BOTSWANA SAVINGS BANK

welcome to smooth banking

Botswana Savings Bank
Financial Statements
for the year ended March 31, 2022

Contents

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.

Directors	Name	Position	First Appointment	Expiry/Terminated
	Mr K Molelowatladi	Chairperson	01/07/2018	30/06/2022
	Mrs G Morekisi	Chairperson	01/07/2022	30/06/2026
	Mrs K Tshephe	Member	24/9/2021	23/9/2025
	Mr N Marumoloa	Chief Executive Officer	01/04/2018	Further notice
	Ms O Basinyi	Member	01/11/2017	31/10/2024
	Mr C Ramatlhakwane	Member	01/07/2018	Further notice
	Mrs S M Molale	Member	01/07/2018	30/06/2026
	Mrs E T Lemo	Member	01/07/2018	30/06/2025
	Mrs Hilda Mocuminyane	Member	24/09/2021	23/09/2025
	Mr M Libengo	Member	01/04/2015	30/06/2021
	Mrs M Gaobakwe	Member	01/02/2015	30/06/2021
	Mr T Gabaraane	Member	01/05/2015	30/06/2021
	Mrs N Maruapula	Member	11/01/2021	31/10/2025

Registered office
Botswana Savings Bank
Tshomarelo House
Cnr Letswai/Lekgarapa Rd
Broadhurst Mall
Gaborone

Postal address
P.O Box 1150
Gaborone

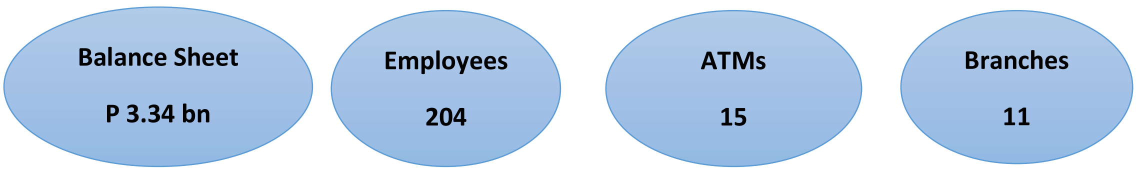
Bankers
Bank of Botswana
Stanbic Bank Botswana Limited
ABSA Bank Botswana
Capital Bank Botswana Limited
Access Bank Botswana
Bank Gaborone Limited
First National Bank of Botswana Limited
Bank Gaborone Limited

Auditor
Deloitte & Touche
Firm of Certified Auditors
P.O Box 778
Gaborone, Botswana

General Information

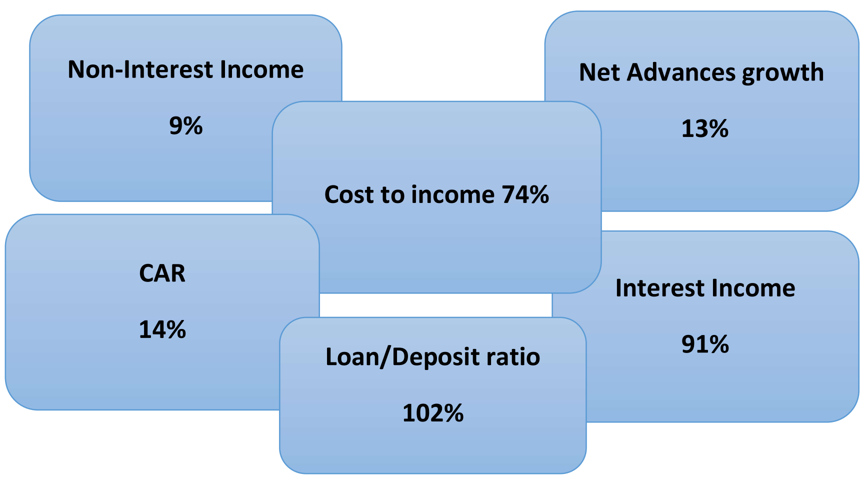
Botswana Savings Bank (BSB) is an institution wholly owned by the Government of Botswana with a specific mandate of mobilising the nation to save as well as providing inclusive financial services. The Bank is governed by an Independent Board of Directors which reports to the Ministry of Finance. Botswana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

Employing two hundred and four (204) employees, Botswana Savings Bank services customers throughout the country through the Botswana Postal Services, (core branded) and stand-alone branches, network of fifteen ATM's, ten slimline ATM's and five with deposits.



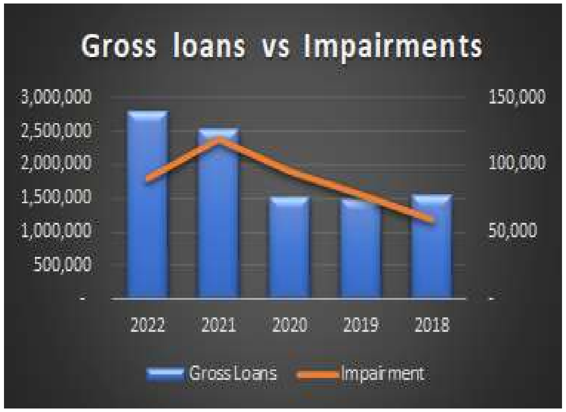
Financial highlights

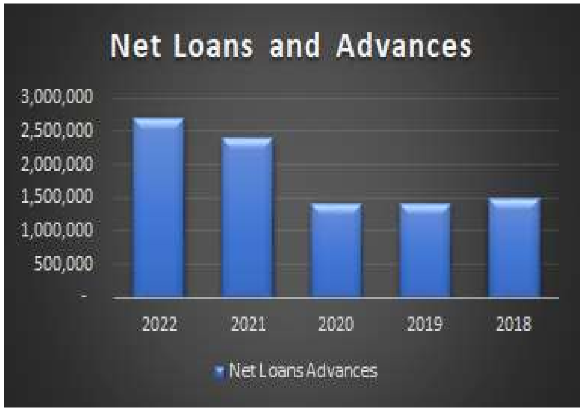
We are committed to achieving growth, performance and sustainable business and we are committed to delivering on our financial inclusion mandate for our customers and communities as set up by the government of Botswana.

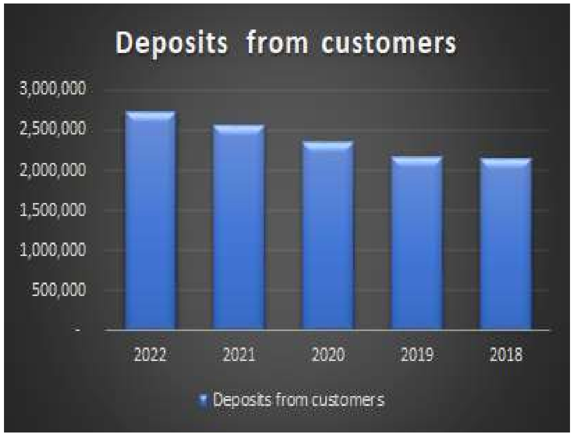


General Information

Financial highlights Continued.....







General Information

Non-Financial Highlights

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

- Improving access to financial solutions for a customer base that is defined as underserved by financial institutions.

- Increased access to customers in areas with low electronic financial access. The Bank plans to launch a digital banking platform in the third quarter of the next financial year, the planned platform will further expand the Bank's financial inclusion initiative. This will allow us to continue providing easier access to our solutions to the underserved, while reducing the costs of providing these services to these markets.

Chairman's Report

Overview

The year 2021/2022 was extremely challenging, as Covid_19 persisted, adding a burden to world economies, to businesses and disrupted and strained peoples' lives. As a small state-owned bank however, we remained ever so resilient, delivering to our customers and the shareholder improved value by adding to our financial inclusion initiatives new branches, modernised our banking technology and at the same time kept our cost to serve at a minimal. The delivery of a new core banking solution is particularly important as it paves way for adoption of digital channels, which will place the Bank on equal footing with the rest of the banks in our market.

Financial Performance.

The financial performance shows a great deal of improvement. In almost all key financial ratio's, we have seen marked growth when compared to the year before, led by a growth in advances, improved turnover, and profitability. Remarkable too has been the growth in savings year on year, during an era of social strife and job losses, underpinning the faith and trust customers have in the Bank and its services. The reported profit grew from P5.24m earned the year before to P 34.3m, which is a return of 14.3% on equity. This performance in a year where the Bank has been discussing the need to go commercial, is very encouraging, especially as the Bank has achieved this result without government injecting any cash to support the business.

Delivering on our Strategy

March 2022 marked the end of our five-year strategy. The building blocks to position the Bank to become a commercial and competitive enterprise have been steadily placed since the beginning of our transformation journey. Despite challenges at the early stages of the strategy, our team has shown resilience and played an important role in delivering results.

With high staff engagement levels remaining a high priority, we will stay focused on raising productivity through improved talent management and wellness initiatives. A successful implementation of a new organisational structure ensured alignment with the Bank's excellent customer service dream.

Through a strong leadership team, it has been encouraging to witness the transformation of this Bank from a traditional manual banking business into a more digitised automated bank. I am happy that the recently implemented organisational and reward structure gives due recognition to the need to recruit and retain top talent that is necessary for the continued success of the Bank.

We are especially thankful that our shareholders have kept faith in our growth initiatives by supporting us in carrying out or mandate of financial inclusion. The implementation of the new Core Banking Solution and additional Automated Teller Machines were some of the notable deliveries in this financial year.

Regulatory Compliance

My Board believes that the Bank must always comply with all prescriptions, including the maintenance of the required capital, liquidity as well as ensure that depositor's funds are safe. A strict compliance regime is deemed essential as the Bank examines the path to commercialisation, a step that once achieved, should position the Bank amongst the elites of the local banking sector.

The Board remains satisfied that the regulatory environment is safe and such faith can also be traced to the positive response from the market in the last two years as deposits from clients as well as advances have taken an upward trajectory.

Corporate Governance

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

GM

Chairman's Report

Corporate Governance (continued)

The Board does acknowledge that it has not always been able to meet in person on several occasions due to covid protocols. Alternative arrangements were however made to have meetings online, allowing the Board to fulfil its required duties and responsibilities. This goes for all the committees of the Board as well. The Board recognises the value of in person meetings and have since the easing of covid protocols, begun, where possible, physical meetings.

The Board has undergone some changes in the last financial year. Such changes are communicated elsewhere in the report for appreciation.

Risk Management

Liquidity, credit, market, and operational risks remain on the Bank's radar of significant risks. These risks, together with all emergent risks are the responsibility of the Risk & Compliance Committee, before being escalated to the Board. The Bank continues to modernise its processes, policies including, anti-money laundering/countering the financing of terrorism policies as a way of securing and protecting the business and its investments.

Capacity building initiatives around risk management continue to be rolled to both staff and the Board to assist in the execution of Board and staff responsibilities. Such great work has shielded the business well when managing portfolio risk emanating from the effects of covid.

Looking Ahead

The Bank continuous to show great promise. I believe that the challenge the Board has set for management to turn this business commercial, is attainable. The building blocks are already in place. I remain confident that despite the rapid changes in our economic environment, our strategic priorities will enable us to continue to grow this business.

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 also like to personally extend my sincere gratitude to the management team and staff of the Bank for their dedication throughout the years.

To our valued customers, I am incredibly grateful for your support, loyalty, and patronage that the Bank has enjoyed, despite Covid_19.

Finally, I would like to thank my fellow Board members from whom I have drawn some wisdom and insights.

Goitsemang Morekisi
Chairperson
September 09, 2022

Chief Executive Officer's Report

Executive summary

The year ended March 31, 2022, marks the end of the BSB strategic planning period, a period that was marked by transition and transformation. As part of this journey, the Bank aimed to complete its digitisation and organisational realignment initiatives as a precursor to an envisioned no-frills commercial bank.

During this period, COVID-19 has had a severe impact on many industries and the livelihoods of many across the country, with very few industries remaining unscathed. Despite these challenges, the Bank managed to pull through and achieve most of its critical key performance areas resulting in profitability and realignment of its organizational and digital structures.

As a result of the resilience the Bank has shown in the past year, the envisioned dream of a no-frills commercial bank looks promising and achievable within the ensuing strategic period.

Financial performance

- Net interest income increased by 27% to P164 million (2021: P129 million)
- Operating costs were up 23% year on year to P134 million (2021: P109million)
- Profit after tax was P34.3 million, up from 2021 profit of P5.24 million.
- Net advances were up 13% to P2.70 billion (2021: P2.40 billion)
- Customer savings were up 7% to P2.74 billion (2021: P2.56 billion)
- Return on Equity was 14.4% (2021: 2.5%)

Liquidity

The market has experienced a rise in competition for bank's deposits due to a sharp decline in liquidity. Interest rates have also increased, compressing interest margins. Despite these challenges, the Bank was able to honour its commitments throughout the year.

Risk Management

BSB is a state - owned enterprise that is supervised by the Bank of Botswana. The Bank continued to remain compliant with the central bank regulatory requirements as well as the international banking standards. The Bank managed to achieve Capital Adequacy Ratio of 14% by the end of the financial year.

In carrying out the operations of the Bank, the Operational Risk Management Framework is in accordance with ISO 31000 Risk Management Guidelines together with the COSO Enterprise Risk Management Framework. It is used as a tool in the management of risk and opportunities associated with achieving the Bank's strategic plan. Performance measures against the risk appetite are reported to the Board through the Risk & Compliance Committee.

Whilst the overall corporate governance responsibility rests with the Board of Directors, risk management is coordinated and monitored by the Bank's Executive Management through the Risk Department. The responsibility for the implementation of risk management is shared with all staff members across the Bank.

Chief Executive Officer's Report

Strategic Thrust

Service accessibility and financial inclusion

For the year under review, four (4) new branches, two (2) smart branches in Kanye and Gumare and two (2) full branches in Molepolole and Maun were added to the list of service centers. These branches, fully funded by government as part of financial inclusion are fully equipped to render a full bouquet of services offered by the Bank, allowing local customers a choice of services never before provided.

Digital transformation

Through its digitisation drive, the Bank managed to implement a new Core Banking Solution that will form the bedrock, of the Banks' participation in the digital era, phasing out its identity as a manual bank. The Bank also installed four more Automated Teller Machine (ATMs) in Gumare, Kanye, Molepolole and Maun.

The Bank plans to expand into digital channels in the ensuing year. These digital channels will include Point of Sale Machines, cellphone and online banking, allowing the customers to manage their accounts from anywhere. The digitalised system will ensure even smoother, and faster turnaround time, better services, harnessing the greatest potentials of technology.

Human capital strength

Notwithstanding the benefit of technology, the Bank holds its human capital as its most valuable asset, and capacity building and strategic resourcing remained key in driving the success and vision of the business.

In the year under review, the Bank successfully completed a transformation process of realigning the organisation structure with the new strategic demands. The new structure amongst others expanded the executive management span of control from two (2) to five (5) directors. This is expected to bring efficiency and improved decision time.

On staff welfare, Covid-19 was the main impediment to staff wellbeing. I am pleased to report that despite the registered number of cases experienced and health disruptions, no member of the staff has succumbed to the virus. In responding to the reported mental health impact of COVID-19 coupled with the restructuring initiative, management placed staff welfare as a central theme for the year, providing staff with counselling to overcome the emotional challenges of change and Covid. This has been continued into the new year to manage anxiety levels.

Looking Forward

With the digital and human capital foundations the Bank has set for itself, the focus will now shift to achieving commercialisation. This will be achieved by continuously growing the business and ensuring sustainability through customer service excellence, operational efficiency, and innovation.

The Bank will also continue to strengthen its human capital through initiatives that will include employee engagement. This will be achieved through the improvement of employee wellness programme and talent management initiatives.

It is the Bank's belief that these initiatives will translate to an improved customer experience through faster turnaround time, product relevance as well as service accessibility.

Chief Executive Officer's Report

Conclusion

To the shareholder and the Board of Directors, thank you for being able to facilitate the Bank to navigate the challenges of the past year, successfully.

I would also like to thank and congratulate the Bank staff for having worked tirelessly through the effects of Covid, particularly the resolve to work together collectively to deliver this amazing set of results. It is through hard work and dedication of each and every one of us, that we have been able to deliver good 2022 results.

To our valued customers, I would like to thank you for your patience, continued support and loyalty, and more importantly, for trusting us to grow your wealth.

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
September 09, 2022

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 financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the 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 financial statements and their opinion is presented on pages 12 to 15.

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

The Directors 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 whether the Bank's financial statements give a true and fair view in accordance with the International Financial Reporting Standards.

Approval of the annual financial statements

The financial statements of Botswana Savings Bank, as set out on pages 16 to 85, were approved by the Board of Directors on September 09, 2022 and signed on their behalf by:

Mrs G Monekisi
Chairperson
September 09, 2022

Mr N Marumoloa
Chief Executive Officer
September 09, 2022

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF BOTSWANA SAVINGS BANK

Opinion

We have audited the financial statements of Botswana Savings Bank ("the Bank"), set out on pages 16 to 85, which comprise the statement of financial position as at 31 March 2022, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies including the notes to the financial statements.

In our opinion, the Financial Statements give a true and fair view of financial position of the Bank as at 31 March 2022, and it's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards) and other independence requirements applicable to performing audits of financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Expected credit losses (“ECL”) on loans and advances</td></tr>
<tr><td>
The Bank applies IFRS 9 - Financial Instruments (“IFRS 9”), which requires it to assess allowances for impairment of loans and advances on an expected loss basis. Accordingly, the Bank measures such allowances using its own impairment model to calculate Expected Credit Losses (“ECLs”).

The impairment of loans and advances was considered to be a matter of significant importance to our current year audit due to the following:

• Loans and advances are material to the financial statements;
• The level of subjective judgement applied in determining the ECL on loans and advances; and
• Significant assumptions applied in the recognition and measurement of credit risk.

Key areas of significant management judgement and estimation applied in the measurement of ECL on loans and advances include:

• The assessment of whether there has been a Significant Increase in Credit Risk (“SICR”) since origination date of the exposure to the reporting date;
• Determination of relevant macroeconomic forecasts and forward-looking information;
• The determination of the lifetime of a financial instrument subject to ECL assessment; and
• 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 1.20 to the financial statements.

Related disclosures in the financial statements:

• Note 1.8 - Financial instruments - Credit risk measurement;
• Note 1.20 - (a) Key sources of estimation uncertainty - Measurement of Expected credit losses (ECL);
• Note 6 - Net impairment reversal/(loss) of financial assets;
</td><td>
We assessed the ECL policies and judgements applied by management against the requirements of IFRS 9. In addition, we evaluated the design and implementation, of key controls over the loan and advances impairment process, focusing on the identification of the ECL, the management processes implemented for credit model and inputs into the ECL model.

Making use of our Deloitte internal credit risk specialist we reperformed and assessed the reasonableness of the ECL calculation by performing the following procedures:

• Obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and assessed these against the requirements of IFRS 9 and best practice;
• Assessed and challenged management on the data inputs and key assumptions into the ECL model, which includes the estimated macroeconomic inputs, stage classification of exposures and the estimated probability of default, exposure at default and loss given default;
• valuated the ECL model and key assumptions applied in the calculation of the ECL and accuracy of the calculations in the model;
• Confirmed that the latest available and relevant probability weighted forward-looking information has been appropriately incorporated within the impairment model by comparing these to widely available market data;
• Tested the information with respect to loans and advances utilised in the model to underlying accounting records and other information such as loan agreements and collateral valuation reports maintained by the Bank; and
• Evaluated the adequacy of the financial statement disclosures including key assumptions, judgements, and sensitivities.
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INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDER OF BOTSWANA SAVINGS BANK

Key Audit Matter	How the matter was addressed in the audit
Expected credit losses ("ECL") on loans and advances	
Note 14 – Loans and Advances to customers; and Note 32 - Financial risk management: credit risk section.	In conclusion, we evaluated the impairment of loans and advances to customers is not materially misstated and the related disclosures are appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the General Information, Chairman's Report, Chief Executive Officer's Report and Directors' Responsibilities Statement. 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 Financial Statements, our responsibility is to read the other information 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 on the other information that we obtained prior to the date of this auditor's report, 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

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.

The directors are responsible for overseeing the Bank's financial reporting process.

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.

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Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 o missions, misrepresentations, or the override of internal control.

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

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

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

- 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 Finance and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Finance and Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Finance and Audit Committee, 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.

Deloitte & Touche

Deloitte & Touche
Firm of Certified Auditors
Practicing Member: Cecilia Veeta Ramatlapeng (CAP 008 2022)

27 September 2022
Gaborone

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2022 P '000	2021 P '000
Interest income*		301,466	230,543
Interest expense		(137,667)	(101,112)
Net interest income	3	**163,799**	**129,431**
Fee and commission income		12,503	13,676
Fee and commission expense*		(10,314)	(8,771)
Net fee and commission income	4	**2,189**	**4,905**
Net operating income		**165,988**	**134,336**
Other income*	5	3,027	10,100
Amortisation of government grant income	24	9,842	1,577
Total income		**178,857**	**146,013**
Net impairment reversal/(loss) of financial assets	6	12,904	(17,532)
Net income		**191,761**	**128,481**
Employee benefits	7	(83,151)	(57,651)
Depreciation and amortisation	8	(16,345)	(11,878)
Administrative and general expenses*	9	(48,850)	(51,279)
Profit before tax		**43,415**	**7,673**
Taxation	10	(9,073)	(2,438)
Profit for the year		**34,342**	**5,235**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**34,342**	**5,235**

* Refer to significant accounting policy note 1.21 for details of reclassifications.

Statement of Financial Position as at March 31, 2022

	Note(s)	2022 P '000	2021 P '000
Assets			
Cash and cash equivalents	12	402,083	391,413
Balances with other banks	13	7,623	113,428
Balances with related parties	15	50,443	57,428
Other assets	19	8,610	10,653
Loans and advances to customers*	14	2,698,368	2,397,099
Current tax receivable	20	263	486
Property, plant and equipment	16	77,101	53,251
Right-of-use assets	17	30,287	32,078
Intangible assets	18	37,196	9,828
Deferred tax	11	27,444	29,912
Total Assets		**3,339,418**	**3,095,576**
Liabilities			
Deposits due to customers*	23	2,737,658	2,564,195
Other liabilities*	22	41,915	78,159
Borrowings	21	166,879	84,481
Dormancy account liability	25	29,108	28,329
Government grant	24	89,581	99,423
Lease liabilities	17	34,313	35,367
Total Liabilities		**3,099,454**	**2,889,954**
Equity			
Unrecallable capital	26	19,721	19,721
Statutory reserves	27	68,163	59,577
Retained earnings		152,080	126,324
		239,964	**205,622**
Total Equity and Liabilities		**3,339,418**	**3,095,576**

* Refer to significant accounting policy note 1.21 for details of reclassifications.

Statement of Changes in Equity

	Unrecallable capital P '000	Statutory reserves P '000	Retained earnings P '000	Total equity P '000
Balance at 01 April 2020	**19,721**	**58,267**	**122,399**	**200,387**
Total comprehensive income for the year	-	-	5,235	5,235
Transfer between reserves	-	1,310	(1,310)	-
Balance at April 1, 2021	**19,721**	**59,577**	**126,324**	**205,622**
Total comprehensive income for the year	-	-	34,342	34,342
Transfer between reserves	-	8,586	(8,586)	-
Balance at March 31, 2022	**19,721**	**68,163**	**152,080**	**239,964**
Note(s)	26	27		

Statement of Cash Flows

	Note(s)	2022 P '000	2021 P '000
Cash flows from operating activities			
Interest receipts		303,959	235,657
Interest payments		(107,673)	(112,479)
Fees and commission receipts		12,503	13,676
Rent and other income received		3,027	10,025
Cash payments to employees and suppliers		(139,614)	(121,699)
Cash flows from operating activities before changes in operating assets and liabilities		**72,202**	**25,180**
Changes in operating assets and liabilities			
Movement in loans and advances to customers		(306,559)	(1,003,701)
Movement in deposits due to customers		153,932	220,787
Movements in other assets		(450)	(1,793)
Movements in other liabilities		(28,024)	(5,537)
Movement in deferred income		-	(106)
Movement in related party balances		13,602	29,259
Movement in dormancy account liability		779	1,917
Tax paid		(6,382)	(34,799)
Net cash used in operating activities		**(100,900)**	**(768,793)**
Cash flows (to)/from investing activities			
Purchase of property, plant and equipment	16	(31,921)	(21,759)
Sale of property, plant and equipment		-	75
Purchase of other intangible assets	18	(31,715)	(10,760)
Receipts from fixed deposits with banks		105,805	936,558
Payments into fixed deposits with banks		-	(112,401)
Net cash generated from investing activities		**42,169**	**791,713**
Cash flows (to)/from financing activities			
Borrowings raised	21	100,000	-
Repayment of principal - long term borrowings	21	(17,407)	(5,833)
Repayment of interest - long term borrowings	21	(8,243)	(4,375)
Lease liability payments - principal		(2,534)	(2,252)
Lease liability payments - interest		(2,415)	(2,225)
Net cash generated from/(used in) financing activities		**69,401**	**(14,685)**
Net movement in cash and cash equivalents for the year		**10,670**	**8,235**
Cash and cash equivalents at the beginning of the year		391,413	383,178
Total cash and cash equivalents	12	**402,083**	**391,413**

Significant Accounting Policies

1. Statement of compliance

The statutory financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRIC). These financial statements represent the Bank's statutory financial statements and have been approved by the Board of Directors on Friday, September 09, 2022.

1.1 Basis of preparation

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

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

The estimates and underlying assumptions are reviewed on an on-going basis. 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. 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.

1.3 Revenue from contracts with customers

The Bank applies IFRS 15 Revenue from Contracts with Customers.

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.

The Bank 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.

Significant Accounting Policies

1.3 Revenue from contracts with customers (continued)

The Bank applies IFRS 15 - Revenue from Contracts with Customers to the following sources of revenue:

- Fees and commissions income

Fees and commission income

Fees and commission comprise of fees charged to customers such as insufficient 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 is recognised when earned and comprises of:

- Rentals;
- Social benefits allowance fees;
- Rooftop satellite hosting fees; and
- Other non-operating income streams.

1.5 Deferred income

Deferred income relates to grant income relating to capital projects. Deferred income is initially recognised as a liability. Subsequently, the deferred income is released to the statement of profit or loss and other comprehensive income over the expected life of the asset at the same rate at which the related asset is depreciated.

1.6 Agency fees

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

1.7 Employee benefits

Short-term employee benefits

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

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

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

Significant Accounting Policies

1.7 Employee benefits (continued)

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.

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

Pension obligations

The Bank operates a defined contribution pension scheme and its assets are managed by an independent fund 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

Initial recognition and measurement

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would consider when pricing the asset or liability.

Classification and subsequent measurement of financial assets

Management determines the classification of its financial assets at initial recognition, based on:

- the Bank's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

1.8 Financial instruments (continued)

Business model

The Bank distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument-by-instrument basis, but at a level that reflects how portfolios of financial assets are managed together to achieve a particular business objective.

In considering whether the business objective of holding a portfolio of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the Bank only considers a transaction a sale if the asset is derecognised for accounting purposes.

Cashflow characteristics

For a debt instrument to be measured at amortised cost, the cash flows on the asset have to be SPPI (solely payments of principal and interest), consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised.

If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

Amortised cost

Financial assets are measured at amortised cost using the effective interest method, when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These comprise of the retail loans and advances, related party receivables, lease receivables, balances with other banks, cash and cash equivalents.

For purchased or originated credit-impaired financial assets, the Bank applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset and incorporates the impact of expected credit losses in the estimated future cashflows of the financial asset.

Cash and cash equivalents is comprised of coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturing date of less than three months from the date of acquisition. Money at call and short notice constitutes amounts withdrawable in 90 days or less.

Retail loans and advances are held to collect contractual cash flows. The business model focus on growing advances within acceptable credit appetite limits and maintaining robust collection practices. The products included under this business models include:

- residential mortgages;
- vehicle finance; and
- personal loans.

Significant Accounting Policies

1.8 Financial instruments (continued)

The cash flows on retail loans and advances are solely payments of principal and interest. Interest charged to customers compensates the Bank for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Classification and subsequent measurement of financial liabilities

The Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement.

Financial liabilities measured at amortised cost

The following liabilities are measured at amortised cost using the effective interest rate method:

- deposits;
- creditors;
- lease liabilities; and
- borrowings.

Impairment of financial assets and off-balance sheet exposures subject to impairment.

This policy applies to financial assets, measured at amortised cost which includes:

- Loans and advances;
- Cash equivalents;
- Loan commitments;
- Lease receivables; and
- Related parties receivables.

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

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

Loans and advances

Significant increase in credit risk since initial recognition (SICR)

To determine whether loans and advances have experienced a significant increase in credit risk (SICR), the probability of default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the Bank re-prices loans and advances/facility. A change in terms and conditions results in derecognition of the original loan and advance/facility and recognition of a new loan and advance/facility.

Significant Accounting Policies

1.8 Financial instruments (continued)

SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis. Any, facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of retail client's facilities on a credit watchlist. Any up-to-date facility that has undergone a distressed restructure (i.e modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk and will be disclosed within stage 2 at a minimum.

The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from stage 2 back to stage 1 is applied.

Low credit risk

The Bank applies the low credit risk assumption and classifies loans and advances meeting this criteria in stage 1.

Credit-impaired financial assets

Loan and advances are considered credit impaired if they meet the definition of default. The Bank's definition of default applied for calculating provisions under IFRS 9 is aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are in default when they are more than 90 days past due or, in the case of amortising products, have three or more unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the Bank to actions such as the realisation of security. Indicators of the unlikeliness to pay include examples such as the application for bankruptcy or obligor insolvency.

Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events. Loans and advances are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of re-defined rates.

Purchased or originated credit-impaired

Financial assets that meet the above-mentioned definition of credit-impaired at initial recognition

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 their likely future development, from which the Bank derives the 'exposure at default' (EAD); and (iii) the expected loss on the defaulted obligations (the 'loss given default') (LGD).

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.

1.8 Financial instruments (continued)

(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 debt collection costs.

(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.
- 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 calculation tables/matrix.

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

Measuring ECL-Explanation of inputs, assumptions and estimates on techniques

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

- 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.

1.8 Financial instruments (continued)

- EAD is based on the amount the Bank expects to be owed at the time of default, over the next 12 months (12 months 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.

Write-offs

Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised):

By implication loans and advances for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.

Significant Accounting Policies

1.8 Financial instruments (continued)

Within the loans and advances portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. The result of this is that retail secured loans are written off on sale of collateral and retail unsecured loans are written off when observation of post-default payment behaviour indicates that further material recoveries are unlikely. Write-off points within loans and advances unsecured portfolios are defined on a per-portfolio basis with reference to cumulative delinquency and/or payment recency, with write-offs typically occurring when 9 cumulative payments have been missed.

Other financial assets

Cash equivalents

Cash equivalents exposures are classified as stage 1 unless specific evidence of impairment exists, in which case due to the nature of these assets are classified immediately as stage 3.

Other assets

ECL for other assets and where applicable, are calculated using the simplified approach. This results in a lifetime ECL being recognised.

Transfers, modifications and derecognition

Financial instruments are derecognised when:

· the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;

- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are derecognised when the Bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. a pass through arrangement under IFRS 9). If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the Bank determines whether this is a substantial modification, following which, results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition.

A modification of a financial asset is substantial and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

Derecognition of financial liabilities includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent (based on management best estimate) different from the discounted present value of the remaining cash flows of the original financial liability. The following transactions are entered into by the Bank in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, or modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset:

Significant Accounting Policies

1.8 Financial instruments (continued)

Offsetting of financial instruments and collateral

Where the requirements of IFRS are met, the Bank offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

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.

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.

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

1.10 Inventories

Inventories comprise 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.

1.11 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.

Significant Accounting Policies

1.11 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.

1.12 Property, plant and equipment

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

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

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

Significant Accounting Policies

1.12 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings & leasehold improvements	Straight line	Shorter of 50 years or estimated life of period of 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.

1.13 Capital work-in-progress

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

1.14 Leases

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.

Significant Accounting Policies

1.14 Leases (continued)

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 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).

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.

Short-term leases and leases of low-value leases

The Bank applies the short-term lease recognition exemption to its short-term leases of property (that is, those leases that have a lease term of 12 months or less from the commencement date). The Bank also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a 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 property	Straight line	3 - 20 years
Leased lines	Straight line	3 - 20 years

Bank as lessor

The Bank owns an office building which is not fully utilised, the office space that is not occupied by the Bank is used 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.

1.14 Leases (continued)

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

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.

Lease receipts 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 form the use of the underlying asset are diminished. Operating lease income is included in other income (note 5).

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 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.

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

1.15 Intangible assets

An intangible asset is recognised when:

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

Significant Accounting Policies

1.15 Intangible assets (continued)

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

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

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

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

1.16 Government grants

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

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

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

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

1.17 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.

1.18 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.

Outstanding balances payable to the Bank that are past due attract compound interest.

1.19 Unrecallable capital

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

Significant Accounting Policies

1.20 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), Exposure At Default (EAD) and Forward Looking Information (FLI).

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.

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 reaming tenure, the effective interest, the current staging and implicit prepayment rate.

Loss Given Default (LGD)

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

1.20 Key sources of estimation uncertainty (continued)

Key credit risk metrics	Motor vehicle loans	Residential loans	Individual loans	Total
Coverage Ratios				
March 31, 2022	0.58 %	0.42 %	3.86 %	3.17 %
March 31, 2021	1.11 %	0.62 %	6.10 %	4.75 %
March 31, 2020	2.27 %	2.61 %	9.00 %	6.25 %
March 31, 2019	1.71 %	2.40 %	7.68 %	5.22 %
Loss Given Default (LGD)				
March 31, 2022	26.08 %	22.69 %	91.81 %	77.91 %
March 31, 2021	26.57 %	23.80 %	96.28 %	87.58 %
March 31, 2020	31.87 %	24.18 %	98.40 %	66.58 %
March 31, 2019	0.46 %	20.66 %	89.32 %	57.42 %
Probability of Default (PD)				
March 31, 2022	2.22 %	1.85 %	4.21 %	4.07 %
March 31, 2021	4.19 %	2.64 %	6.34 %	5.43 %
March 31, 2020	7.12 %	10.78 %	9.14 %	9.38 %
March 31, 2019	6.43 %	11.64 %	8.60 %	9.10 %

Forward-looking information

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

Approach to Incorporate Forward-Looking Indicators (FLI)

Forward-looking macro-economic indicators (FLI) have been used to modify the TTC PD`s to PIT`PD`s by applying scalars to TTC lifetime credit curve. These scalars were obtained through a logistic regression of historical PD`s 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 the ECL computation

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

The Bank forecasts GDP to grow, but at the lower rate between 3.5%-3.8% per annum over the next three years, with threats to this forecast coming from inflation remaining elevated. Inflation could remain elevated due to the Russia-Ukraine conflict, supply and logistical constraints as well as a continued upward price adjustments in administered services. The Bank also forecasts the central bank to increase real interest rates by 390 basis points over the next three years in order to control inflation.

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

1.20 Key sources of estimation uncertainty (continued)

Macroeconomic forecast

Projection period	Real GDP growth 2022	Real GDP growth 2021	Real interest rate 2022	Real interest rate 2021	General inflation rate 2022	General inflation rate 2021
First year	3.8 %	8.0 %	1.8 %	2.6 %	8.7 %	5.5 %
Second year	3.5 %	5.4 %	1.3 %	2.8 %	6.0 %	5.3 %
Third year	3.5 %	4.0 %	0.8 %	2.7 %	5.8 %	3.0 %

Macroeconomic scenarios driving FLI`s

Period	Upside		Downside	
	Inflation	Change in RIR	Inflation	Change in RIR
First year	6.30 %	3.50 %	11.00 %	2.00 %
Second year	5.00 %	1.00 %	7.00 %	1.50 %
Third year	5.60 %	0.50 %	6.00 %	1.00 %
Weighting	50%		50%	

Impact of forward- looking information (FLI) on ECL - March 31, 2022

Loans and advances	Motor Vehicle advances	Residential property loans	Personal loans	Total
	P'000	P'000	P'000	P'000
ECL before FLI adjustments	88	2,302	86,738	89,128
Impact of FLI	-	9	690	699
ECL after FLI adjustments	**88**	**2,311**	**87,428**	**89,827**

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

Loans and advances	Motor Vehicle advances	Residential property loans	Personal loans	Total
	P'000	P'000	P'000	P'000
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**

Significant Accounting Policies

1.20 Key sources of estimation uncertainty (continued)

Sensitivity of ECL for loans and advances	Change in variable				
	Base value	Inflation		Shift in real interest rate	
Change in variable		1.0% increase	1.0% decrease	1.0% decrease	1.0% decrease
ECL (P'000) as at March 31, 2022	89,927	90,112	88,888	90,805	88,247
Change in ECL (P'000)	-	285	(940)	978	(1,580)
% change in ECL	-	0.3 %	(1.0)%	1.1 %	(1.8)%
General rate of inflation	- %	9.70 %	7.70 %	2.8 %	0.8 %

Sensitivity of ECL for loans and advances	Change in variable				
	Base value	Inflation		Shift in real interest rate	
Change in variable		1.0% increase	1.0% decrease	1.0% decrease	1.0% decrease
ECL (P'000) as at March 31, 2021	119,587	122,509	118,040	-	-
Change in ECL (P'000)	-	2,922	(1,547)	-	-
% change in ECL	-	2.4 %	(1.3)%	- %	- %
General rate of inflation	- %	3.46 %	1.46 %	- %	- %

Related parties

Botswana Postal Services Limited (BPSL) provides banking services to the Botswana public on behalf of the Bank. As at March 31, 2022, P52.337m (2021: P65.940m) 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 P1.894m as at March 31, 2022 (2021: P8.512m). The Bank's agency agreement with BPSL is not collaterised and recovery was estimated from the statement of financial position of BPSL. The impairment allowance was computed using the same methodology as detailed in accounting policy note 1.20.

(i) Probability of default (PD)

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

Significant Accounting Policies

1.20 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 following table.

Significant Accounting Policies

1.20 Key sources of estimation uncertainty (continued)

Sensitivity of ECL for related party

Sensitivity of ECL for loans and advances	Value resulting from changes in						
2022	Base value (P'000)	Recovery rate %		Discount rate		Settlement period (days)	
Change in variable		1.0% increase	1.0% decrease	1.0% increase	1.0% decrease	30days increase	30days decrease
ECL (P'000) as at March 31, 2022	1,894	1,819	2,018	2,055	1,732	1,600	-
Change in ECL (P'000)	-	(75)	124	161	(162)	287	(294)
% change in ECL	-	(4.0)%	6.6 %	8.5 %	(8.6)%	15.1 %	(15.5)%
Principal assumption used		94.9%		15.0%		186	

Sensitivity of ECL for loans and advances	Value resulting from changes in						
2021	Base value (P'000)	Recovery rate %		Discount rate		Settlement period (days)	
Change in variable		1.0% increase	1.0% decrease	1.0% increase	1.0% decrease	30days increase	30days decrease
ECL (P'000) as at March 31, 2021	8,512	8,428	8,595	8,688	8,335	9,279	7,732
Change in ECL (P'000)	-	(83)	83	176	(177)	767	(779)
% change in ECL	-	(1.0)%	1.0 %	2.1 %	(2.1)%	9.0 %	(9.2)%
Principal assumption used		89.8%		18.5%		116	

(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%-4% in recognizing the lease liabilities at the date of initial application.

Significant Accounting Policies

1.20 Key sources of estimation uncertainty (continued)

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.

Leases - Determining the lease term of contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating if it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

(c) 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 utilized.

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

(d) Residual values and useful lives of property and equipment

The Bank depreciates its property and equipment on a straight-line basis by allocating the depreciable amount (original cost) equally over its estimated useful life. Useful lives are also reviewed annually and are adjusted when it is evident that the economic benefits initially anticipated will not flow from the asset over the same duration or to the same extent.

1.21 Reclassifications

(a) **Interest on related party balances**

Interest on related party balances were historically reported under other income. With effect from the current financial year, this is reported as part of interest income, as such classification provides a more accurate reflection of the underlying transactions and how these are measured by the Bank. The interest on related parties as at March 31, 2021 amounted to P6,024,000. This change in presentation had no impact on the profit or loss and only affected the presentation of items within interest income and other income.

Significant Accounting Policies

(b) Unwinding of discounted staff loans

Unwinding interest on staff loans was historically reported under employee benefits. With effect from the current financial year, this is reported as part of interest income, so as to align with the treatment under IFRS. The unwinding interest as at March 31, 2021 amounted to P5,750,000. This change in presentation had no impact on the profit or loss and only affected the presentation of items within employee benefits and interest income.

(c) VISA expenses

VISA expenses were historically reported under administrative and general expenses. With effect from the current financial year, this is reported as part of fees and commission expense, so as to align with the treatment of card related charges. The VISA expenses as at March 31, 2021 amounted to P2,189,000. This change in presentation had no impact on the profit or loss and only affected the presentation of items within fees and commission expense and administrative and general expenses.

(d) Suspended interest on loans

Suspended interest on stage 3 loans was historically reported under other liabilities. With effect from the current financial year, these amounts are reported as part of loans and advances as the suspended interest is directly attributable or incremental to loans and advances and not other liabilities. The suspended interest as at March 31, 2021 amounted to P8,216,000. The reclassification had no impact on the profit or loss and only affected the presentation of items within total net asset and total net liabilitities.

(e) Interest accrued on customer deposits

Interest accrued on deposits due to customers was historically reported under other liabilities. With effect from the current financial year, these amounts are reported as part of deposits due to customers as the accrued interest is directly attributable or incremental to customer deposits and not other liabilities. The interest accrued on customer deposits as at March 2021 amounted to P45,595,000. The reclassification does not impact on the net profit or total net liabilities of the Bank.

Notes to the Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the 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 - 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 amendment is for years beginning on or after January 1, 2021.

The Bank has adopted the amendment for the first time in the 2022 financial statements.

The impact of the amendment is not material.

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 amendment is for years beginning on or after January 1, 2021.

The Bank has adopted the amendment for the first time in the 2022 financial statements.

The impact of the amendment is not material.

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 hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after January 1, 2021.

The Bank has adopted the amendment for the first time in the 2022 financial statements.

The impact of the amendment is not material.

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.

The effective date of the amendment is for years beginning on or after January 1, 2021.

The Bank has adopted the amendment for the first time in the 2022 financial statements.

The impact of the amendment is not material.

2. New Standards and Interpretations (continued)

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 amendment is for years beginning on or after January 1, 2021.

The Bank has adopted the amendment for the first time in the 2022 financial statements.

The impact of the amendment is not material.

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 2022 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 June 1, 2020.

The Bank has adopted the amendment for the first time in the 2022 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 April 1, 2022 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 financial statements.

2. New Standards and Interpretations (continued)

Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after January 1, 2023.

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

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2.

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after January 1, 2023.

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

Definition of accounting estimates: Amendments to IAS 8

The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in financial statements that are subject to measurement uncertainty."

The effective date of the amendment is for years beginning on or after January 1, 2023.

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

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 January 1, 2023.

It is unlikely that the amendment will have a material impact on the Bank's 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 January 1, 2023.

Notes to the Financial Statements

2. New Standards and Interpretations (continued)

It is unlikely that the standard will have a material impact on the Bank's 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 amendment is for years beginning on or after January 1, 2022.

It is unlikely that the amendment will have a material impact on the Bank's 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, Continent 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.

The effective date of the amendment is for years beginning on or after January 1, 2022.

It is unlikely that the amendment will have a material impact on the Bank's 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 amendment is for years beginning on or after January 1, 2022.

It is unlikely that the amendment will have a material impact on the Bank's 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 in now specifically required.

The effective date of the amendment is for years beginning on or after January 1, 2022.

It is unlikely that the amendment will have a material impact on the Bank's 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).

2. New Standards and Interpretations (continued)

The effective date of the amendment is for years beginning on or after January 1, 2022.

It is unlikely that the amendment will have a material impact on the Bank's 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.

The effective date of the amendment is for years beginning on or after January 1, 2022.

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

Notes to the Financial Statements

	2022 P '000	2021 P '000
3. Net interest income		
Interest income		
Loans and advances to customers	274,892	208,264
Other fixed deposits	15,687	20,799
Call accounts with other financial institutions	4,240	1,480
Botswana Post interest charge*	2,982	-
Unwinding of discounted staff loans**	3,665	-
	301,466	**230,543**
Interest expense		
Ordinary savings	(2,260)	(2,289)
Sesigo savings	(4,754)	(5,474)
Save-As-You-Earn	(508)	(578)
Thobo savings	(15)	(162)
National savings certificates (NSC)	(537)	(2,029)
Corporate deposits	(113,174)	(80,644)
Fixed deposits	(5,774)	(3,443)
Long term borrowings	(8,048)	(4,068)
Transaction account	(182)	(200)
Lease liability interest	(2,415)	(2,225)
	(137,667)	**(101,112)**
Net interest income	**163,799**	**129,431**

* Refer to accounting policy note 1.21(a) for detailed narrative on reclassification.
** Refer to accounting policy note 1.21(b) for detailed narrative on reclassification.

	2022 P '000	2021 P '000
4. Net fee and commission		
Fee and commission income		
Account maintenance fees	6,219	7,322
Pre-closure fees	260	62
Over-the-counter fees	3,605	2,645
Commission on loan repayments	2,388	2,795
Card transaction fees	31	852
	12,503	**13,676**
Fee and commission expense		
Agency fees	(2,839)	(2,804)
Commissions	(5,432)	(5,967)
VISA expenses*	(2,043)	-
	(10,314)	**(8,771)**

* Refer to accounting policy note 1.21(c) for detailed narrative on reclassification.

	2,189	**4,905**

Notes to the Financial Statements

	Note	2022 P '000	2021 P '000
5. Other income			
Rental income		2,735	2,540
Botswana Post interest charge*		-	6,024
Rooftop hosting fees		189	871
Social benefits allowance fees		-	457
Sundry income		103	133
Profit on disposal of property, plant and equipment		-	75
		3,027	**10,100**

* Refer to accounting policy note 1.21(a) for detailed narrative on reclassification.

		2022 P '000	2021 P '000
Future minimum rental income under non-cancellable leases as at 31 March were, as follows:			
Within 1 year		2,564	2,564
After 1 year within 5 years		1,923	4,486
		4,487	**7,050**

	Note	2022 P '000	2021 P '000
6. Net impairment (reversal)/loss of financial assets			
Specific impairment - (Stage 3)		(5,424)	8,010
Related parties impairment		(6,618)	(6,707)
Portfolio (reversal)/impairment - (Stage 1 & 2)		(643)	16,394
Recoveries		(219)	(165)
Net impairment (reversal)/loss on financial assets		**(12,904)**	**17,532**
Movement on specific impairments			
Balance at the beginning of the year		77,707	69,697
Bad debts written off		(23,693)	-
(Reversal)/charge for the year		(5,424)	8,010
Balance at the end of the year		**48,590**	**77,707**
Movement on portfolio impairments			
Balance at the beginning of the year		41,880	25,486
Current year (reversal)/charge		(643)	16,394
Balance at the end of the year		**41,237**	**41,880**
Balance specific and portfolio impairments at the end of the year	14	**89,827**	**119,587**
Related party impairments			
Balance at the beginning of the year		8,512	15,219
Impairment reversal		(6,618)	(6,707)
Balance at the end of the year		**1,894**	**8,512**

Notes to the Financial Statements

		2022 P '000	2021 P '000

7. Employee Benefits

Salaries, wages and allowances		54,764	48,971
Pension and medical aid contributions		8,563	8,232
Staff loan benefits*		3,359	(3,994)
Training and recruitment costs		1,887	1,925
Staff welfare		2,169	2,517
Organisational restructuring		12,409	-
		83,151	**57,651**

The average number of persons employed by the Bank during the year was 204 (2021: 223).
* Refer to accounting policy note 1.21(b) for detailed narrative on reclassification.

8. Depreciation and amortisation

Depreciation of property, plant and equipment	16	8,055	5,997
Amortisation of intangible assets	18	4,347	1,851
Amortisation of right-of-use asset	17	3,943	4,030
		16,345	**11,878**

9. Administrative and general expenses

Audit fees		1,470	1,892
Consulting and professional fees		4,380	5,185
Debt recovery		484	430
Non-executive directors fees		411	337
Insurance premiums		3,823	1,490
Sales expenses		1,703	1,173
Setup costs - new branches		1,705	1,353
Other operating expenses		579	6,370
Tax interest and penalty charges		-	1,343
Cash security expenses		1,873	1,780
Subscription fees*		622	3,389
Motor vehicle expenses		360	325
Exchange losses		2,929	1,486
Bank and other charges		1,294	780
Office expenses		122	135
Property management and security fees		3,977	3,657
Advertising and publicity		3,879	2,854
Repairs and maintenance		3,070	2,825
Software licencing and IT costs		11,919	10,304
Stationery, utilities and postage		4,250	4,171
		48,850	**51,279**

* Refer to accounting policy note 1.21(c) for detailed narrative on reclassification.

Notes to the Financial Statements

	2022 P '000	2021 P '000
10. Income tax expense		
Current		
Current tax on profit for the year	6,605	5,383
Deferred		
Deferred tax charge	2,484	(2,945)
Adjustment in respect of prior periods	(16)	-
	2,468	**(2,945)**
Income tax expense	**9,073**	**2,438**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before taxation	43,415	7,673
Tax at the applicable tax rate of 22% (2021: 22%)	9,551	1,688
Tax effect of adjustments on taxable income		
Disallowed expenses and non-taxable income	(462)	583
Adjustment in respect to prior periods	(16)	167
Income tax expense	**9,073**	**2,438**

11. Deferred tax

	2022 P '000	2021 P '000
Deferred tax asset		
At beginning of year	29,912	26,967
Credit/(charge) for the year	(2,468)	2,945
Closing Balance	**27,444**	**29,912**
The balance comprises temporary differences attributable to:		
Property, plant and equipment	(304)	264
Right of use asset	(6,663)	(7,057)
Intangible assets	(1,918)	(2,162)
Lease liability	7,549	7,781
Impairment of loans and advances	9,072	9,213
Unamortised Government grant	19,708	21,873
Total deferred tax asset	**27,444**	**29,912**

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.

Management expects to recover deferred tax assets when the deductible temporary differences reverse in the future.

Notes to the Financial Statements

	2022 P '000	2021 P '000

11. Deferred tax (continued)

Analysis by period		
Within 1 year	17,668	20,091
After 1 year within 5 years	9,776	9,821
	27,444	**29,912**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022 P '000	2021 P '000
Cash on hand	8,452	14,607
Balances with Bank of Botswana	9,348	5,044
Stanbic Bank Botswana Limited	180,720	3,239
First National Bank of Botswana Limited	33,651	5,817
Capital Bank Botswana Limited	29,418	101,314
ABSA Bank Botswana	25,692	3,761
Access Bank Botswana	29,676	75,444
Bank Gaborone Limited	85,126	182,187
	402,083	**391,413**

Cash and cash equivalents comprises cash on hand and deposits held with other banks that are highly liquid instruments. The balances held with Capital Bank includes the dormancy balances of P 29,108,000.00, and interest.

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 of less than 3 months.

13. Balances with other banks

	2022 P '000	2021 P '000
Balances due from other banks	7,623	113,428

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 the Bank's 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 with no history of default.

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

Analysis by period		
Within 1 year	7,623	113,428

Notes to the Financial Statements

		2022 P '000	2021 P '000
14. Loans and advances to customers			
Motor vehicles advances		20,666	14,711
Residential property loans		544,116	606,115
Personal loans		2,223,413	1,895,860
		2,788,195	2,516,686
Less impairment provision	6	(89,827)	(119,587)
		2,698,368	**2,397,099**
Analysis by period			
Within 1 year		39,070	45,192
After 1 year within 5 years		446,722	432,962
After 5 years		2,302,403	2,038,532
		2,788,195	**2,516,686**

* Refer to accounting policy note 1.21(d) for detailed narrative on reclassification.

Sectorial analysis:		
Central Government employees	2,416,040	2,238,036
Parastatal employees	116,588	36,974
Local government employees and other customers	174,244	150,984
Staff loans	81,323	90,692
	2,788,195	**2,516,686**
Analysis of impairment losses on loans and advances		
Opening balance	119,587	95,183
Impairment (reversal)/charge	(6,067)	24,404
Loans written off	(23,693)	-
	89,827	**119,587**

Personal loans (Ipelegeng) 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.

Motor vehicle and residential loans to employees of the Government of Botswana have a 70% guarantee issued by the employer.

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 considers that the carrying amounts of loans and advances are a reasonable approximation of their fair value on account of being issued at market related interest rates.

	2022 P '000	2021 P '000
15. Balances with related parties		
Amounts due from Botswana Postal Services	52,337	65,940
Less impairment provision	(1,894)	(8,512)
Amounts due from Botswana Postal Services	**50,443**	**57,428**

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 as well as interest charged on overdue balances.

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

Balances with related parties are subject to impairment as outlined in accounting policy note 1.20

16. Property, plant and equipment

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
Buildings & leasehold improvements	39,967	(14,500)	25,467	34,459	(12,661)	21,798
Furniture and fixtures	11,406	(9,177)	2,229	10,297	(8,749)	1,548
Motor vehicles	8,275	(4,002)	4,273	5,147	(2,956)	2,191
Office equipment	49,122	(28,612)	20,510	40,899	(23,870)	17,029
Capital - work in progress	24,622	-	24,622	10,685	-	10,685
Total	**133,392**	**(56,291)**	**77,101**	**101,487**	**(48,236)**	**53,251**

Reconciliation of carrying amounts of property, plant and equipment - 2022

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Closing balance
	P'000	P'000	P'000	P'000	P'000	P'000
Buildings & leasehold improvements	21,798	687	4,821	-	(1,839)	25,467
Furniture and fixtures	1,548	530	592	(13)	(428)	2,229
Motor vehicles	2,191	3,128	-	-	(1,046)	4,273
Office equipment	17,029	849	7,377	(3)	(4,742)	20,510
Capital - work in progress	10,685	26,727	(12,790)	-	-	24,622
	53,251	**31,921**	**-**	**(16)**	**(8,055)**	**77,101**

	2022	2021
	P '000	P '000

16. Property, plant and equipment (continued)

Reconciliation of carrying amounts of property, plant and equipment - 2021

	Opening balance	Additions	Depreciation	Closing balance
	P'000	**P'000**	**P'000**	**P'000**
Buildings & leasehold improvements	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**

The Capital - work in progress comprises of hardware for Digital banking channels, Core banking system modules and Point-of-sale project. As at year end, there were no commitments on Capital work in progress.

17. Right of use asset and lease liabilities

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
Buildings	38,779	(8,492)	30,287	39,212	(7,134)	32,078

Reconciliation of carrying amounts, right-of-use assets - 2022

	Opening balance	Additions	Disposals	Modification	Depreciation	Adjustments	Closing balance
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Buldings	32,078	1,032	(2,323)	2,917	(3,943)	526	30,287

Reconciliation of carrying amounts, of right-of-use assets - 2021

	Opening balance	Additions	Depreciation	Total
	P'000	P'000	P'000	P'000
Right of use assets	24,709	11,399	(4,030)	32,078

Lease liabilities

	2022	2021
Lease liability - opening balance	35,367	26,220
Lease liability - principal payments	(2,534)	(2,252)
Additions during the year	1,032	11,399
Remeasurement of right-of-use asset	2,917	-
Disposal of right-of-use asset	(2,323)	-
Lease liability - adjustments	(146)	-
Closing balance	**34,313**	**35,367**

Notes to the Financial Statements

	2022 P '000	2021 P '000

17. Right of use asset and lease liabilities (continued)

The maturity analysis of lease liabilities is as follows:

	2022 P '000	2021 P '000
Within one year	3,698	3,245
After 1 year, within 5 years	15,467	32,122
More than five years	15,148	-
	34,313	**35,367**

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.

	2022 P '000	2021 P '000
Lease liability payments - Principal	2,534	2,252
Lease liability payments - Interest	2,415	2,225
Total cash outflows - leases	**4,949**	**4,477**

18. Intangible assets

	2022			2021		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	58,508	(21,312)	37,196	26,793	(16,965)	9,828

Reconciliation of intangible assets - 2022

	Opening balance	Additions	Transfers	Amortisation	Closing balance
Computer software	9,828	70	31,645	(4,347)	37,196
Capital - work in progress	-	31,645	(31,645)	-	-
	9,828	**31,715**	**-**	**(4,347)**	**37,196**

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Closing balance
Computer software	919	10,760	(1,851)	9,828

Intangible assets comprise of the Bank's core banking software, cyber security software and other miscellaneous software.

Notes to the Financial Statements

19. Other assets

	2022 P '000	2021 P '000
Other receivables	1,889	5,135
Prepayments	3,989	-
Accrued interest	763	3,256
Stock of stationery	1,969	2,262
	8,610	**10,653**
Analysis of other assets.		
Financial instruments	2,652	8,391
Non-financial instruments	5,958	2,262
	8,610	**10,653**

Other receivables comprise of prepaid staff advances 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 receivable

	2022 P '000	2021 P '000
Opening Balance	(486)	28,930
Charge for the year	6,605	5,383
Tax paid during the year	(6,382)	(34,799)
Closing balance	**(263)**	**(486)**

21. Borrowings

	2022 P '000	2021 P '000
Principal amount outstanding at the beginning of the year	84,481	90,621
Proceeds from long term borrowings	100,000	-
Repayment of principal - long term borrowings	(17,407)	(5,833)
Repayment of interest - long term borrowings	(8,243)	(4,375)
Accrued Interest	8,048	4,068
Closing balance	**166,879**	**84,481**
Loans by lender:		
Botswana Government subordinated loan	78,453	84,481
Access Bank loan	88,426	-
	166,879	**84,481**

Botswana Government subordinated loan

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 initially obtained for purposes of facilitating the submission of an application for a banking licence to Bank of Botswana which is required for the commercialisation of Botswana Savings Bank.

	2022 P '000	2021 P '000

21. Borrowings (continued)

As the bank's application for a banking licence had not yet been submitted, the bank was in violation of specific loan
covenants and the loan had become callable at notice at the end of the last financial year. The bank renegotiated the loan agreement with the lender and the breach was remedied in the current financial year.

The loan is repaid annually and interest accrues at 5% per annum on the amount outstanding and is fixed over the loan term.

The loan was converted to a subordinated facility during the current financial year.

Qualification for Tier II Capital inclusion

The above stated loan has met or exceeded the following minimum set criteria by the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana in order to qualify as Tier II Capital:

i. It is subordinated to depositors and general creditors of the Bank;

ii. It is neither secured or covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors;

iii. Maturity:

- The original maturity is more than five years.
- The instrument has no step ups or other incentives to redeem.

iv. The instrument is not callable at the initiative of the issuer before five years:

- the Bank will not exercise a call option on the instrument prior to Bank of Botswana approval;
- the Bank will not do anything that creates an expectation that the call on the instrument will be exercised;
- the Bank will not exercise a call option unless:
    1. It replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Bank; or
    2. It demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

v. The Bank will not accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;

vi. The instrument does not have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing; and

vii. The Bank has not purchased the instrument, nor has it directly or indirectly funded the purchase of the instrument.

Notes to the Financial Statements

	2022 P '000	2021 P '000

21. Borrowings (continued)

Access Bank loan

During the current year, the Bank concluded a loan facility with Access Bank of P100 million, meant to support the Bank's growth strategy of the retail book. The facility which matures on July 29, 2026, is repaid monthly and bears interest at prime plus 1.5%.

The loan has the following covenants;

The Bank shall maintain a minimum Liquidity Asset Ratio(LAR) of 10%;

The Bank will not exceed non-perfoming loans ratio of 8%, with early trigger/terms re-negotiation at 7%;

The bank shall not pledge any assets that would jeorpadise the lender's security;.

The Bank shall maintain a minimum net interest margin of 3.9%; and

Up to 120% of the outstanding balance of the loan will be secured by the Bank's loans and advances.

Management considers that the carrying amount of borrowings are a reasonable approximation of their fair value.

The maturity analysis for borrowings is presented below:

	2022 P '000	2021 P '000
Due within 12 months	25,053	84,464
Due after 12 months	141,826	-
	166,879	**84,464**

22. Other liabilities

	2022 P '000	2021 P '000
Trade payables*	8,576	55,166
Payroll accruals	4,095	7,793
Other creditors	26,296	13,900
Accrued audit fees	1,695	1,300
PAYE and VAT	1,253	-
	41,915	**78,159**

	2022 P '000	2021 P '000
Analysis of other liabilities		
Financial instruments	36,567	70,366
Non-financial instruments	5,348	7,793
	41,915	**78,159**

Management considers that the carrying amount of other liabilities is a reasonable approximation of their fair value.

* Refer to accounting policy note 1.21(d) and 1.21(e) for detailed narrative on reclassification.

Notes to the Financial Statements

	2022 P '000	2021 P '000
23. Deposits due to customers		
Ordinary savings	127,669	133,587
Save-As-You-Earn	25,155	33,948
Sesigo savings	242,935	257,558
Thobo savings	64	6,859
Transactional account	44,266	79,053
National savings certificates (NSC)	12,321	19,398
Corporate fixed deposits	2,070,287	1,851,512
Corporate savings	20,126	13,332
Retail fixed deposits	172,740	115,185
Special savings account	22,095	53,763
	2,737,658	**2,564,195**

Maturity and Interest Rates	**Maturity**	**Interest Rate 2022**	**2021**
Ordinary savings	On demand	1.75%	2.00%
Save-As-You-Earn	24 months	1.75% - 2.00%	1.75%
Sesigo savings	On demand	1.75% - 2.75%	2.0% - 3.75%
Thobo savings	12 months	1.75%	1.75%
National savings certificates (NSC)	60 months	3.75% - 4.5%	3.75%
Corporate Fixed Deposits		Negotiable	Negotiable
Corporate savings	On demand	Negotiable	Negotiable
Retail fixed deposits	3 - 24 months	0.54% - 1.52%	1.25% - 2.05%

Management considers that the carrying amount of deposits due to customers is a reasonable approximation of their fair value.

* Refer to accounting policy note 1.21(e) for detailed narrative on reclassification.

Maturity analysis for deposits due to customers is presented below;

	2022 P '000	2021 P '000
Due within 12 months	2,248,355	2,158,370
Due after 12 months	489,302	405,825
	2,737,657	**2,564,195**
24. Government grant		
Opening balance	99,423	101,000
Current year amortisation	(9,842)	(1,577)
Closing balance	**89,581**	**99,423**

In 2021 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.

Funds spent from the grant amount to P126 million, while the remaining P15 million is to be spent on the digital banking channels.

Notes to the Financial Statements

	2022 P '000	2021 P '000

25. Dormancy account liability

Balance at the beginning of the year	28,329	26,412
Movement for the year	779	1,917
Balance at the end of year	**29,108**	**28,329**

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. The dormancy liability is transferred to a separate bank account with another bank as per section 18(2) of the BSB act.

A transfer can only be made twelve months following the publication in the Government Gazette of dormant customer accounts so identified.

The amount transferred from customer accounts is reported separately from deposits with customers under the dormancy account liability. In the event that a customer who was identified as dormant comes forward, their respective balance will be transferred to them from the dormancy liability account, either as a cash payment or transferred into their savings accounts.

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 reserves

Balance at the beginning of the year	59,577	58,267
Movement for the year	8,586	1,310
Balance at the end of year	**68,163**	**59,577**

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 may 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.

Loan commitments	3,463	3,986

Notes to the Financial Statements

	2022 P '000	2021 P '000

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 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 foreseeable future. The Directors will continue to monitor and assess possible risks associated with COVID-19 to ensure business continuity.

Notes to the Financial Statements

31. Assets and liabilities by category

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

Assets and liabilities category - 2022

	Note(s)	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Fair value
Assets					
Loans and advances to customers	14	2,698,368	-	2,698,368	2,698,368
Balances with other banks	13	7,623	-	7,623	7,623
Balances with related parties	15	50,443	-	50,443	50,443
Other assets	19	2,652	-	2,652	2,652
Cash and cash equivalents	12	402,083	-	402,083	402,083
Total Assets		**3,161,169**	**-**	**3,161,169**	**3,161,169**
Liabilities					
Deposits due to customers	23	-	2,737,658	2,737,658	2,737,658
Lease liabilities	17	-	34,313	34,313	34,313
Borrowings	21	-	166,879	166,879	166,879
Dormancy account liability	25	-	29,108	29,108	29,108
Other liabilities	22	-	36,567	36,567	36,567
Total Liabilities		**-**	**3,004,525**	**3,004,525**	**3,004,525**

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	14	2,397,099	-	2,397,099	2,397,099
Balances with other banks	13	113,428	-	113,428	113,428
Balances with related parties	15	57,428	-	57,428	57,428
Other assets	19	8,391	-	8,391	8,391
Cash and cash equivalents	12	391,413	-	391,413	391,413
Total Assets		**2,967,759**	**-**	**2,967,759**	**2,967,759**
Liabilities					
Deposits due to customers	23	-	2,564,195	2,564,195	2,564,195
Lease liabilities	17	-	35,367	35,367	35,367
Borrowings	21	-	84,481	84,481	84,481
Dormancy account liability	25	-	28,329	28,329	28,329
Other liabilities	22	-	70,366	70,366	70,366
Total Liabilities		**-**	**2,782,738**	**2,782,738**	**2,782,738**

Notes to the Financial Statements

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 processes 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 borrowings and retail deposits with variable interest 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 Financial Statements

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.

March 31, 2022	0 - 3 months P '000	3 - 12 months P '000	1 - 5 years P '000	Over 5 years P '000	Total P '000
Assets					
Cash and cash equivalents	384,282	-	-	-	384,282
Fixed deposits with banks	-	7,623	-	-	7,623
Balances with related parties	50,443	-	-	-	50,443
Other assets	763	-	-	-	763
Loans and advances	9,880	29,190	446,722	2,212,576	2,698,368
Total financial assets	**445,368**	**36,813**	**446,722**	**2,212,576**	**3,141,479**
Liabilities					
Deposits due to customers	1,468,412	779,944	489,302	-	2,737,658
Borrowings	5,920	27,024	87,268	46,667	166,879
Lease liabilities	1,735	1,963	15,467	15,148	34,313
Total financial Liabilities	**1,476,067**	**808,931**	**592,037**	**61,815**	**2,938,850**
Total interest re-pricing gap	**(1,030,699)**	**(772,118)**	**(145,315)**	**2,150,761**	**202,629**

March 31, 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					
Cash and cash equivalents	371,762	-	-	-	371,762
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	**430,915**	**124,796**	**388,728**	**1,995,278**	**2,939,717**
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	**(911,669)**	**(778,699)**	**(37,013)**	**1,983,072**	**255,691**

An increase of 100 basis points in interest rates during the reporting period would have a negative yield of P0.203 million (2021: P 0.275 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.

32. Financial risk management (continued)

Credit risk

Credit risk measurement

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

Credit risk arises primarily from the following instruments:

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

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

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

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

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

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

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

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

Notes to the Financial Statements

32. Financial risk management (continued)

Forward -looking information incorporated in the ECL models

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

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.

March 31, 2022	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 April 1, 2021	2,365,969	62,617	88,100	2,516,686
Transfer to stage 1 (Exposure)	26,452	(24,631)	(1,821)	-
Transfer to stage 2 (Lifetime ECL)	(13,770)	15,866	(2,096)	-
Transfer to stage 3 (Credit impaired)	(5,864)	(5,605)	11,469	-
Net transfers (out)/in of stage	6,818	(14,370)	7,552	-
Bad debts written off	-	-	(23,693)	(23,693)
Exposure reduction from scheduled instalments	(279,798)	(5,859)	(5,218)	(290,875)
Exposure reduction from loan settlements	(251,831)	(9,848)	(10,199)	(271,878)
Business activity for the year	823,717	30,201	4,037	857,955
Additions/(reductions) in exposure for the period	292,088	14,494	(11,380)	271,509
Gross exposure as at March 31, 2022	**2,664,875**	**62,741**	**60,579**	**2,788,195**

32. Financial risk management (continued)

March 31, 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 April 1, 2020	1,227,638	179,885	101,304	1,508,827
Transfer to stage 1 (Exposure)	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 loan settlements	(202,163)	(25,636)	(3,280)	(231,079)
Business activity for the year	1,368,387	34,825	10,288	1,413,500
Additions in exposure for the period	1,003,525	1,862	2,472	1,007,859
Gross exposure as at March 31, 2021	**2,365,969**	**62,617**	**88,100**	**2,516,686**

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; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Notes to the Financial Statements

32. Financial risk management (continued)

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

March 31, 2022	**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 April 1, 2021	25,681	16,199	77,707	119,587
Transfer to stage 1 (12-month ECL)	6,751	(5,265)	(1,486)	-
Transfer to stage 2 (Lifetime ECL)	(245)	2,266	(2,021)	-
Transfer to stage 3 (Credit impaired)	(79)	(1,495)	1,574	-
Net transfers (out)/in of stage	6,427	(4,494)	(1,933)	-
Bad debts written off	-	-	(23,693)	(23,693)
Exposure reduction from scheduled instalments	(4,456)	(1,521)	(4,009)	(9,986)
Exposure reduction from loan settlements	(2,160)	(2,573)	(8,648)	(13,381)
Business activity for the year	10,566	6,934	2,250	19,750
Model & changes in PD's, LGD's & FLI's	(9,014)	(352)	6,916	(2,450)
(Reversals)/Provisions for the period	(5,064)	2,488	(3,491)	(6,067)
Loss allowance as at March 31, 2022	**27,044**	**14,193**	**48,590**	**89,827**

March 31, 2021	**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 April 1, 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 loan settlements	(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)
(Reversals)/Provisions for the period	(2,513)	10,650	16,267	24,404
Loss allowance as at March 31, 2021	**25,681**	**16,199**	**77,707**	**119,587**

Notes to the Financial Statements

32. Financial risk management (continued)

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.

March 31, 2022	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Exposure	**P'000**	**P'000**	**P'000**	**P'000**
Personal loans	2,120,882	52,995	49,536	2,223,413
Motor vehicle loans	20,395	271	-	20,666
Residential loans	523,598	9,475	11,043	544,116
Total	**2,664,875**	**62,741**	**60,579**	**2,788,195**
ECL				
Personal loans	26,802	13,951	46,675	87,428
Motor vehicle loans	66	22	-	88
Residential loans	176	220	1,915	2,311
Total	**27,044**	**14,193**	**48,590**	**89,827**
Coverage ratios				
Personal loans	1.3 %	26.3 %	94.2 %	3.9 %
Motor vehicle loans	0.3 %	8.1 %	- %	0.4 %
Residential loans	- %	2.3 %	17.3 %	0.4 %
Total	**1.0 %**	**22.6 %**	**80.2 %**	**3.2 %**

March 31, 2021	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Exposure	**P'000**	**P'000**	**P'000**	**P'000**
Personal loans	1,767,984	50,478	77,398	1,895,860
Motor vehicle loans	14,473	-	238	14,711
Residential loans	583,512	12,139	10,464	606,115
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 ratios				
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 %**

32. Financial risk management (continued)

Impairment of related party balances

	2022 Stage 3 Lifetime ECL P'000	2021 Stage 3 Lifetime ECL P'000
Exposure	52,337	65,940
Impairment allowance	(1,894)	(8,512)
Balance at the end of year	**50,443**	**57,428**
Coverage ratio	3.62 %	12.91 %

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

Weighted average settlement days	186	116
Weighted average recovery rate	94.99 %	89.83 %
Impairment allowance coverage rate	3.62 %	17.58 %
Effective interest used in discounting impairment allowance	15.00 %	10.00 %

EXPOSURE

	March 2022 Stage 3 Lifetime ECL P'000	**March 2021 Stage 3 Lifetime ECL P'000**
Gross exposure as at the beginning of the year	65,940	95,198
Exposure reduction from payments	(117,318)	(141,007)
Business activity for the year	103,715	111,749
Reduction in exposure for the year	(13,603)	(29,258)
Gross exposure as at the end of the year	**52,337**	**65,940**

LOSS ALLOWANCE

	March 2022 Stage 3 Lifetime ECL P'000	**March 2021 Stage 3 Lifetime ECL P'000**
Loss allowance as at start of the year	8,512	15,219
Exposure reduction from payments	(13,452)	(23,273)
Business activity for the year	6,834	16,566
Reduction in exposure for the year	(6,618)	(6,707)
Loss allowance as at end of the year	**1,894**	**8,512**

32. Financial risk management (continued)

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

Credit risk exposures relating to on-statement-of-financial-position assets are as follows:	**2022**	**2021**
Cash and cash equivalents	402,083	391,413
Balances due from other banks	7,623	113,428
Other assets	2,652	8,391
Balances with Related Parties	50,443	57,428
Gross loans and advances to customers		
Motor vehicles advances	20,666	14,711
Residential property loans	544,116	606,115
Personal loans	2,223,413	1,895,860
Total on-statement of financial position exposure	3,250,996	3,087,346
Credit risk exposure relating to off-statement-of-financial-position items are as follows:		
Contingent liabilities and capital commitments	3,463	3,986
Total off-statement-of-financial position exposure	3,463	3,986
Total credit risk exposure	**3,254,459**	**3,091,332**

The above table represents a worst case scenario of credit risk exposure to the Bank at March 31, 2022, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported.

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

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

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

32. Financial risk management (continued)

Maximum exposure to credit risk - Financial instruments

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

March 31, 2022	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit grade	P'000	P'000	P'000	P'000
Investment grade	2,587,385	-	-	2,587,385
Standard monitoring	77,490	-	-	77,490
Special monitoring	-	62,741	-	62,741
Default	-	-	60,579	60,579
Gross carrying amount	**2,664,875**	**62,741**	**60,579**	**2,788,195**
Loss allowance	(27,044)	(14,193)	(48,590)	(89,827)
Carrying amount	**2,637,831**	**48,548**	**11,989**	**2,698,368**

March 31, 2021	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Credit grade	P'000	P'000	P'000	P'000
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**

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. Risk exposure to advances is reduced by obtaining approved security as defined by the Risk and Compliance 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:

32. Financial risk management (continued)

- cash deposited with and ceded to the Bank;
- deposit with any registered financial institution and ceded to the Bank; and
- any other form of tangible collateral security subject to approval by the Management 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.

Valuation assumptions	**2022**		**2021**	
	Motor vehicle loans	**Residential property loans**	**Motor vehicle loans**	**Residential property loans**
Weighted average discount rate	3.5% to 10%	3.5% to 10%	3.50 %	4.33 %
Weighted average time to recovery (months)	9.00	9.00	12.00	8.51
Weighted average hair cut to market value of collateral	- %	- %	- %	4.80 %

Financial year end	**Recovery time**	**Discount rates**
March 31, 2022	8 to 12 months	3.5% to 10%
March 31, 2021	8 to 12 months	3.5% to 10%

Notes to the Financial Statements

32. Financial risk management (continued)

Discount rates

The Bank applies the discount rates based on the employment sector of customers. The collateral on loans of customers employed in the government sector is discounted at 3.50%, whilst the private sector is discounted at 10%.

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.
- The guarantee is discounted at the risk-free rate for the estimated time to realisation, which is 12 months.

Parastatal guarantee on Motor vehicle loans

- A haircut of 1.82% is applied to the guarantee.
- The guarantee is discounted at the risk-free rate for the estimated time to realisation, which is 12 months.

Property collateral on staff residential property loans

- A haircut of 25% is applied to the most recent market value.
- The value of the collateral is limited to the book value of the loan.

Property valuation

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

Life insurance valuation

Life insurance that is used as security for loans taken out at the Bank is ceded to the Bank and the cession is registered by the insurance bank. 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.

32. Financial risk management (continued)

Credit quality of loans and advances and other financial instruments

i. Credit quality and management of loans and advances

Initial applications

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

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

Subsequent credit assessments

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

- Excesses are reported and reviewed on a daily basis;
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, and bad debts written off within branch mandates;
- The credit 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;

32. Financial risk management (continued)

- economic reasons; and
- other.

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

	2022		2021	
	Loans and advances to customers	Due from other banks	Loans and advances to customers	Due from other banks
	P '000	P '000	P '000	P '000
Unimpaired loans (Stage 1 and 2)	2,727,616	7,623	2,428,586	113,428
Past due but not individually impaired	60,579	-	88,100	-
Gross	2,788,195	7,623	2,516,686	113,428
Less: allowance for impairment	(89,827)	-	(119,587)	-
Net	**2,698,368**	**7,623**	**2,397,099**	**113,428**

a) Loans and advances neither past due nor impaired

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

b) Loans and advances past due but not individually impaired

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

Notes to the Financial Statements

32. Financial risk management (continued)

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.

March 31, 2022	**Neither past due nor impaired**	**Past due but not individually impaired**	**Individually impaired**	**Total**
Exposure	**P '000**	**P '000**	**P '000**	**P '000**
Personal loans	2,120,882	52,995	49,536	2,223,413
Motor vehicle advances	20,395	271	-	20,666
Residential property loans	523,598	9,475	11,043	544,116
	2,664,875	**62,741**	**60,579**	**2,788,195**

March 31, 2021	**Neither past due nor impaired**	**Past due but not individually impaired**	**Individually impaired**	**Total**
Exposure	**P '000**	**P '000**	**P '000**	**P '000**
Personal loans	1,767,984	50,478	77,398	1,895,860
Motor vehicle advances	14,473	-	238	14,711
Residential property loans	583,512	12,139	10,464	606,115
	2,365,969	**62,617**	**88,100**	**2,516,686**

Refer to page 72 for fair value of collateral narrative disclosures.

March 31, 2022	**Motor Vehicle advances**	**Personal loans**	**Residential property loans**	**Total**	**Related party**
Stage 1	20,395	2,120,882	523,598	2,664,875	-
Stage 2	271	52,995	9,475	62,741	-
Stage 3	-	49,536	11,043	60,579	52,337
	20,666	**2,223,413**	**544,116**	**2,788,195**	**52,337**
Fair value of collateral	(8,211)	(6)	(506,717)	(514,934)	-
Total	12,455	2,223,407	37,399	2,273,261	52,337
Impairment allowance	(88)	(87,428)	(2,311)	(89,827)	(1,894)
Net exposure	**12,367**	**2,135,979**	**35,088**	**2,183,434**	**50,443**

Notes to the Financial Statements

32. Financial risk management (continued)

March 31, 2021	Motor Vehicle advances	Personal loans	Residential property loans	Total	Related party
Stage 1	14,473	1,767,984	583,512	2,365,969	-
Stage 2	-	50,478	12,139	62,617	-
Stage 3	238	77,398	10,464	88,100	65,940
	14,711	**1,895,860**	**606,115**	**2,516,686**	**65,940**
Fair value of collateral	(9,226)	(72)	(475,589)	(484,887)	-
Total	5,485	1,895,788	130,526	2,031,799	65,940
Impairment allowance	(164)	(115,656)	(3,767)	(119,587)	(8,512)
Net exposure	**5,321**	**1,780,132**	**126,759**	**1,912,212**	**57,428**

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 any portion of non-performing loans not covered by collateral. 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.

March 31, 2022	Carrying amount	Investment grade (AAA to BBB)	Unrated	Total
	P '000	P '000	P '000	P '000
Cash and cash equivalents	402,083	-	402,083	402,083
Balances with related parties	50,443	-	50,443	50,443
Balances with other banks	7,623	-	7,623	7,623
Other assets	2,652	-	2,652	2,652
Total assets (excluding loans and advances and other securities)	**462,801**	**-**	**462,801**	**462,801**

March 31, 2021	Carrying amount	Investment grade (AAA to BBB)	Unrated	Total
	P '000	P '000	P '000	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
Total assets (excluding loans and advances and other securities)	**570,660**	**-**	**570,660**	**570,660**

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

Notes to the Financial Statements

32. Financial risk management (continued)

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)'.

Repossessed collateral

The Bank obtains assets by taking possession of collateral held as security. During the reporting period collateral repossessed included government guarantees on GEMVAS residential properties, which came in the form of cash.

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.

Liquidity risk

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

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

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

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

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

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

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

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

d. Managing the concentration and profile of debt maturities.

i) Management of liquidity risk

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

Notes to the Financial Statements

32. Financial risk management (continued)

ii) Exposure to liquidity risk

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

Maturity analysis table

March 31, 2022	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	402,083	-	-	-	402,083
Fixed deposits with banks	-	7,623	-	-	7,623
Loans and advances to customers	9,880	29,190	446,722	2,212,576	2,698,368
Balances with related parties	50,443	-	-	-	50,443
Other assets	2,652	-	-	-	2,652
Total assets	**465,058**	**36,813**	**446,722**	**2,212,576**	**3,161,169**
Liabilities	P '000	P '000	P '000	P '000	P '000
Due to customers*	1,493,528	538,892	805,416	-	2,837,836
Other liabilities	36,567	-	-	-	36,567
Borrowings*	7,865	33,225	106,383	57,167	204,640
Dormancy account liability	29,108	-	-	-	29,108
Lease Liabilities*	1,291	4,012	27,805	14,100	47,208
Total liabilities	**1,568,359**	**576,129**	**939,604**	**71,267**	**3,155,359**
Net liquidity gap	**(1,103,301)**	**(539,316)**	**(492,882)**	**2,141,309**	**5,810**
Cumulative liquidity gap	**-**	**(1,642,617)**	**(2,135,499)**	**5,810**	**-**

March 31, 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	9,942	11,368	380,511	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	**465,317**	**126,628**	**380,536**	**1,995,278**	**2,967,759**
Liabilities	P '000	P '000	P '000	P '000	P '000
Due to customers*	1,285,319	947,901	487,646	-	2,720,866
Other liabilities	70,366	-	-	-	70,366
Borrowings*	112,292	-	-	-	112,292
Dormancy account liability	28,329	-	-	-	28,329
Lease liability*	1,343	2,890	25,979	15,922	46,134
Total liabilities	**1,497,649**	**950,791**	**513,625**	**15,922**	**2,977,987**
Assets	465,317	126,628	380,536	1,995,278	2,967,759
Liabilities	(1,497,649)	(950,791)	(513,625)	(15,922)	(2,977,987)
Net liquidity gap	**(1,032,332)**	**(824,163)**	**(133,089)**	**1,979,356**	**(10,228)**
Cumulative liquidity gap	**-**	**(1,856,495)**	**(1,989,584)**	**(10,228)**	**-**

32. Financial risk management (continued)

As per the maturity analysis table, there is a mismatch in period 0-5 years, management is addressing this through regular monitoring of current and future cash flows.
** Balances used represent undiscounted cash flows in accordance with IFRS 7.*

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:

	2022 P '000	2021 P '000
Total liquid assets	409,706	504,841
Total deposits	2,737,658	2,564,195
Ratio	15 %	20 %

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

(e) Notes and coins;

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

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

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

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

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

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

(l) 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:

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

Notes to the Financial Statements

32. Financial risk management (continued)

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

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

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 13.7% as at March 31, 2022 (2021: 11.6%). The high ratio is as a result of lower weighted risk. The minimum capital adequacy rate as set by the Bank of Botswana is 12.5%.

The following table shows the capital adequacy for the Bank and the risk weighted assets based on Basel II as at March 31, 2022:

	2022 P '000	2021 P '000
Tier 1 capital		
Stated Capital	19,721	19,721
Statutory reserves	68,163	59,577
Retained earnings	152,080	126,324
IFRS 9 Provisions Transitional Adjustments	-	4,101
Deduct		
Intangible assets	(37,196)	(9,828)
Total Tier 1 capital	**202,768**	**199,895**
Tier 2 capital		-
Provisional reserve	26,132	22,497
Subordinated debt	78,453	-
Total qualifying capital	**307,353**	**222,392**
Credit RWAs	2,090,602	1,792,889
Operational RWAs	148,691	125,309
Total Risk weighted assets	**2,239,293**	**1,918,198**
Tier 1 risk based capital ratio (minimum 7.5%)	9.1 %	10.4 %
Total risk-weighted capital ratio (minimum 12.5%)	13.7 %	11.6 %

Notes to the Financial Statements

	2022 P '000	2021 P '000

33. Related parties

100% shareholding	Botswana Government

Related parties comprise the Government of the Republic of Botswana, Botswana Postal Services and key management personnel. 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 management personnel 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 21.

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

	2022 P '000	2021 P '000
Balance due from BPS		
Balance of fees, deposits and withdrawals made at BPS branches	52,337	65,940
Impairment provision	(1,894)	(8,512)
	50,443	**57,428**
Balance due to related parties		
Interest due on Borrowings - Botswana Government	2,620	2,814
Capital due on borrowings - Botswana Government	75,833	81,667
	78,453	**84,481**

Related party transactions

	2022 P '000	2021 P '000
Transaction with Botswana Post		
- Fees and commissions paid to BPS	2,839	2,804
-Total amount of net deposits received from Botswana Post	116,956	139,943
Commissions paid to Botswana Government	5,432	5,967
	125,227	**148,714**
Non-executive directors fees		
Board meeting fees and expenses	358	337
Compensation to Executive and Senior management		
- Salaries and allowances	7,996	6,024

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.

Notes to the Financial Statements

	2022 P '000	2021 P '000

33. Related parties (continued)

Loans to directors		
Executive directors loans	10,762	8,998
Non-executive directors loans	-	564
	10,762	**9,562**

34. Events after the reporting period

Subsequent to year end, the Government of the Republic of Botswana stated its intention to privatise Botswana Savings Bank, no further details regarding the date, nor the nature of the privatisation have been announced.

There are no other events after the reporting date that impact the financial statements for the year under review.