

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

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

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

Loans and Advances Receivable at Amortised Cost

Classification

Loans and advances to customers (note 14) are classified as financial assets subsequently measured at amortised cost.

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

Recognition and Measurement

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

They are subsequently measured at amortised cost.

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

Application of the Effective Interest Method

Interest income is calculated using the effective interest method, and is included in profit or loss in net interest income (note 3).

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

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if

it is no longer credit-impaired.

- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Impairment

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

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

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

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the bank considers whether there has been a significant increase in the risk of a default occurring since initial

recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Other Financial Assets (Cash and cash equivalents, Balances with other banks and related Party balances)

Initial Recognition and Measurement

All other financial assets are recognised on the trade date which is the date on which the bank becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

The difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received (including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

The following table shows the classification of financial assets, the business model and the subsequent measurement.

Financial Instrument	Business Model	IFRS 9 Classification	IFRS 9 Subsequent Measurement
Cash and Cash Equivalents	Solely Payments of Principal and Interest (SPPI)	Financial Assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest 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.
Balances with Other Banks			
Related Party balances			

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

Other Assets Classification

Other assets, excluding, when applicable, VAT, stock of stationery and prepayments, are classified as financial assets subsequently measured at amortised cost (note 19).

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

Recognition and Measurement

Other assets are recognised when the bank becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation

(interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The bank recognises a loss allowance for expected credit losses on other assets, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

Write-Off Policy

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

Deposits due to Customers Classification

Deposits due to customers (note 23) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and Measurement

Deposits due to customers are recognised when the bank either becomes a party to the contractual provisions of the loan or accepts customer deposits. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form 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.

Other liabilities Classification

Other liabilities (note 22), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

Recognition and Measurement

They are recognised when the bank becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability. If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

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

management thereof.

Financial Assets Classification

(a) Debt Instruments

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

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the liability; and
- the cash flow characteristics of the liability. Based on these factors, the Bank classifies its debt instruments into the following measurement category

Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured using the simplified expected loss

model. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Business model:

The business model reflects how the bank's manages its 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.

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

this assessment, the bank considers whether the contractual cash flows are consistent with a basic lending

arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. The amount receivable from Botswana Post is the most significant SPPI asset held by the bank.

Modification of Loans and Advances

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay
- Whether any substantial new terms are introduced, such as profit share/ equity-based returns that substantially 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.
- Change in the currency the loan is denominated in.
- 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 derecognition.

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

Derecognition other than on a Modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and whether (i) the bank transfers substantially all the risks and rewards of 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.

Accounting Policies [continued]

For the year ended 31 March 2021

1.8 Financial Instruments (continued)

Derecognition Financial Assets

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

Financial Liabilities

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

Reclassification Financial assets

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

Financial Liabilities

Financial liabilities are not reclassified.

1.9 Impairment of non-financial Assets

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

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

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

This impairment test is performed during the annual period and at the same time every period.

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

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

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

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.9 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.

1.10 Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the central bank, placements with other banks and money market investments.

1.11 Balances with other Banks

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

1.12 Related Party Transactions Classification

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

Recognition and Measurement

Related party transactions and balances are recognized at cost and subsequently measured at amortized cost.

1.13 Inventories

Inventories comprises of stock of stationeries and are measured at cost less impairment losses, if any.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

1.14 Tax

Current Tax Assets and Liabilities

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

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.14 Tax (continued)

Deferred Tax Assets and Liabilities

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the

period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax Expenses

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

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

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

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

1.15 Property, Plant and Equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of these items and are recognised in profit and loss. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance costs are recognised in profit or loss during the financial period in which they are incurred. However, major renovations are capitalised and included in the carrying amount of the assets when it is probable that future economic benefits in excess of the originally assessed standard of performance of the assets will flow to the bank. Major renovations are depreciated over the remaining useful life of the related asset or until the next planned major renovations, if this

Accounting Policies [continued]

For the year ended 31 March 2021

1.15 Property, Plant and Equipment (continued)

period is shorter. The carrying amount of the replaced part is derecognised.

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

Item	Depreciation method	Average useful life
Buildings	Straight line	50 years or unexpired period of the lease
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	7 years

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

Impairment of Property and Equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to the recoverable amount.

The recoverable amount of assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the assets (cash generating unit) is increased to the revised estimate of its recoverable amount so that the

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.16 Capital work-in-progress

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

1.17 Leases - IFRS 16

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

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

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset,

the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the bank has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset. In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Bank as Lessee

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

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

the aggregate stand-alone price of the non-lease components (where non-lease components exist).

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

Details of leasing arrangements where the bank is a lessee are presented in note 17 Leases (bank as lessee).

Lease Liability

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.17 Leases - IFRS 16 (continued)

Short-term Leases and Leases of low- value Leases

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

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

Right-of-use Assets

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

date less any lease incentives received.

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

Item	Depreciation method	Average useful life
Leasehold	Straight line	3 - 20 years
Leased	Straight line	3 - 20 years

Bank as Lessor

The bank owns an office building that has vacant floors and now uses to earn rental income. The building is leased to a third party under an operating lease for fixed lease payments. The bank has classified these lease as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Leases for which the is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other

leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification.

Although the risks associated with rights that the bank retains in underlying assets are not considered to be significant, the bank employs strategies to further minimise these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate the bank when a property has been subjected to excess wear-and- tear during the lease term.

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

Operating Leases

Lease payments from operating leases are recognised on a straight-line basis over the term of the relevant lease, or on another systematic basis if that basis is more representative of the pattern in which the benefits from the use of the underlying asset are diminished. Operating lease income is included in other income (no Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are expensed over the lease term on the same basis

Accounting Policies [continued]

For the year ended 31 March 2021

1.17 Leases - IFRS 16 (continued)

as the lease income.

Modifications made to operating leases are accounted for as a new lease from the effective date of the modification. Any prepaid or accrued lease payments relating to the original lease are treated as part of the lease payments of the new lease.

1.18 Intangible Assets

An intangible asset is recognised when:

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

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

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

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

Reassessing the useful life of an intangible asset with a finite useful life after it was classified

as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life. Internally generated brands and items similar in substance are not recognised as intangible assets.

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

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

1.19 Government Grants

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.19 Government Grants (continued)

Grant income related to capital projects or physical assets is initially recognised as deferred income in the statement of financial position with a corresponding asset recognised in property, plant and equipment.

Subsequently, the deferred income is released to the statement of comprehensive income over the expected useful life of the asset.

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

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

1.20 Translation of Foreign Currencies

Foreign Currency Transactions

A foreign currency transaction is recorded, on initial recognition in Pula's, 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.

1.21 Transactions with Botswana Postal Services

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

1.22 Other Liabilities

Other liabilities comprises of trade payables, accrued expenses and other sundry creditors. These are initially recognized at cost and subsequently measured at amortised cost.

1.23 Unrecallable Capital

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

1.24 Key Sources of Estimation Uncertainty

(a) Measurement of Expected Credit

Losses (ECL) Key Inputs and Assumptions

The Expected Credit Loss of the financial asset is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk 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).

Impairment of Loans and Advances

Probability of Default (PD)

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

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

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

Exposure At Default (EAD)

The loan level exposure at default is estimated

at each point in time over the life of the facility taking into consideration loan commitments implicit prepayment rates, the outstanding loan balance, the remaining tenure, the effective interest, the current staging and implicit prepayment rate.

Loss Given Default (LGD)

Loss given default (LGD) rates are estimated at the product level for products that have

uniform guarantee structures. The LGD considers factors such as changes in the credit quality of the collateral, the time to recovery of the collateral, costs of recovery, liquidity haircuts to market value and the appropriate discount rate for the collateral. For products that have heterogeneous collateral arrangements at loan level, LGD is computed at loan level reflecting specific characteristics of the collateral structure.

Key credit risk metrics	Motor vehicle loans	Residential loans	Personal loans	Total
Coverage Ratios				
31 March 2021	1.11 %	0.62 %	6.10 %	4.75 %
31 March 2020	2.27 %	2.61 %	9.00 %	6.25 %
31 March 2019	1.71 %	2.40 %	7.68 %	5.22 %
Loss Given Default (LGD)				
31 March 2021	26.64 %	23.80 %	96.28 %	87.58 %
31 March 2020	31.87 %	24.18 %	98.40 %	66.58 %
31 March 2019	0.46 %	20.66 %	89.32 %	57.42 %
Probability of Default (PD)				
31 March 2021	4.17 %	2.61 %	6.34 %	5.43 %
31 March 2020	7.12 %	10.78 %	9.14 %	9.38 %
31 March 2019	6.43 %	11.64 %	8.60 %	9.10 %

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;

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

Forward-looking Information

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

Approach to Incorporate Forward-Looking Indicators (FLI)W

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

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

Forward looking information applied in March 2021 ECL computation.

The FLIs applied in the current financial year modelling process are GDP, interest rates and inflation rates.

The bank forecasts an improved macro-economic environment for the next three years. GDP is forecast to grow at a declining rate over the medium term as the economy recovers from the impact of COVID-19 pandemic and the implementation of the Economic Recovery & Transformation Plan (ERTP). Inflation is forecast to increase on account of VAT increase from 12% to 14%, the increase in tariffs & other taxes, supply chain constraints due to the after-effects of the COVID-19 pandemic and increased government expenditure from the ERTP. The bank forecasts Interest rates to be stable over the medium term as the central bank balances stimulating the economy and containing inflation.

The following tables show the main macroeconomic factors used to estimate the allowances for credit losses on loans.

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

Marco Economic Forecast

Projection period	Real GDP growth		Real interest rate		General inflation rate	
	2021	2020	2021	2020	2021	2020
First year	8.0 %	(13.0)%	2.8 %	2.9 %	5.5 %	3.6 %
Second year	5.4 %	(10.0)%	2.8 %	2.8 %	5.3 %	4.0 %
Third year	4.0 %	- %	3.3 %	2.7 %	3.0 %	4.2 %

Impact of forward- looking information (FLI) on ECL - 31 March 2021

Loans and advances	Motor Vehicle advances	Residential property loans	Personal loans	Total
ECL before FLI adjustments	29	2,919	110,285	113,233
Impact of FLI	135	848	5,371	6,354
ECL after FLI adjustments	164	3,767	115,656	119,587

Impact of forward- looking information (FLI) on ECL - 31 March 2020

Loans and advances	Motor Vehicle advances	Residential property loans	Personal loans	Total
ECL before FLI adjustments	157	15,488	71,203	86,848
Impact of FLI	128	1,237	2,319	3,684
Impact of COVID-19	-	-	4,651	4,651
ECL after FLI adjustments	285	16,725	78,173	95,183

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

Sensitivity of ECL for loans and advances - Inflation

Change in variable		1.0 % increase	1.0 % decrease
ECL (P'000) as at 31 March 2021	119,587	122,509	118,040
Change in ECL		2,922	(1,547)
% change in ECL		2.4 %	(1.3)%
General rate of inflation	2.46 %	3.46 %	1.46 %

COVID-19 considerations:

Adjusting PD's for COVID-19

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

i. The first level was the use of stressed macro-economic scenarios. The GDP was set to fall by 13% and 10% in 2020

and 2021, respectively. The PD's were thus increased by appropriate scalars that were computed on a product level.

ii. Further increase of scalars at the sector level.

Significant Increase in Credit Risk

In line with the Bank of Botswana guidelines, the bank did not adjust the internal credit ratings for any accounts based on the impact of COVID-19. The assessment of significant increase in credit risk was done at the sector level to capture the increased credit risk. As 95% of loan book exposure is to government the impact of COVID-19 has been minimal.

All private sector exposures in stage 1 were assumed to have shifted to stage 2 without the individual ratings being affected. This adjustment did not result in shifts to stage 3 status.

COVID-19 considerations:

Adjusting PD's for COVID-19 During the year the impact of COVID-19 on the banks portfolio was not significant and had been significantly reflected in the data, as a result no additional adjustments to PD's and LGD's were made beyond the impact of COVID-19 on the forward-looking information (FLI).

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

COVID-19 relief impact on risk grading and ECL

COVID-19 relief impact on risk grading and ECL

As at the measurement date the bank had offered relief to loans with a book value of P5.5m (2020: P76.2m est.). Of the P76.2m private sector exposure as at 31st March 2021, P6.6m (8.7%) applications were granted relief due to COVID-19.

Subsequently P1.1m (16.7%) has been reduced through repayments and P1.7m (25.8%) have been rehabilitated and transferred to better credit status of stages 1 and 2 from stage 3.

Overall, the bank had overprovided for COVID-19 related expected credit losses by P0.76m as at 31st March 2021. The reversal of the provisions was due to the 31st March 2020 estimates that had anticipated a greater number of exposures applying for COVID-19 relief.

On account of only 8.7% applications being affected by COVID-19, 91.3% of the expected credit losses were reversed. However additional provisions on these loans were raised as part of the ECL modelling process.

Impact of COVID-19 relief on exposures

Exposures	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
Exposures at 31 March 2020	-	76,253	-	76,253
Transfers of exposures to stage 3	-	(76,253)	76,253	-
Unwinding of exposures not affected by COVID-19	-	-	(69,625)	(69,625)
Application for COVID-19 relief	-	-	6,628	6,628
Exposure reduction through repayments	-	-	(1,132)	(1,132)
Transfers from stage 3	888	812	(1,700)	-
Exposures as at 31 March 2021	888	812	3,796	5,496

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

Impact of Covid-19 relief on ECL

Exposures	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
ECL at 31 March 2020	-	4,651	-	4,651
Transfer of initial provision to stage 3	-	(4,651)	4,651	-
Unwinding of provisions not utilised	-	-	(4,247)	(4,247)
Applications for relief based on original estimates	-	-	404	404
Additional provisions on application	-	-	4,288	4,288
Exposure reduction through repayments	-	-	(801)	(801)
Transfers from stage 3	14	245	(259)	-
Exposures as at 31 March 2021	14	245	3,632	3,891

Related Parties

Botswana Postal Services Limited (BPSL) provides banking services to the Botswana public on behalf of the Bank. As at 31st March 2021, P57.428m (2020: P95.198m) of the net deposits from the bank's customers was not remitted by BPSL. Due to the poor remittance history in the past twelve months an impairment allowance was estimated at P8.512m as at 31st March 2021 (2020: P15.219m). The bank's agency

agreement with BPSL is not collateralised and recovery was estimated from the statement of financial position of BPSL. The impairment allowance was computed using the same methodology as detailed in accounting policy note

(i) Probability of default (PD)

The probability of default is an indication of the probability that a given related party will not meet its contractual obligation to the bank.

Due to heterogeneity in the data relating to related parties the probability of default (PD) is modelled using various structural models of assessing credit risk. The probabilities of default under the structural model take into consideration the volatility of the related party's assets, liabilities, and volatility of assets. The volatility is adjusted to include forward looking information that will apply during the period that the bank has exposure to the related party.

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

(ii) Exposure at default (EAD)

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

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

(iii) Loss given default (LGD)

Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur (1 - recovery rate). It is expressed as percentage loss per unit of exposure.

It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II and IFRS 9.

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

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

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

Key assumptions concerning probability of liquidation and loss given default were made in valuing the ECL of related parties. The impact of a 5% change in each of the underlying variables is outlined in the table below.

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

2020	Base Value		Value resulting from changes in			
	P'000	P'000	Asset volatility		Recovery rate	
			+5%	-5%	+5%	-5%
ECL at 31 March 2021	8,512		13.9%	-19.7%	22%	-2.9%
ECL at 31 March 2020		15,219	5.6%	-6.4%	8.3%	-8.3%
Principal assumptions	2021	2020				
Asset volatility	68.4%	64.1%				
Recovery rate	62.4%	60.0%				

(b) Lessee's incremental borrowing rate

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

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

Discount factor

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

(c) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Current tax comprises tax payable/refundable calculated on the basis of the expected taxable income for the year, using tax rates enacted at the reporting date and any adjustment of tax payable/refundable for previous years.

Accounting Policies [continued]

For the year ended 31 March 2021

1.24 Key Sources of Estimation Uncertainty (continued)

(d) Deferred Tax

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

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and Interpretations Effective and Adopted in the Current Year

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

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Temporary exceptions have been created by the IASB concerning the application of specific hedge accounting requirements as a result of the interest rate benchmark reform. These exceptions apply only to those hedging relationships which are directly affected by the reform, being those where the reform gives rise to uncertainties about:

(a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark -based cash flows of the hedged item or of the hedging instrument.

The exceptions are as follows:

(a) When determining whether a forecast transaction is highly probable, it shall be assumed that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

(b) When assessing the economic relationship between the hedged item and the hedging instrument, entities shall, in their prospective assessments, assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the reform.

(c) Entities applying IAS 39 for hedge accounting are not required to undertake the IAS 39 retrospective assessment for hedging relationships directly affected by the reform.

(d) For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at inception of such hedging relationships.

Entities shall cease applying the exceptions when the uncertainty arising from the reform is no longer present or when the hedging relationship is discontinued.

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

The bank has adopted the amendment for the first time in the 2021 annual financial statements. The impact of the amendment is not material.

Definition of a business - Amendments to IFRS 3

The amendment:

- confirmed that a business must include inputs and a processes, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs.
- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

Notes to the Annual Financial Statements [continued]

2. New Standards and Interpretations (continued)

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

The bank has adopted the amendment for the first time in the 2021 annual financial statement.

The impact of the amendment is not material.

Presentation of Financial Statements: Disclosure Initiative

The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

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

The bank has adopted the amendment for the first time in the 2021 annual financial statements.

The impact of the amendment is not material.

Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative

The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

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

The bank has adopted the amendment for the first time in the 2021 annual financial statements. The impact of the amendment is not material.

2.2 Standards and Interpretations not yet Effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 April 2021 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

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

Notes to the Annual Financial Statements [continued]

2.2 Standards and Interpretations not yet Effective (continued)

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

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

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

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

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

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

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

IFRS 17 Insurance Contracts

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

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

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

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

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation

procedures and for the effects of the business combination in which the parent acquired the subsidiary. The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Reference to the Conceptual Framework: Amendments to IFRS 3

The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 rather than to the IASC's Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the Acquisition date. The amendment further clarifies that contingent assets of acquirees share not be recognised as part of the business combination.

Notes to the Annual Financial Statements [continued]

2.2 Standards and Interpretations not yet Effective (continued)

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

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

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

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included. The effective date of the bank is for years beginning on or after 01 January 2022.

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

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

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

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

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

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

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IAS 41

"Taxation" has been removed from the list of cash flows excluded from the fair value determination of biological assets.

Notes to the Annual Financial Statements [continued]

2.2 Standards and Interpretations not yet Effective (continued)

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

The bank expects to adopt the amendment for the first time in the 2023 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 4

An insurer applying the temporary exemption from IFRS 9 shall apply the new requirements of IFRS 9 concerning situations where a change in the basis for determining the contractual cash flows of a financial asset or financial liability is required by interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2022 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 7

The amendment sets out additional disclosure requirements related to interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2022 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient.

This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedgerelationships specifically impacted by interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2022 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

Notes to the Annual Financial Statements [continued]

2.2 Standards and Interpretations not yet Effective (continued)

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2022 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IAS 39

Temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of financial items as hedged items have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the bank is for years beginning on or after 01 January 2021.

The bank expects to adopt the amendment for the first time in the 2022 annual financial statements. It is unlikely that the amendment will have a material impact on the bank's annual financial statements.

COVID-19 - Related Rent Concessions - Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for it were not a lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payment affects only payments originally due on or before 30 June 2021 and
- there is no substantive change to other terms and conditions of the lease.

The effective date of the amendment is for years beginning on or after 01 June 2020. The bank expects to adopt the amendment for the first time in the 2022 annual financial statements.

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

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

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

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
3 Net interest income		
Interest income		
Call accounts with other financial institutions	1,480	7,683
Other fixed deposits	20,799	46,682
Loans and advances to customers	208,264	172,056
	230,543	226,421
Interest expense		
Ordinary savings	(2,289)	(2,320)
Sesigo savings	(5,474)	(6,189)
Save-As-You-Earn	(578)	(530)
Thobo savings	(162)	(175)
National savings certificates (NSC)	(2,029)	(390)
Corporate deposits	(80,644)	(99,093)
Fixed deposits	(3,443)	(4,768)
Government loan	(4,068)	(4,461)
Transaction account	(200)	(89)
Finance lease Interest	(2,225)	(1,726)
	(101,112)	(119,741)
Net interest income	129,431	106,680

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
4 Net fee and commission		
Account maintenance fees	7,322	7,209
Pre-closure fees	62	495
Over-the-counter-Fees	2,645	2,501
Commission on loan repayments	2,795	2,747
Card Transactions Fees	852	-
	13,676	12,952
With effect from the year end March 2019, the bank charges a rate of 1.25% on loan repayments for loans and advances		
Fee and commission expense		
Agency fees	(2,804)	(3,558)
Commissions	(5,967)	(6,559)
	(8,771)	(10,117)
	4,905	2,835
5 Other income		
Rental income	2,540	2,540
Botswana Post interest charge	6,024	3,989
Rooftop satellite hosting fees	871	531
Social benefits allowance fees	457	-
Sundry income	133	243
Profit/(loss) on disposal of property, plant and equipment	75	120
	10,100	7,423

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
5 Other income (continued)		
Future minimum lease payments under non-cancellable leases as at 31 March were, as follows:		
Within 1 year	2,564	2,540
After 1 year within 5 years	4,486	7,050
	7,050	9,590
6 Net impairment loss of financial assets		
Specific impairment	8,010	11,721
Related Parties impairment	(6,707)	15,219
Portfolio impairment	16,394	4,989
Recoveries	(165)	(207)
Net impairment loss on financial assets	17,532	31,722
Movement on specific impairments		
Balance at the beginning of the year	69,697	57,976
Charge for the year	8,010	11,721
Balance at the end of the year	77,707	69,697
Movement on portfolio impairments		
Balance at the beginning of the year	25,486	20,497
Current year charge	16,394	4,989
Balance at the end of the year	41,880	25,486
Balance specific and portfolio impairments at the end of the year	119,587	95,183

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
6 Net impairment loss of financial assets (continued)		
Related party impairments		
Balance at the beginning of the year	15,219	-
Botswana Post impairment	(6,707)	15,219
Balance at the end of the year	<u>8,512</u>	<u>15,219</u>

7 Employee Benefits

Salaries, wages and allowances	48,971	42,364
Pension and medical aid contributions	8,232	8,697
Fair value adjustment for staff loans	(3,994)	1,186
Training and recruitment costs	1,925	2,920
Staff welfare	2,517	3,177
	<u>57,651</u>	<u>58,344</u>

The average number of persons employed by the Bank during the year was 223 (2020: 196)

8 Depreciation and amortisation

Depreciation	5,997	4,536
Amortisation	1,851	1,176
Right of use asset	4,030	3,104
	<u>11,878</u>	<u>8,816</u>

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
9 Administrative and general expenses		
Audit fees	1,892	1,307
Consulting fees	5,185	2,824
Debt recovery	430	295
Non-executive directors fees	337	306
Insurance premiums	1,490	1,424
Sales expenses	1,173	785
Setup costs - new branches	1,353	-
Other operating expenses	6,370	1,501
BURS interest & penalty charges	1,343	2,186
Cash security expenses	1,780	1,335
Visa and subscription fees	3,389	1,425
Motor vehicle expenses	325	487
Exchange losses	1,486	1,225
Bank and other charges	780	852
Office expenses	135	1,120
Property management & security fees	3,657	3,200
Advertising and publicity	2,854	4,372
Repairs and maintenance	2,825	1,345
Software licencing and IT costs	10,304	7,871
Stationery, utilities and postage	4,171	5,084
	51,279	38,944

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
10 Income tax expense		
<i>Current</i>		
Current tax on profit for the year	5,383	28,235
<i>Deferred</i>		
Deferred tax benefit	(2,945)	(22,899)
Income tax expense	2,438	5,336
Numerical reconciliation of income tax expense to prima facie tax payable		
<i>Reconciliation between accounting profit and tax expense.</i>		
Profit before taxation	7,673	19,112
Tax at the applicable tax rate of 22% (2020: 22%)	1,688	4,205
<i>Tax effect of adjustments on taxable income</i>		
Disallowed expenses	583	871
Adjustment in respect to prior periods	167	260
Income tax expense	2,438	5,336
11 Deferred tax		
Deferred tax asset		
At beginning of year	26,967	4,068
Credit/(charge) for the year	2,945	22,899
Closing Balance	29,912	26,967

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
11 Deferred tax (continued)		
The balance comprises temporary differences attributable to:		
Property and equipment	264	(990)
Right of Use Asset	(7,057)	(5,436)
Intangible assets	(2,162)	(202)
Lease Liability	7,781	5,768
Impairment of loans and advances	9,213	5,607
Unamortised Government grant	21,873	22,220
Total deferred tax asset	29,912	26,967

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

Analysis by period

Within 1 year	20,091	16,976
After 1 year within 5 years	1,902	2,134
After 5 years	7,919	7,857
	29,912	26,967

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
12 Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	14,607	16,750
Balances with Bank of Botswana	5,044	2,911
Stanbic Bank	3,239	147,436
First National Bank	5,817	13,271
Capital Bank	101,314	2,983
ABSA Bank	3,761	1,276
Banc ABC Bank	75,444	132,849
Bank Gaborone	182,187	65,702
	<u>391,413</u>	<u>383,178</u>

Cash and Cash Equivalents comprises cash on hand and deposits held with other banks that are highly liquid instruments. Management has assessed the expected credit loss on Cash and cash equivalents and noted no material impairment. Fair value of cash and cash equivalents approximates carrying amount due to their short term tenure.

13 Balances with other banks

Balances due from other banks	<u>113,428</u>	<u>937,585</u>
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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.

Balances with other banks are considered to be low credit risk and have not been impaired as these placements are made to banks that have high credit standing.

Notes to the Annual Financial Statements [continued]

13 Balances with other banks (continued)

Fair value of balances due from other banks approximates carrying amount due to their short term tenure.

Analysis by period

Within 1 year	113,428	937,585
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14 Loans and advances to customers

	Note(s)	2021 P '000	2020 P '000
Motor vehicles advances		14,711	12,494
Residential property loans		606,115	640,463
Personal loans		1,895,860	855,870
		<u>2,516,686</u>	<u>1,508,827</u>
Less impairment provision		(119,587)	(95,183)
		<u>2,397,099</u>	<u>1,413,644</u>
Analysis by period			
Within 1 year		45,192	24,652
After 1 year within 5 years		432,962	463,717
After 5 years		2,038,532	1,020,458
		<u>2,516,686</u>	<u>1,508,827</u>

Notes to the Annual Financial Statements [continued]

14 Loans and advances to customers (continued)

	2021 P '000	2020 P '000
Sectorial analysis:		
Central Government employees	2,238,036	1,194,009
Parastatal employees	127,666	107,446
Local government employees and other customers	150,984	207,372
	<u>2,516,686</u>	<u>1,508,827</u>
Analysis of impairment losses on loans and advances		
Opening balance	95,183	78,473
Impairment charge	24,404	16,710
Closing balance	<u>119,587</u>	<u>95,183</u>

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

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

Motheo Personal Loan was 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 P500 000 repayable over 84 months (compared to P200 000 with repayment up to 5 years for Motheo). Express is a short term loan for up to 12 months with loan amount up to Gross salary of each respective customer. No security is required for these loans as the deduction is made from source by the employer.

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

Management consider that the carrying amounts of loans and advances are a reasonable approximation of their fair value.

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
15 Balances with related parties		
Amounts due from Botswana Postal Services	65,940	95,198
Less Impairment provision	(8,512)	(15,219)
Amounts due from Botswana Postal Services	57,428	79,979

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

Fair value of balances with related parties approximates carrying amount due to their short term tenure.

Balances with related parties are subject to IFRS 9 impairment. For detailed analysis refer to accounting policy note 1.24

Analysis by period

Within 1 year	57,428	79,979
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Notes to the Annual Financial Statements [continued]

			2021 P'000	2020 P'000		
16. Property, plant and equipment						
Opening balances	Cost	Accumulated depreciation	Cost	Accumulated depreciation		
Buildings & leasehold improvements	28,703	(11,413)	27,970	(10,567)		
Furniture & Fixtures	9,110	(8,413)	9,002	(8,150)		
Motor vehicles	5,163	(2,634)	3,879	(2,690)		
Office & computer equipment	32,810	(20,216)	28,290	(17,631)		
Capital - work in progress	4,379	-	1,115	-		
	80,165	(42,676)	70,256	(39,038)		

			2021 P'000	2020 P'000		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	34,459	(12,661)	21,798	28,703	(11,413)	17,290
Furniture and fixtures	10,297	(8,749)	1,548	9,110	(8,413)	697
Motor vehicles	5,147	(2,956)	2,191	5,163	(2,634)	2,529
Office equipment	40,899	(23,870)	17,029	32,810	(20,216)	12,594
Capital - Work in progress	10,685	-	10,685	4,379	-	4,379
Total	101,487	(48,236)	53,251	80,165	(42,676)	37,489

Notes to the Annual Financial Statements [continued]

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 2021

	Opening Balance	Additions	Depreciation	Total
Buildings	17,290	5,755	(1,247)	21,798
Furniture and fixtures	697	1,187	(336)	1,548
Motor vehicles	2,529	422	(760)	2,191
Office equipment	12,594	8,089	(3,654)	17,029
Capital - Work in progress	4,379	6,306	-	10,685
	37,489	21,759	(5,997)	53,251

Reconciliation of property, plant and equipment – 2020

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

Notes to the Annual Financial Statements [continued]

	2021 P '000			2020 P '000		
17 Right of use asset and lease liabilities						
Buildings	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Reconciliation of right-of-use assets – 2021	39,212	(7,134)	32,078	27,813	(3,104)	24,709
Buildings			Opening balance	Additions	Depreciation	Total
Reconciliation of right-of-use assets – 2020			24,709	11,399	(4,030)	32,078
Buildings			Opening balance	Additions	Depreciation	Total
Lease liabilities			-	27,813	(3,104)	24,709
Cash flows and interest expense on lease liabilities						
Lease liability - Opening balance					26,220	-
Lease liability - closing balance					(35,367)	(26,220)
Additions during year					11,399	27,995
Leases - cash payments					2,252	1,775

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
17 Right of use asset and lease liabilities (continued)		
The maturity analysis of lease liabilities is as follows:		
Within one year	3,245	5,195
After 1 year, within 5 years	32,122	21,025
	35,367	26,220
The bank has entered into commercial leases for premises. The leases have an average life of between 3 and 5 years. Details of the leasing arrangements are presented above.		
Refer to note 8 for details relating to depreciation for right-of-use-assets and note 3 for interest charged on lease liabilities.		
The table below shows the total cash outflows for leases.		
Lease liability payments - Principal	2,252	1,775
Lease liability payments - Interest	2,225	1,726
Total cash outflows leases	4,477	3,501

Notes to the Annual Financial Statements [continued]

		2021 P'000		2020 P'000	
18 Intangible assets					
Opening Balance		Cost	Accumulated amortisation	Cost	Accumulated amortisation
Computer software's		16,033	(15,114)	16,031	(13,937)

		2021 P'000			2020 P'000		
		Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software		26,793	(16,965)	9,828	16,033	(15,114)	919

Reconciliation of intangible assets - 2021

		2021 P'000			2020 P'000
Opening Balance		Opening balance	Additions	Amortisation	Total
Computer software		919	10,760	(1,851)	9,828

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
19 Other assets		
Trade receivables	5,135	4,682
Accrued interest	3,256	8,370
Stock of stationery	2,262	922
	10,653	13,974

Trade receivables consists prepaid staff benefits and expenses paid in advance including rentals paid for branch outlets, annual maintenance contracts and software licence fees for several items of software and hardware used in the day to day operations of the bank.

Other Assets are considered to be low credit risk and have not been impaired.

Fair value of other assets approximates carrying amount due to their short term tenure.

20 Current tax payable

Opening Balance	28,930	5,669
Charge for the year	5,383	28,235
Tax paid during the year	(34,799)	(4,974)
Closing balance	(486)	28,930

Notes to the Annual Financial Statements [continued]

	2021 P'000	2020 P'000
21 Borrowings		
Principal amount outstanding at the beginning of the year	90,621	96,660
Repayment of principal	(5,833)	(5,833)
Interest paid during the year	(4,375)	(4,667)
Accrued Interest	4,068	4,461
	84,481	90,621

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.

Management consider that the carrying amount of borrowings are a reasonable approximation of their fair value. Maturity analysis for borrowings is presented below

Due within 12 months	84,464	90,621
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As the bank's application for a banking licence has not yet been submitted, the bank is in violation of specific loan covenants and the loan has become callable at notice as of year-end. The bank has entered into negotiations with the lender for a revision to the loan agreement, will remedy this breach. It is expected that this revision will be formalised subsequent to the reporting date. The lender has not called for early settlement.

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
22 Other liabilities		
Trade payables	63,383	86,652
Other creditors	13,476	12,539
Accrued audit fees	1,300	2,169
	78,159	101,360

Other liabilities are due and payable within 12 months of the reporting date. Fair value of other liabilities approximates carrying amount due to their short term tenure.

23 Deposits due to customers

Ordinary savings	133,587	121,275
Save-As-You-Earn	33,948	28,659
Sesigo savings	257,558	277,962
Thobo savings	6,859	11,630
Transactional account	79,053	41,733
National savings certificates (NSC)	19,398	20,687
Corporate Fixed Deposits	1,851,512	1,702,412
Corporate savings	13,332	11,839
Retail fixed deposits	115,185	96,665
Special savings account	53,763	30,546
	2,564,195	2,343,408

Notes to the Annual Financial Statements [continued]

24 Government grant

A total of P141 million was secured from the Government of Botswana as a grant to fund specific BSB projects. The bank completed new branches in Palapye, Molepolole, Gumare and Kanye, while a new cyber security system has been procured. The grant relating to new branches was limited to P22 million, while the cyber security software was limited to P14 million. The grants are amortised over the useful lives of the respective assets acquired to match with the depreciation and amortisation costs for the acquired assets.

Other projects funded by the grant but not yet fulfilled, include funding for a new core banking system at P65 million and a new branch in Maun at P2.9 million.

Management consider that the carrying amount of the government grant is a reasonable approximation of their fair value.

25 Dormancy account liability

	2021 P '000	2020 P '000
Balance at the beginning of the year	26,412	24,002
Movement for the year	1,917	2,410
Balance at the end of year	28,329	26,412

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.

Notes to the Annual Financial Statements [continued]

	2021 P '000	2020 P '000
26 Unrecallable capital		
Subscribed		
Subscribed share capital	5,000	5,000
Unrecallable capital	14,721	14,721
	19,721	19,721

Section 3 (6) of the Botswana Savings Bank 1992 provides that the Bank's authorised share capital shall be P20 million of which the first P5 million shall constitute the fully subscribed share capital. The fully subscribed share capital represents the Government's contribution towards the construction of Tshomarelo House and other set up costs.

27 Statutory reserve

Balance at the beginning of the year	58,267	54,823
Movement for the year	1,310	3,444
Balance at the end of year	59,577	58,267

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

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

28 Contingent liabilities and commitments

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

Contingencies and capital commitments	3,986	7,303
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Notes to the Annual Financial Statements [continued]

29 Pension fund

The Bank operates a defined contribution pension fund for its eligible employees. The Bank contributes 15% of the employees' basic pay and employees contribute 5% of their basic pay. See note 7.

30 COVID-19 Pandemic and Going Concern

The outbreak of the coronavirus was declared a global pandemic in March 2020. The declaration was made before the start of the financial year. The outbreak has resulted in disruption to business activity globally and the domestic market has not been spared.

The bank has been impacted by the outbreak through measures taken by the government of Botswana to curb the virus. The national lockdown and extreme social distancing saw companies not providing essential services suspending operations or implementing remote working. Some companies have taken precautionary measures such as halting operations. As COVID-19 continues to spread across the world, the widespread impact has inevitably imposed some challenges on the domestic and global economies.

Botswana Savings Bank implemented appropriate measures to ensure that employees, customers, other stakeholders are protected from the spread of the COVID-19 virus. The bank has introduced remote/shift working for its employees to ensure compliance with social distancing. A total of 45 COVID-19 cases have been reported among BSB staff out of a total 223 staff members in the financial year 2020/2021.

The bank has responded swiftly to the COVID-19 pandemic by giving cash-flow relief such as repayment holiday to eligible customers that are most affected by the pandemic. The relief was availed to selected sectors and the facility based on individual assessment. As at 31st March 2021 a total of 136 applications with an outstanding loan balance of P5.4 million have been approved. The extension to the repayment relief ended in December 2020, the normal loan repayments resumed in January 2021. Total arrears for the same period, for the 136 accounts amounted to P1 043 493.02.

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

Notes to the Annual Financial Statements [continued]

30 COVID- 19 Pandemic and Going Concern (continued)

and possible increase in cost of funding. Funds amounting to P1 214 166.00 have been spent towards the purchase of COVID-19 supplies across the Bank.

Based on available information and assessments by management, including sensitivity analysis on the entity's cashflows, the directors believe the effect of the pandemic does not have a material impact on the financial statements for the year ended 31 March 2021.

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

The Capital Adequacy Ratio(CAR) was 11.6% at year end below the 12.5% set by Bank of Botswana. To address the risk of failure to meet the prudential CAR, the bank has made a request to the government of Botswana to convert the existing borrowing to the bank into subordinated debt. Subsequent to year end the shareholders converted its loan to subordinated debt with the amount held qualifying for tier 2 capital.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

31 Assets and Liabilities by Category

The disclosed fair value of these financial assets and liabilities measured at amortised cost approximate their carrying value because of their short-term nature except for loans, advances and leases which are at variable interest rates.

Management consider that the carrying amounts of loans and advances and all other assets and liabilities are a reasonable approximation of their fair value.

Notes to the Annual Financial Statements [continued]

31 Assets and Liabilities by Category (continued)

Financial Assets and liabilities category - 2021

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Fair value
Assets					
Loans and advances to customers		2,397,099	-	2,397,099	2,397,099
Balances with other banks		113,428	-	113,428	113,428
Balances with Related Parties		57,428	-	57,428	57,428
Other assets		8,391	-	8,391	8,391
Cash and cash equivalents		391,413	-	391,413	391,413
Total Assets		2,967,759	-	2,967,759	2,967,759
Equity and Liabilities					
Liabilities					
Deposits due to customers		-	2,564,195	2,564,195	2,564,195
Borrowings		-	84,481	84,481	84,481
Government grant		-	99,423	99,423	99,423
Other liabilities		-	76,859	76,859	76,859
Total Liabilities		-	2,824,958	2,824,958	2,824,958

Notes to the Annual Financial Statements [continued]

31 Assets and Liabilities by Category (continued)

Assets and liabilities category – 2020

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Fair value
Assets					
Loans and advances to customers		1,413,644	-	1,413,644	1,413,644
Balances with other banks		937,585	-	937,585	937,585
Balances with related parties		79,979	-	79,979	79,979
Other assets		13,052	-	13,052	13,052
Cash and cash equivalents		383,178	-	383,178	383,178
Total Assets		2,827,438	-	2,827,438	2,827,438
Liabilities					
Deposits due to customers		-	2,343,408	2,343,408	2,343,408
Deferred income		-	106	106	106
Borrowings		-	90,621	90,621	90,621
Government grant		-	101,000	101,000	101,000
Other liabilities		-	99,189	99,189	99,189
Total Liabilities		-	2,634,324	2,634,324	2,634,324

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management

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

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).

Loans and advances to customers are variable rate based on the bank rate. The bank's loan arrangements with customers reserves the right to change the rate at any times the bank rate changes as set out by the central bank. The bank also reserves the right to change the interest rates on deposits to customers in line with bank rate changes as set out by the central bank.

The bank's main interest rate risk arises from retail deposits with variable rates, which exposes the bank to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in prime interest rate.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO (Assets and Liability Committee) is the monitoring body for

compliance with these limits and is assisted by Finance department in its month-to-month monitoring activities. These activities include monitoring changes in the bank's interest rate exposures, which include the impact of the bank's outstanding or forecast debt obligations and changes to exposures arising from bank rate reform.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

ALCO is responsible for setting the overall investment strategy of the bank. Finance is responsible for implementing that strategy by putting in place the individual investments arrangements.

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 2021	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000 Assets
Assets					
Cash and cash equivalents	391,249	-	-	-	391,249
Fixed deposits with Banks	-	113,428	-	-	113,428
Balances with related parties	57,428	-	-	-	57,428
Loans and advances	1,725	11,368	388,728	1,995,278	2,397,099
Total financial assets	450,402	124,796	388,728	1,995,278	2,959,204
Liabilities					
Deposits due to customers	1,257,091	901,279	405,825	-	2,564,195
Borrowings	84,464	-	-	-	84,464
Lease liabilities	1,029	2,216	19,916	12,206	35,367
Total financial Liabilities	1,342,584	903,495	425,741	12,206	2,684,026
Total interest re-pricing gap	(892,182)	(778,699)	(37,013)	1,983,072	275,178

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2020	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000 Assets
Assets					
Cash and cash equivalents	383,178	-	-	-	383,178
Fixed deposits with Banks	254,936	682,649	-	-	937,585
Balances with related parties	79,979	-	-	-	79,979
Loans and advances	4,198	20,454	463,717	925,275	1,413,644
Total financial assets	722,291	703,103	463,717	925,275	2,814,386
Liabilities					
Deposits due to customers	1,212,426	955,088	175,894	-	2,343,408
Borrowing s	90,621	-	-	-	90,621
Lease liabilities	532	1,750	11,813	12,125	26,220
Total financial Liabilities	1,303,579	956,838	187,707	12,125	2,460,249
Total interest re-pricing gap	(581,288)	(253,735)	276,010	913,150	354,137

An increase of 100 basis points in interest rates during the reporting period would have a negative yield of P0.275 million (2020: P 0.354 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 Measurement

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

Credit risk arises primarily from the following instruments:

Credit Risk Measurement

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

In order to minimise credit risk, the bank has developed and maintains its credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is based on a range of In order to minimise credit risk, the bank has developed

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

grading to categorise exposures according to their degree of risk of default. The credit rating information is based on a range of

data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default

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

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

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions; and

- Credit rating information supplied by external rating agencies.

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

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

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

Forward –looking Information Incorporated in the ECL Models

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

Grouping of Instruments for Losses Measured on a Collective Basis

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

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

Retail – Groupings for collective measurement

- Product type
- Repayment type
- Collateral type

All stage 3 exposures for retail are assessed individually.

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2021

	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Gross exposure as at 01 April 2020	1,227,638	179,885	101,304	1,508,827
Transfer to stage 1 (12-month ECL)	165,953	(137,114)	(28,839)	-
Transfer to stage 2 (Lifetime ECL)	(21,627)	25,302	(3,675)	-
Transfer to stage 3 (Credit impaired)	(9,520)	(7,318)	16,838	-
Net transfers (out)/in of stage	134,806	(119,130)	(15,676)	-
Exposure reduction from scheduled instalments	(162,699)	(7,327)	(4,536)	(174,562)
Exposure reduction from final repayments	(202,163)	(25,636)	(3,280)	(231,079)
Business activity for the year	1,368,387	34,825	10,288	1,413,500
Additions/(reductions) in exposure for the period	1,003,525	1,862	2,472	1,007,859
Gross exposure as at 31 March 2021	2,365,969	62,617	88,100	2,516,686

31 March 2020

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

Notes to the Annual Financial Statements [continued]

32 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 LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

	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 2020	10,425	15,061	69,697	95,183
Transfer to stage 1 (12-month ECL)	18,070	(10,249)	(7,821)	-
Transfer to stage 2 (Lifetime ECL)	(220)	1,807	(1,587)	-
Transfer to stage 3 (Credit impaired)	(81)	(1,070)	1,151	-
Net transfers (out)/in of stage	17,769	(9,512)	(8,257)	-
Exposure reduction from scheduled instalments	(3,913)	(336)	(2,455)	(6,704)
Exposure reduction from final repayments	(2,377)	(2,377)	(1,750)	(6,504)
Business activity for the year	21,036	10,484	7,107	38,627
Model & changes in PD's, LGD's & FLI's	(17,259)	2,879	13,365	(1,015)
Provisions for the period	(2,513)	10,650	16,267	24,404
Loss allowance as at 31 March 2021	25,681	16,199	77,707	119,587

31 March 2020

	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Loss allowance as at 01 April 2019	9,122	11,371	57,980	78,473
Transfer to stage 1 (12-month ECL)	119	(110)	(9)	-
Transfer to stage 2 (Lifetime ECL)	(4,484)	4,613	(129)	-
Transfer to stage 3 (Credit impaired)	(9,043)	(4,996)	14,039	-
Net transfers (out)/in of stage	(13,408)	(493)	13,901	-
Exposure reduction from scheduled instalments	(1,435)	(915)	109	(2,241)
Exposure reduction from final repayments	(1,947)	(1,000)	(2,539)	(5,486)
Business activity for the year	4,659	4,278	703	9,640
Model & changes in PD's, LGD's & FLI's	13,434	1,820	(457)	14,797
Provisions for the period	14,711	4,183	(2,184)	16,710
Loss allowance as at 31 March 2020	10,425	15,061	69,697	95,183

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

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

31 March 2021

	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Exposure				
Personal loans	1,767,766	50,478	77,398	1,895,642
Motor vehicle loans	14,486	-	238	14,724
Residential loans	583,717	12,139	10,464	606,320
Total	2,365,969	62,617	88,100	2,516,686
ECL				
Personal loans	25,161	15,316	75,179	115,656
Motor vehicle loans	102	-	62	164
Residential loans	418	883	2,466	3,767
Total	25,681	16,199	77,707	119,587
Coverage Ratio				
Personal loans	1.4 %	30.3 %	97.1 %	6.1 %
Motor vehicle loans	0.7 %	- %	26.1 %	1.1 %
Residential loans	0.1 %	7.3 %	23.6 %	0.6 %
Total	1.1 %	25.9 %	88.2 %	4.8 %

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2020

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

Impairment of Related Party Balances

	2021	2020
	Stage 3	Stage 3
	Lifetime ECL	Lifetime ECL
	P'000	P'000
Gross Exposure	65,940	95,198
Impairment allowance	(8,512)	(15,219)
Exposure net of Impairment Allowance	57,428	79,979
Coverage ratio	12.91 %	15.99 %

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

Probability of BPSL being liquidated	26.47 %	26.47 %
Loss in the event of a liquidation of BPSL	28.76 %	60.40 %
Impairment allowance coverage rate	17.58 %	15.99 %
Effective interest used in discounting impairment allowance	10.00 %	10.00 %

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

EXPOSURE

	March 2021	March 2020
	Stage 3	Stage 3
	Lifetime ECL	Lifetime ECL
	P'000	P'000
Gross exposure at the beginning of the year	95,198	46,468
Exposure reduction from payments	(141,007)	(66,653)
Business activity for the year	111,749	115,383
Additions in exposure for the period	(29,258)	48,730
Gross exposure at the end of the year	65,940	95,198

LOSS ALLOWANCE

	March 2021	March 2020
	Stage 3	Stage 3
	Lifetime ECL	Lifetime ECL
	P'000	P'000
Loss allowance at the beginning of the year	15,219	-
Transfer to stage 3 (Credit impaired)	-	6,797
Exposure reduction from payments	(23,273)	(9,749)
Business activity for the year	16,566	18,171
Additions/ (reductions) in exposure for the period	(6,707)	8,422
Gross exposure as at 31 March 2020	8,512	15,219

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

	2021	2020
Credit risk exposures relating to on-statement-of-financial-position assets are as follows:		
Cash and cash equivalents	391,413	383,178
Balances due from other banks	113,428	937,585
Other assets	8,391	13,052
Balances With Related Parties	57,428	79,979
Gross loans and advances to customers		
Motor vehicles advances	14,711	12,494
Residential property loans	606,115	640,463
Personal loans	1,895,860	855,870
Total on-statement of financial position exposure	3,087,346	2,922,621
Credit risk exposure relating to off-statement-of-financial-position items are as follows:		
Contingent liabilities and capital commitments	3,986	7,303
Total off-statement-of-financial position exposure	3,986	7,303
Total credit risk exposure	3,091,332	2,929,924

Loss allowance

The above table represents a worst case scenario of credit risk exposure to the bank at 31 March 2021, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

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

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.

31 March 2021	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Credit Grade				
Investment grade	1,831,729	-	-	1,831,729
Standard monitoring	534,240	-	-	534,240
Special monitoring	-	62,617	-	62,617
Default	-	-	88,100	88,100
Gross carrying amount	2,365,969	62,617	88,100	2,516,686
Loss allowance	(25,681)	(16,199)	(77,707)	(119,587)
Carrying amount	2,340,288	46,418	10,393	2,397,099

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2020

	Stage 1 12-month ECL P'000	Stage 2 Lifetime ECL P'000	Stage 3 Lifetime ECL P'000	Total P'000
Credit Grade				
Investment grade	691,042	-	-	691,042
Standard monitoring	536,596	-	-	536,596
Special monitoring	-	179,885	-	179,885
Default	-	-	101,304	101,304
Gross carrying amount	1,227,638	179,885	101,304	1,508,827
Loss allowance	(10,425)	(15,061)	(69,697)	(95,183)
Carrying amount	1,217,213	164,824	31,607	1,413,644

Risk limit control and mitigation policies

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

Exposure to credit risk is managed upfront when an application for credit is received.

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

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

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

Risk exposure to advances is reduced by obtaining approved security as defined by the Board Risk Committee and listed in the advance instruction manual.

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

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

The bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the bank since the prior period.

Collateral per class of loans and advances:

Residential Property Loans (Mortgages):

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

Motor vehicle loans:

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

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

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

Valuation Assumptions	2020		2021	
	Motor vehicle loans	Residential property loans	Motor vehicle loans	Residential property loans
Weighted average discount rate	3.50 %	4.33 %	5.00 %	5.00 %
Weighted average time to recovery	12.00	8.51	12.00	12.00
Weighted average hair cut to market value of collateral	- %	4.80 %	- %	1.82%

Financial Year End	Recovery Time	Discount Rates
FYE 31 March 2021	8 to 12 months	3.5% to 10%
FYE 31 March 2020	12 months	5%

Motor vehicle loans:

Valuation methodologies

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

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

Parastatal guarantee on Motor vehicle loans

- A haircut of 1.82% is applied to the guarantee (0% in 2019)
 - The guarantee is discounted at the risk-free rate for the estimated time to realization, 12 months in 2020 (8 months in 2019).
- Property collateral on staff residential property loans
- A haircut of 25% is applied to the most recent market value (25% in 2019)
 - The value of the collateral is limited to the book value of the loan
 - The limited collateral is discounted at 5% for the estimated time to realization, 12 months in 2020 (8 months in 2019).

Property Valuation

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

Life Insurance Valuation

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

Credit Life Insurance

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

Long-term finance and lending is generally secured. In addition, in order to minimise the credit loss the bank will seek additional collateral from the counterparty as soon as impairment

indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

i) Credit-related Commitments

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend 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 and other financial instruments

i. Credit quality and management of loans and advances Initial applications

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

- background;
- needs;

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

Subsequent credit assessments

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

- Excesses are reported and reviewed on a daily basis.
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, and bad debts written off within branch mandates.
- The credit 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 clients with exposures approved above branch level are interviewed by credit before non- performing accounts are transferred to legal collection branch.
- All transfers to the legal collections branch with an impairment provision higher than P2,000 are scrutinised by the credit department and categorised under:

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

The bank has a process to proactively manage potential problem accounts to prevent possible losses.

These advances are identified with assistance of the branches and are part of monthly credit reporting processes. Impairment provisions on these active accounts are raised in accordance with the credit poli

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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

	2021		2020	
	Loans and advances to other customers	Due from banks	Loans and advances to other customers	Due from banks
	P'000	P'000	P'000	P'000
Neither past due nor impaired	2,428,586	113,428	1,407,523	937,585
Individually impaired	88,100	-	101,304	-
Gross	2,516,686	113,428	1,508,827	937,585
Less: allowance for impairment	(119,587)	-	(95,183)	-
Net	2,397,099	113,428	1,413,644	937,585

a) Loans and advances neither past due nor impaired Loans and advances to customers in this category primarily comprise structured finance to clients, which have no evidence of a deterioration of credit quality.

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

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.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2021	Neither past nor impaired	Past due but not individually impaired	Individually impaired	Total
	P'000	P'000	P'000	P'000
Exposure				
Personal loans	1,767,766	50,478	77,398	1,895,642
Motor vehicle advances	14,486	-	238	14,724
Residential property loans	583,717	12,139	10,464	606,320
	2,365,969	62,617	88,100	2,516,686

31 March 2020	Neither past nor impaired	Past due but not individually impaired	Individually impaired	Total
	P'000	P'000	P'000	P'000
Exposure				
Personal loans	702,568	93,525	60,519	856,612
Motor vehicle advances	11,717	518	259	12,494
Residential property loans	513,353	85,842	40,526	639,721
	1,227,638	179,885	101,304	1,508,827

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2021	Motor Vehicle advances	Residential property loans	Personal loans	Total	Related party
Stage 1	14,486	583,717	1,767,766	2,365,969	-
Stage 2	-	12,139	50,478	62,617	-
Stage 3	238	10,464	77,398	88,100	65,940
	14,724	606,320	1,895,642	2,516,686	65,940
Fair value of collateral	(9,226)	(475,589)	(72)	(484,887)	-
Total	5,498	130,731	1,895,570	2,031,799	65,940
Impairment raised against unsecured amounts	(164)	(3,767)	(115,656)	(119,587)	(8,512)
Net exposure	5,334	126,964	1,779,914	1,912,212	57,428

31 March 2020	Motor Vehicle advances	Residential property loans	Personal loans	Total	Related party
Stage 1	11,717	513,353	702,568	1,227,638	-
Stage 2	518	85,842	93,525	179,885	-
Stage 3	259	40,526	60,519	101,304	95,198
	12,494	639,721	856,612	1,508,827	95,198
Fair value of collateral	(8,784)	(521,402)	(378)	(530,564)	-
Total	3,710	118,319	856,234	978,263	95,198
Impairment raised against unsecured amounts	(284)	(16,725)	(78,174)	(95,183)	(15,219)
Net exposure	3,426	101,594	778,060	883,080	79,979

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any over- collateralised 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.

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

31 March 2021

	Carrying amount P'000	Investment grade (AAA to BBB) P'000	Unrated P'000	Total P'000
Cash and cash equivalents	391,413	-	391,413	391,413
Balances with related parties	57,428	-	57,428	57,428
Balances with other banks	113,428	-	113,428	113,428
Other assets	8,391	-	8,391	8,391
Non-financial assets	125,555	-	125,555	125,555
Total assets (excluding loans and advances and other securities)	696,215	-	696,215	696,215

31 March 2021

	Carrying amount P'000	Investment grade (AAA to BBB) P'000	Unrated P'000	Total P'000
Cash and cash equivalents	383,178	-	383,178	383,178
Balances with related parties	79,979	-	79,979	79,979
Balances with other banks	937,585	-	937,585	937,585
Other assets	13,052	-	13,052	13,052
Non-financial assets	90,084	-	90,084	90,084
Total assets (excluding loans and advances and other securities)	1,503,878	-	1,503,878	1,503,878

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

Unrated exposures consist mainly of cash balances, due from other banks and Bank of Botswana certificates, which are short term and highly liquid in nature. Historical probability of default for Botswana commercial banks and the central bank is zero and the same trend is expected to continue for the foreseeable future. Other assets consist of accounts receivable as well as clearing and settlement accounts. Rated and unrated exposures are not collateralised.

Cash and cash equivalents and balances with other bank's are considered to have a low credit risk. The bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'Investment grade (AAA to BBB)'.

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 %

Reposessed Collateral

The bank obtains assets by taking possession of collateral held as security. During the reporting period collateral reposessed included government guarantees on GEMVAS residential properties, which came on the form of cash. Reposessed assets is classified in the statement

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 Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

	balances with the Central Bank P'000	other banks P'000	advances to staff P'000	advances to customers P'000	P'000	P'000
Finance and insurance	19,651	485,190	90,692	-	-	595,533
Government	-	-	-	2,269,433	-	2,269,433
Other	-	-	-	36,974	193,289	230,263
	19,651	485,190	90,692	2,306,407	193,289	3,095,229

31 March 2020	Cash and balances with the Central Bank 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	19,721	1,299,833	89,998	-	-	1,409,552
Government	-	-	-	1,205,500	-	1,205,500
Other	-	-	-	118,146	185,246	303,392
	19,721	1,299,833	89,998	1,323,646	185,246	2,918,444

Liquidity Risk

Finance and insurance

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.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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:

(e) 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;

(f) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen

interruption to cash flow;

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

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

(i) Management of Liquidity Risk

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

(ii) Exposure to Liquidity Risk

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

Maturity analysis table

31 March 2021	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets	P'000	P'000	P'000	P'000	P'000
Cash and cash equivalents	391,413	-	-	-	391,413
Fixed deposits with Banks	-	113,428	-	-	113,428
Loans and advances to customers	1,725	11,368	388,728	1,995,278	2,397,099
Balances with related parties	57,428	-	-	-	57,428
Other assets	6,534	1,832	25	-	8,391
Total assets	457,100	126,628	388,753	1,995,278	2,967,759

31 March 2021	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities	P'000	P'000	P'000	P'000	P'000
Due to customers	1,257,091	901,279	405,825	-	2,564,195
Other liabilities	76,862	-	-	-	76,862
Government Grant	99,423	-	-	-	99,423
Borrowings	84,481	-	-	-	84,481
Dormancy account liability	28,329	-	-	-	28,329
Lease Liabilities	1,029	2,216	19,916	12,206	35,367
Total liabilities	1,547,215	903,495	425,741	12,206	2,888,657

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

31 March 2020	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets	P'000	P'000	P'000	P'000	P'000
Cash and cash equivalents	383,178	-	-	-	383,178
Fixed deposits with Banks	254,936	682,649	-	-	937,585
Loans and advances to customers	4,198	20,454	463,717	925,275	1,413,644
Balances with related parties	79,979	-	-	-	79,979
Other assets	13,052	-	-	-	13,052
Total assets	735,343	703,103	463,717	925,275	2,827,438

31 March 2020	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Liabilities	P'000	P'000	P'000	P'000	P'000
Due to customers	1,212,426	955,088	175,894	-	2,343,408
Other liabilities	99,191	-	-	-	99,191
Government Grant	101,000	-	-	-	101,000
Borrowings	90,621	-	-	-	90,621
Dormancy account liability	-	-	-	26,412	26,412
Lease Liabilities	26,220	-	-	-	26,220
Total liabilities	1,529,458	955,088	175,894	26,412	2,686,852

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

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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	504,841	1,320,763
Total deposits	2,564,195	2,343,408
Ratio	20 %	56 %

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

- (i) Notes and coins;
- (j) Balances due from Bank of Botswana excluding primary reserve requirement balances;
- (k) Balances due from domestic banks with maturities less than 184 days;
- (l) Treasury bills equal to or less than 6 months;
- (m) Government bonds with maturities

less than 12 months;

- (n) Bank of Botswana Certificates - those pledged as security;
- (o) Other government obligations with less than 12 months' maturity; and
- (p) 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 12.5% 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:

- (q) Tier 1 (core) capital, comprising mainly shareholders' funds, is the highest tier
- (r) Tier 2 capital includes perpetual, medium and long term subordinated debt and general provisions for bad and doubtful debts.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

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 strives to always comply with all externally imposed capital requirements, this has been the case with most of the current financial year, however the rapid rise in the bank's lending portfolio did put pressure in its capital by end of its financial year. While the bank did approach its shareholders for assistance, such could not be done before year end.

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

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

For prudential supervisory purposes, Tier 1 capital consists of unrecallable share capital together with the general and the statutory reserves. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the period. The capital adequacy ratio 11.6% as at 31 March 2021 (2020: 17.3%). The low ratio is as a result of higher risk weighted assets. The minimum capital adequacy rate as set by the Bank of Botswana is 12.5%.

Notes to the Annual Financial Statements [continued]

32 Financial Risk Management (Continued)

The following table shows the capital adequacy for the Bank and the risk weighted assets based on Basel II.

Tier 1 capital

Share capital	19,721	19,721
Statutory Reserves	59,577	58,267
Retained earnings	126,324	122,399
IFRS 9 Provisions Transitional Adjustments	4,101	8,202
Deduct		
Intangible assets	(9,828)	(919)
Total Tier 1 Capital	199,895	207,670

Tier 2 capital

Provisional reserve	22,497	14,614
Total qualifying capital	222,392	222,284
Credit RWAs	1,792,889	1,170,527
Operational RWAs	125,309	116,457
Total Risk Weighted Assets	1,918,198	1,286,984
Tier 1 risk based capital ratio (minimum 7.5%)	10.4 %	16.1 %
Total risk-weighted capital ratio (minimum 12.5%)	11.6 %	17.3%

Notes to the Annual Financial Statements [continued]

33 Related Parties

100% shareholding

Botswana Government

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

Key members of management refers to the bank's board of directors, executive management team and senior management team.

Information on borrowings from the Botswana Government is disclosed in note 22.

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

Balance due from BPS

Balance of fees, deposits and withdrawals made at BPS branches	65,940	95,198
Impairment provision	(8,512)	(15,219)
	57,428	79,979

Balance due to related parties

Interest due on Borrowings - Botswana Government	2,814	3,121
Capital due on borrowings - Botswana Government	81,667	87,500
Deferred Grant - Botswana Government	99,423	101,000
	183,904	191,621

Notes to the Annual Financial Statements [continued]

33 Related Parties (Continued)

Transactions with Botswana Post

Fees and commissions paid to BPS	2,804	3,558
Total amount of net deposits received from Botswana Post	139,943	92,263
Gratuities and leave pay	5,967	6,559
	148,714	102,380

Compensation to Executive and Senior management

Salaries and allowances	6,024	5,733
Gratuities and leave pay	1,902	1,631
	7,926	7,364

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

A list of members of the Board of Directors is disclosed in General Information. Directors' remuneration is disclosed in note 9.

Loans to non-executive directors

Executive	8,998	11,891
Non-executive directors loans	564	479
	9,562	12,370

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