# Bank of Baroda (Botswana) Limited

Annual financial statements

for the year ended 31 March 2019

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | Botswana |
| **Nature of business and principal activities** | Commercial Banking |
| **Directors** | S. Bagopi (Chairman)<br>P. Sengupta<br>N.N Mosimakoko<br>N. Tshabang<br>G Setume (Appointed 15.01.2019)<br>S K Singh (Appointed on 10.10.2018)<br>R.K Patil (Resigned on 10.10.2018)<br>J.M Pongaponga (Resigned on 01.08.2018) |
| **Registered office** | Plot 50370<br>Acumen Park<br>Fairgrounds<br>Gaborone<br>Botswana |
| **Business address** | Plot 14456<br>Kamushungo Road<br>G West Industrial<br>Gaborone<br>Botswana |
| **Postal address** | P O Box 21559<br>Bontleng<br>Gaborone<br>Botswana |
| **Holding company** | Bank of Baroda<br>incorporated in India |
| **Auditors** | Grant Thornton<br>Chartered Accountants<br>Member of Grant Thornton International |
| **Secretary** | R K Accountants (Proprietary) Limited |
| **Bank registration number** | 2000/3894 |
| **Date of incorporation** | 17 August 2000 |

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The following supplementary information does not form part of the annual financial statements and is unaudited:

| | |
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## Directors' Responsibilities and Approval

The directors are required in terms of the Banking Act (46:04) to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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 are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the bank's cash flow forecast for the year to 31 March 2020 and, in light of this review and the current financial position, they are satisfied that the bank has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the bank's annual financial statements. The annual financial statements have been examined by the bank's external auditors and their report is presented on pages 6 to 8.

The annual financial statements set out on pages 9 to 62, which have been prepared on the going concern basis, were approved by the on 17 June 2019 and were signed on their behalf by:

**S. Bagopi**
**Chairman**

**S K Singh**
**Managing Director**

# Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Bank of Baroda (Botswana) Limited for the year ended 31 March 2019.

## 1. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04). The accounting policies have been applied consistently compared to the prior year.

The business of the Bank reported –ve growth of about 1.62% during the year mainly impacted by lower growth in credit & term deposits due to slowdown of economic conditions. However the bank's CASA deposit increased by 14.23%.

Also, the bank recorded a net profit of P30.84 mn for the year as compared to -P 17.98 mn during the previous year showing growth over last year mainly due to containing the impairments, better treasury operations and controlling costs. Yield on advances has also improved.

**Key financials during 2018-19**

- The total business of the Bank grew by -1.62% during the year.
- The total advances stand at P 1132.73 mn as at 31.03.2019.
- CD ratio has improved from 82.35% as on 31 March 2018 to 83.34% as on 31 March 2019.
- Capital Adequacy ratio stood at 27.42% against regulatory requirement of 15%
- Total CASA deposits increased by 14.23%
- The cost of deposits has increased from 2.24% to 2.75% during the year.
- The yield on advances was at 7.54% as against 7.25 % last year.
- Net worth of the Bank as on 31 March 2019 is P323.93 mn.
- Business per employee has improved marginally to P53.02mn as on 31.03.2019 from P52.78mn on 31.03.18
- Gross profits of the Bank reported healthy growth of 20.70% and reached to P.56.55mn against P46.85mn in the prior year. The bank also earned Net profit of P30.9 Mn from a loss of P 17.9 mn in the prior year.
- Net Interest Margin improved to 3.88% from 3.55% last year.
- The cost to income ratio is 31.79 % for the year 2018-19.
- Gross NPAs increased from P100.29 mn. to P101.66mn, whereas the Net NPAs have come down to P0.26 mn from P1.94 mn. We have recovered P10.85 mn in NPA A/cs during the Year. Banks NPA provisions coverage ratio is above 99.75 %

Full details of the financial position, results of operations and cash flows of the bank are set out in these annual financial statements.

## 2. New Initiatives during the Year:

- Upgradation of magnetic strip debit card into EMV chip based debit card
- Implementation of the higher version of Aperta system in our local clearing house
- Implementation of AML Online compliance tool for branches and head office
- The project of interbank fund transfer through internet banking is at the stage of final implementation.
- Started awarding interest on South African Rand (ZAR) deposits.

# Directors' Report

### 3. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

### 4. Regulatory compliance

**Capital Adequacy**

With a capital adequacy ratio of 27.42% as at 31 March 2019 as against the regulatory requirement of 15%, the Bank is still comfortable and has the requisite risk-bearing capacity and keen on improving it further to expand its assets base.

**Liquidity:**

Bank has been monitoring maintenance of liquidity ratio on daily basis and has been in compliance of the mandatory requirement of 10% comfortably.

Bank has also complied with the maintenance of CRR as stipulated by Bank of Botswana from time to time.

**Reporting to FIA**

Bank has complied with the reporting requirements of Financial Intelligence Agency (FIA) and Bank is reporting cash transactions and IFTs to FIA as per their requirements.

### 5. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

### 6. Acknowledgements

Thanks and appreciation are extended to all of our shareholders, staff, customers and Bank of Botswana for their continued support of the bank. The bank also wishes to extend its gratitude to the directors whose term came to an end or resigned for their invaluable guidance.

The annual financial statements set out on pages 9 to 62, which have been prepared on the going concern basis, were approved by the on 17 June 2019, and were signed on its behalf by:

**Approval of annual financial statements**

| | |
|---|---|
| **Director** | **Director** |
| **Executive** | **Executive** |
| **17 June 2019** | **17 June 2019** |

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**Chartered Accountants**

**Grant Thornton**
Acumen Park, Plot 50370
Fairgrounds, Gaborone
P O Box 1157
Gaborone, Botswana

**T** +267 395 2313
**F** +267 397 2357

linkedin.com/company/Grant-Thornton-Botswana
twitter.com/GrantThorntonBW

# Independent Auditor's Report

**To the shareholders of Bank of Baroda (Botswana) Limited**

## Opinion

We have audited the annual financial statements of Bank of Baroda (Botswana) Limited set out on pages 9 to 60, which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Bank of Baroda (Botswana) Limited as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual 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 (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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# Independent Auditor's Report

**Key audit matters**

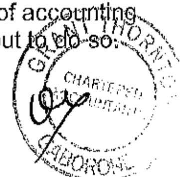
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming Our opinion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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **The assessment for loan loss provision for loans to customers** | |
| The credit impairment provision inherently contains a significant amount of estimation uncertainty especially with regard to identifying impaired receivables and quantifying loan impairment because significant judgement is required of management regarding inputs into the calculation. To assess the amount of provisions for expected losses, the bank applies statistical models with input parameters, obtained from internal and external sources.<br><br>In accordance with the requirements of IFRS 9, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages is based on an assessment of the objective characteristics of loans and relevant debtors, and subjective judgements of the bank.<br><br>Impairment stage III includes distressed loans and advances where significant increase in credit risk has occurred and where objective proof of impairment exists.<br><br>When determining the provision amount this impairment stage, the Bank management primarily considers the following factors:<br><br>• Amount and timing of forecasted cash flows.<br>• The bank's success rate at recovering debt<br>• Collateral value<br><br>In addition to the above-identified impairments, an estimate is made for impairments associated with those assets in the statement of financial position where no repayment difficulties have been identified for a particular receivable (Stage I and Stage II).<br><br>The bank creates a provision using a statistical model for a homogeneous group of loans. The statistical model is based on a deriving the probability of loan default and the estimated amount of subsequent loss. Management's judgement determines input data for the model, the calculation logic and its comprehensiveness. | Our audit procedures included considering the appropriateness of the loans and advances impairment provision. We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provision for the selected significant portfolios.On a sample of the Bank's loans we evaluated appropriateness of provisioning methodologies and application.<br><br>Our audit response focused on the significant inputs used by management in their impairment calculation. We formed an independent view on levels of provisions required by examining available external and internal information. We evaluated the estimated future cash flows and discount rate used by management in their impairment calculation. Our assessment of the inputs used within the cash flow model included an assessment of the probability of default, which is an area of significant judgement. We assessed the appropriateness of the methodologies and assumptions used, to the extent that this could have materially impacted the estimations around the timing and amount of the future cash flows. We compared this to our own methodologies and available industry data.<br><br>We also performed an independent calculation of the impairment provision and relevant inputs in the models used by management to estimate the future cash flows, discount rate as well as management's other adjustments. We found this to be within an acceptable range of outcomes. |

**Responsibilities of the directors for the Annual Financial Statements**

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Banking Act (46:04), and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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.



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# Independent Auditor's Report

**Auditor's responsibilities for the audit of the Annual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the annual 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 International Standards on Auditing 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 annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors 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, related safeguards.

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

Grant Thornton, — 21 June 2019

**Chartered Accountants** — **Gaborone**
**Certified Auditor: Madhavan Venkatachary**
**Certified Auditor of Public Interest Entity**
**BICA Membership No : 20030049**
**BAOA Membership No: CAP 0017 2019**

# Statement of Financial Position as at 31 March 2019

| Figures in Pula thousand | Note | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4 | 99 910 | 71 232 |
| Balances with other banks | 5 | 362 229 | 144 028 |
| Financial assets - Investments | 6 | 336 245 | 431 859 |
| Loans and advances | 7 | 996 763 | 1 045 442 |
| Other receivables | | 3 834 | 1 433 |
| Deferred tax | 8 | 10 | 10 |
| Property, plant and equipment | 9 | 3 515 | 4 919 |
| **Total Assets** | | **1 802 506** | **1 698 923** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Stated capital | 10 | 181 000 | 181 000 |
| Reserves | | - | 9 302 |
| Retained income | | 114 042 | 101 243 |
| | | **295 042** | **291 545** |
| **Liabilities** | | | |
| Borrowings from other banks | 12 | 134 366 | 9 597 |
| Deposit due to customers | 13 | 1 363 768 | 1 391 984 |
| Creditors and accruals | 14 | 9 330 | 5 797 |
| | | **1 507 464** | **1 407 378** |
| **Total Equity and Liabilities** | | **1 802 506** | **1 698 923** |

## Statement of Profit or Loss and Other Comprehensive Income

| Figures in Pula thousand | Note | 2019 | 2018 |
|---|---|---|---|
| Interest and similar income | 15 | 97 166 | 81 390 |
| Interest and similar expenditure | 16 | (34 726) | (27 858) |
| **Net interest income** | | **62 440** | **53 532** |
| Non-interest income | 17 | 20 413 | 16 554 |
| Other operating gains (losses) | 18 | 50 | 62 |
| Movement in credit loss allowances | 19 | (25 772) | (57 992) |
| Other operating expenses | | (26 329) | (23 302) |
| **Profit (loss) before taxation** | | **30 802** | **(11 146)** |
| Income tax expenses | 21 | 98 | (6 852) |
| **Profit (loss) for the year** | | **30 900** | **(17 998)** |
| Other comprehensive income | | - | - |
| **Total comprehensive income (loss) for the year** | | **30 900** | **(17 998)** |

## Statement of Changes in Equity

| Figures in Pula thousand | Stated capital | General risk reserve | Retained income | Total equity |
|---|---|---|---|---|
| **Balance at 01 April 2017** | **81 000** | **9 302** | **119 241** | **209 543** |
| Loss for the year | - | - | (17 998) | (17 998) |
| **Total comprehensive Loss for the year** | **-** | **-** | **(17 998)** | **(17 998)** |
| Issue of shares | 100 000 | - | - | 100 000 |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **100 000** | **-** | **-** | **100 000** |
| **Balance at 01 April 2018** | **181 000** | **9 302** | **101 242** | **291 544** |
| Profit for the year | - | - | 30 900 | 30 900 |
| **Total comprehensive income for the year** | **-** | **-** | **30 900** | **30 900** |
| Dividends | - | - | (18 100) | (18 100) |
| Movements to general risk reserve | - | (9 302) | - | (9 302) |
| **Total contributions by owners recognised directly in equity** | **-** | **(9 302)** | **(18 100)** | **(27 402)** |
| **Balance at 31 March 2019** | **181 000** | **-** | **114 042** | **295 042** |
| Note(s) | 10 | 11 | | |

## Statement of Cash Flows

| Figures in Pula thousand | Note(s) | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 23 | 44 760 | 7 226 |
| Income tax received/(paid) | 24 | 98 | (6 909) |
| **Net cash from operating activities** | | **44 858** | **317** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 9 | (314) | (508) |
| Sale of property, plant and equipment | 9 | 52 | 62 |
| **Net cash from investing activities** | | **(262)** | **(446)** |
| **Cash flows from financing activities** | | | |
| Proceeds on share issue | 10 | - | 100 000 |
| Dividends paid | 25 | (18 100) | - |
| **Net cash from financing activities** | | **(18 100)** | **100 000** |
| **Total cash movement for the year** | | **26 496** | **99 871** |
| Cash at the beginning of the year | | 637 522 | 537 651 |
| **Total cash at end of the year** | 4 | **664 018** | **637 522** |

# Accounting Policies

## 1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

### 1.1 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements and the Banking Act (46:04).

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Pulas, which is the bank's functional currency and rounded off to the nearest thousands.

These accounting policies are consistent with the previous period, except for the changes set out in note 2.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Critical judgements in applying accounting policies**

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

**Lease classification**

The bank is party to leasing arrangements as a lessee. The treatment of leasing transactions in the annual financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred.

**Revenue recognition**

In making their judgement, management considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the bank had met all the performance obligations relating to non interest income.

**Key sources of estimation uncertainty**

**Impairment of financial assets**

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The bank uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the bank's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

**Fair value estimation**

Several assets and liabilities of the bank are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

The bank reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

**Useful lives of property, plant and equipment**

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on bank replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

**Taxation**

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The bank recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the bank to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the bank holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset 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.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the bank and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

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

# Accounting Policies

### 1.3 Property, plant and equipment (continued)

| Item | Depreciation method | Average useful life |
| --- | --- | --- |
| Leasehold property | Straight line | Over the lease period |
| Office equipments | Straight line | 4-10 years |
| Furniture and fixtures | Straight line | 6-10 years |
| Motor vehicles | Straight line | 4 years |
| IT equipment | Straight line | 3 years |
| Computer software | Straight line | 3 years |
| Leasehold improvements | Straight line | Over the lease period |

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.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

### 1.4 Financial instruments

Financial instruments held by the bank are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the bank ,as applicable, are as follows:

Financial assets which are debt instruments:

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

Financial liabilities:

- Amortised cost

Note 30 Financial instruments and risk management presents the financial instruments held by the bank based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the bank are presented below:

# Accounting Policies

**Financial instruments (continued)**

**Financial instruments at amortised cost**

**Classification**

Cash and cash equivalents , balances with other banks , financial assets at amortised cost and loans and advances (note 7) are classified as financial assets subsequently measured at amortised cost.

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

**Recognition and measurement**

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

They are subsequently measured at amortised cost.

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

**Application of the effective interest method**

Interest income is calculated using the effective interest method, and is included in profit or loss in interest and similar income.

The application of the effective interest method to calculate interest income on a financial asset measured at amortised cost is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

**Loans denominated in foreign currencies**

When a loan receivable is denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 18).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 30).

**Impairment**

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

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

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

# Accounting Policies

**Financial instruments (continued)**

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the bank considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

**Significant increase in credit risk**

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the bank compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the bank has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

**Definition of default**

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

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

**Write off policy**

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

**Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

# Accounting Policies

**Financial instruments (continued)**

If the bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the bank measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 19).

**Credit risk**

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 30).

**Derecognition**

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of a loan receivable is included in profit or loss in derecognition gains (losses) on financial assets at amortised cost (note ).

**Balances due to other banks, deposit due to customers**

**Classification**

Balances due to other banks, Deposit due to customers and borrowings are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

Balances due to other banks, deposits due to customers and other borrowings are recognised when the bank becomes a party to the contractual provisions of the instruments. These are measured, at initial recognition, at fair value plus transaction costs, if any.

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

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

Interest expense, calculated on the effective interest method, is included in profit or loss in interest and similar expenditure.

Financial liabilities expose the bank to liquidity risk and interest rate risk. Refer to note 30 for details of risk exposure and management thereof.

**Financial liabilities denominated in foreign currencies**

When financial liabilities are denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Pula equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 18).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 30).

**Derecognition**

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

**Financial instruments (continued)**

**Accruals and other payables**

**Classification**

Accruals and other payables (note 14), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

**Cash and cash equivalents**

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value. These are measured at amortised costs.

### 1.5 Financial instruments: IAS 39 comparatives

**Classification**

The bank classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

**Initial recognition and measurement**

Financial instruments are recognised initially when the bank becomes a party to the contractual provisions of the instruments.

The bank classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

**Subsequent measurement**

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the bank has transferred substantially all risks and rewards of ownership.

**Fair value determination**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### 1.4 Financial instruments: IAS 39 comparatives (continued)

**Impairment of financial assets**

At each reporting date the bank assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the bank, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

**Loans to customers and other financial assets**

Loans to customers and other financial assets are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Loans to customers and other financial assets are classified as loans and receivables.

**Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

# Accounting Policies

### 1.4 Financial instruments: IAS 39 comparatives (continued)

**Derivatives**

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss - held for trading.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the bank has the positive intention and ability to hold to maturity are classified as held to maturity.

### 1.6 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.

**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.

# Accounting Policies

### 1.6 Tax (continued)

**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.

### 1.7 Leases

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

**Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

### 1.8 Impairment of assets

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

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

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

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

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

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

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

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

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

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

### 1.9 Stated capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the bank in which they are declared.

### 1.10 Employee benefits

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the bank's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

### 1.12 Recognition of Revenues and Expenses

The bank recognises revenue from the following major sources:

- Interest income on financial instruments including loans and advances
- Fee and commission income
- Treasury commission and foreign exchange gains/losses.

**Recognition of Revenues and Expenses (continued)**

Revenues and expenses are recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest rate. Interest income on securities includes revenues from fixed and floating interest rate coupons and accrued discount and premium. Fees and commissions are recognised in the profit or loss on an accrual basis. Fees and commissions related to the provision of loans are accrued over the contractual term of the loan until its due date and are recognised in the statement of comprehensive income in "Interest income". Fees and commissions that are not part of the effective interest rate are recognised as expenses and income in the statement of comprehensive income line "Fee and commission expense" and "Fee and commission income" on an accrual basis and as at the date of transaction. For financial assets categorised into Stage 3, the bank recognises interest income on the net financial asset after the recognition of expected credit loss.

Other expenses and revenues are recognised in the relevant period on an accrual basis.

### 1.13 Translation of foreign currencies

**Foreign currency transactions**

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

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Pulas by applying to the foreign currency amount the exchange rate between the Pula and the foreign currency at the date of the cash flow.

# Notes to the Annual Financial Statements

## 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

**Application of IFRS 9 Financial Instruments**

In the current year, the bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the bank's financial statements are described below.

The bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

**Classification and measurement of financial assets**

The date of initial application (i.e. the date on which the bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 01 April 2018. Accordingly, the bank has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 01 April 2018 and has not applied the requirements to instruments that have already been derecognised as at 01 April 2018. Comparatives in relation to instruments that have not been derecognised as at 01 April 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 01 April 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The directors reviewed and assessed the bank's existing financial assets as at 01 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the bank's financial assets as regards to their classification and measurement:

**Debt instruments**

Debt instruments classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

**Impairment of financial assets**

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

### 2. Changes in accounting policy (continued)

Specifically, IFRS 9 requires the bank to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the bank is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at 01 April 2018, the directors reviewed and assessed the bank's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 01 April 2017 and 01 April 2018.The result of the assessment is as follows:

| Items existing on 01 April 2018 that are subject to the impairment provisions of IFRS 9: | Note | Credit risk attributes at 01 April 2017 and 01 April 2018 | Cumulative additional loss allowance recognised on: 01 April 2018 |
|---|---|---|---|
| Loans and advances | 7 | The bank applies the general approach and recognises lifetime expected credit losses for these assets. For loans categorised into Stage 1, the bank recognises 12 M credit loss (portion of lifetime credit loss) | 11 876 |

**Classification and measurement of financial liabilities**

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the bank's financial liabilities.

### 3. New Standards and Interpretations

#### 3.1 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:

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

### 3. New Standards and Interpretations (continued)

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

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

The bank expects to adopt the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

**Foreign Currency Transactions and Advance Consideration**

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

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

The bank has adopted the interpretation for the first time in the 2019 annual financial statements.

The impact of the interpretation is not material.

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

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

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

The bank has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

**IFRS 9 Financial Instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

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

**3. New Standards and Interpretations (continued)**

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

The bank has adopted the standard for the first time in the 2019 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

**IFRS 15 Revenue from Contracts with Customers**

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

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

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

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

The bank has adopted the standard for the first time in the 2019 annual financial statements.

The impact of the standard is not material.

**3.2 Standards and interpretations not yet effective**

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

**IFRS 16 Leases**

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

## Notes to the Annual Financial Statements

**3. New Standards and Interpretations (continued)**

Bank as lessee:

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

Bank as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

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

# Notes to the Annual Financial Statements

### 3. New Standards and Interpretations (continued)

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

The bank expects to adopt the standard for the first time in the 2020 annual financial statements.

The impact of this standard is currently being assessed.

### 3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the bank's accounting periods beginning on or after 01 April 2019 or later periods but are not relevant to its operations:

**Uncertainty over Income Tax Treatments**

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

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

The bank does not envisage the adoption of the interpretation until such time as it becomes applicable to the bank's operations.

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

# Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 4. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2019 | 2018 |
|---|---|---|
| Cash on hand | 18 684 | 18 389 |
| Balances with Bank of Botswana | 81 226 | 52 843 |
| | 99 910 | 71 232 |
| **Other cash equivalents for the purposes of cash flow statement** | | |
| Bank of Botswana Securities - Repo instruments | 96 462 | 191 965 |
| Balances with domestic banks | 101 614 | 100 499 |
| Balances with foreign banks | 260 615 | 43 529 |
| Bank of Botswana Certificates | 239 783 | 239 894 |
| Balance due to other banks | (134 366) | (9 597) |
| | **564 108** | **566 290** |

| | 2019 | 2018 |
|---|---|---|
| Cash and balances with Bank of Botswana | 99 910 | 71 232 |
| Other short term cash and cash equivalents | 564 108 | 566 290 |
| | **664 018** | **637 522** |
| Primary statutory reserve maintained with Bank of Botswana (Included in balances with Balances with Bank of Botswana) and not available for use by the bank. | 43 991 | 48 940 |

**Credit quality of cash and balances with Bank of Botswana**

Cash in hand denominated in Pula and balances with the Bank of Botswana carry the sovereign credit risk rating of the Government of Botswana which is rated A2 by Standard & Poor.

**Cash and cash equivalents pledged as collateral**

| | 2019 | 2018 |
|---|---|---|
| Bank of Botswana Certificates are pledged to the Central Bank for any Repo and market borrowings | 55 000 | 55 000 |

**Exposure to currency risk**

Refer to note 30 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

## 5. Balances with other banks

| | 2019 | 2018 |
|---|---|---|
| Balances with domestic banks | 101 614 | 100 499 |
| Balances with foreign banks | 260 615 | 43 529 |
| | **362 229** | **144 028** |

**Exposure to credit risk**

Balances with other banks inherently exposes the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

### 5. Balances with other banks (continued)

Balances with other banks and Financial assets - Investments are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for balances with other banks is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if a loan is in arrears more than 90 days, then it is assumed that there has been a significant increase in credit risk since initial recognition.

In determining the amount of expected credit losses, the bank has taken into account any historic default experience, the financial positions of the shareholders as well as the future prospects in the industries in which the shareholders operate.

The estimation techniques explained have been applied for the first time in the current financial period, which is the first time the bank has applied IFRS 9. Balances with other banks were previously impaired only when there was objective evidence that the loan was impaired. The impairment was previously calculated as the difference between the carrying amount and the present value of the expected future cash flows

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The maximum exposure to credit risk is the gross carrying amount as presented below. The bank does not hold collateral or other credit enhancements against balances with other banks.

**Credit rating framework**

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

The table below sets out the internal credit rating framework which is applied by management for loans for which external ratings are not available. The abbreviation "ECL" is used to depict "expected credit losses."

| Internal credit grade | Description | Basis for recognising expected credit losses |
| --- | --- | --- |
| Performing - Stage 1 | Low risk of default and no amounts are past due | 12 Month ECL |
| Doubtful - Stage 2 | Either 30 days past due or there has been a significant increase in credit risk since initial recognition. | Lifetime ECL (not credit impaired) |
| In default - Stage 3 | Either 90 days past due or there is evidence that the asset is credit impaired | Lifetime ECL (credit impaired) |
| Write-off | There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. | Amount is written off |

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 5. Balances with other banks (continued)

**Credit loss allowances**

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for balances with other banks by credit rating grade:

**2019**

| Instrument | External credit rating (where applicable) | Rating agency | Internal credit rating (where applicable) | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|---|---|---|
| Bank Gaborone Limited | Unrated | Unrated | Performing | 12m ECL | 100 528 | 100 528 |
| Balances with Stanbic Bank Botswana Limited | Unrated | Unrated | Performing | 12m ECL | 590 | 590 |
| Balance with First National Bank of Botswana Limited | Unrated | Unrated | Performing | 12m ECL | 500 | 500 |
| Bank of Baroda - Brussels | Unrated | Unrated | Performing | 12m ECL | 70 628 | 70 628 |
| Union Bank of India- Dubai | Unrated | Unrated | Performing | 12m ECL | 53 952 | 53 952 |
| Bank of Baroda - London | Unrated | Unrated | Performing | 12m ECL | 111 916 | 111 916 |
| ABSA Limited | Unrated | Unrated | Performing | 12m ECL | 22 946 | 22 946 |
| Bank of Baroda - Mumbai | Unrated | Unrated | Performing | 12m ECL | 1 169 | 1 169 |
| | | | | | **362 229** | **362 229** |

**2018**

| Instrument | External credit rating (where applicable) | Rating agency | Internal credit rating (where applicable) | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|---|---|---|
| Balances with domestic banks | -BBB | Fitch | Performing | 12m ECL | 100 499 | 100 499 |
| Balances with foreign banks | -BBB | S&P | Performing | 12m ECL | 43 529 | 43 529 |
| | | | | | **144 028** | **144 028** |

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 5. Balances with other banks (continued)

**Exposure to currency risk**

Refer to note 30 Financial instruments and financial risk management for details of currency risk management to balances with other banks.

**Exposure to interest rate risk**

Refer to note 30 Financial instruments and financial risk management for details of interest rate risk management for balances with other banks.

**Fair value of balances with other banks**

The fair value of balances with other banks approximates their carrying amounts.

### 6. Financial assets at amortised cost

Financial assets - Investments are presented at amortised cost, which is net of loss allowance, as follows:

| | 2019 | 2018 |
|---|---|---|
| Bank of Botswana Securities- Repo instruments | 96 462 | 191 965 |
| Bank of Botswana Certificates | 239 783 | 239 894 |
| | **336 245** | **431 859** |

**Exposure to credit risk**

Financial assets - Investments inherently exposes the bank to credit risk, being the risk that the bank will incur financial loss if counterparties fail to make payments as they fall due.

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 6. Financial assets at amortised cost (continued)

### Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for balances with other banks by credit rating grade:

**2019**

| Instrument | External credit rating (where applicable) | Rating agency | Internal credit rating (where applicable) | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|---|---|---|
| Bank of Botswana - Securities | A2 | S&P | Performing | 12m ECL | 96 462 | 96 462 |
| Bank of Botswana | A2 | S&P | Performing | 12m ECL | 239 783 | 239 783 |
| | | | | | **336 245** | **336 245** |

**2018**

| Instrument | External credit rating (where applicable) | Rating agency | Internal credit rating (where applicable) | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|---|---|---|
| Bank of Botswana Certificates | A2 | S&P | Performing | 12m ECL | 191 965 | 191 965 |
| Bank of Botswana Certificates - Security | A2 | S&P | Performing | 12m ECL | 239 894 | 239 894 |
| | | | | | **431 859** | **431 859** |

### Exposure to interest rate risk

Refer to note 30 for details of interest rate risk management for investments in financial assets - investments.

### Fair values

The fair value of financial assets - investments approximates their carrying amounts.

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 7. Loans and advances

| | 2019 | 2018 |
|---|---|---|
| **Financial instruments:** | | |
| Term loans | 744 414 | 775 666 |
| Loans and overdrafts against bank own deposits | 47 363 | 77 950 |
| Demand and overdraft advances | 340 960 | 292 754 |
| Loss allowance | (135 974) | (100 928) |
| Loans and advances at amortised cost | 996 763 | 1 045 442 |
| **Total loans and advances** | **996 763** | **1 045 442** |

**Categorisation of loans and advances**

Loans and advances are categorised as follows in accordance with IFRS 9: Financial Instruments:

| | 2019 | 2018 |
|---|---|---|
| At amortised cost | 996 763 | 1 045 442 |

**Security on loans and advances**

Please refer Section on Credit Risk under risk management for details of securities held against loans and advances.

**Credit rating framework**

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

| Internal credit grade | Description | Basis for recognising expected credit losses |
|---|---|---|
| Performing - Stage 1 | Low risk of default and no amounts are past due | Lifetime ECL (not credit impaired) |
| Doubtful - Stage 2 | Either 30 days past due or there has been a significant increase in credit risk since initial recognition. | Lifetime ECL (not credit impaired) |
| In default - Stage 3 | Either 90 days past due or there is evidence that the asset is credit impaired | Lifetime ECL (credit impaired) |
| Write-off | There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. | Amount is written off |

**Exposure to credit risk**

Loans and advances inherently expose the bank to credit risk, being the risk that the bank will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the bank only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all loans and advances to customers, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, loans and advances to customers are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. loans and advances to customers which have been written off are not subject to enforcement activities.

The loss allowance provision is determined as follows:

### 7. Loans and advances (continued)

| Expected credit loss rate: | 2019 Estimated gross carrying amount at default | 2019 Loss allowance (Lifetime expected credit loss) | 2018 Estimated gross carrying amount at default | 2018 Loss allowance (Lifetime expected credit loss) |
|---|---|---|---|---|
| **Performing - no default history** | | | | |
| Stage 1 (12 M Credit loss recognised) | 776 458 | 7 909 | 942 759 | 4 713 |
| **Previously defaulting customers** | | | | |
| Stage 2- Lifetime Credit loss recognised | 240 998 | 17 774 | 103 482 | 7 164 |
| **Customers in default** | | | | |
| Stage 3 | 115 279 | 110 290 | 100 129 | 98 353 |
| **Total** | **1 132 735** | **135 973** | **1 146 370** | **110 230** |

The table below represents the different stages for the loan categories as at 31 March 2019.

| Categories | Stage 1 | ECL (12 M) | Stage 2 | Lifetime ECL | Stage 3 | Lifetime ECL | Total Loans | Total ECL |
|---|---|---|---|---|---|---|---|---|
| Business loans | 638 611 | 6 197 | 213 709 | 12 414 | 96 609 | 96 609 | 948 929 | 115 220 |
| Housing loans | 81 108 | 524 | 15 332 | 3 361 | 10 239 | 5 248 | 106 679 | 9 133 |
| Vehicle loans | 34 855 | 93 | 4 850 | 226 | 2 314 | 2 314 | 42 019 | 2 633 |
| Personal loans | 21 884 | 1 094 | 7 107 | 1 776 | 6 117 | 6 117 | 35 108 | 8 987 |
| **Total** | **776 458** | **7 908** | **240 998** | **17 777** | **115 279** | **110 288** | **1 132 735** | **135 973** |

**Exposure to currency risk**

Refer to note  for details of currency risk management for loans and advances.

**Fair value of loans and advances**

The fair value of loans and advances approximates their carrying amounts.

# Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
| --- | --- | --- |

## 8. Deferred tax

**Deferred tax liability**

| | | |
| --- | --- | --- |
| Property plant and equipment | 10 | 10 |

**Deferred tax asset**

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 follows:

| | | |
| --- | --- | --- |
| Deferred tax liability | 10 | 10 |

**Reconciliation of deferred tax asset / (liability)**

| | | |
| --- | --- | --- |
| At beginning of year | 10 | 10 |

### 9. Property, plant and equipment

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Leasehold property | 1 863 | (650) | 1 213 | 1 863 | (603) | 1 260 |
| Furniture and fixtures | 6 543 | (5 964) | 579 | 6 493 | (5 346) | 1 147 |
| Motor vehicles | 691 | (366) | 325 | 627 | (343) | 284 |
| Office equipment | 3 755 | (3 171) | 584 | 3 735 | (2 808) | 927 |
| IT equipment | 6 415 | (6 182) | 233 | 6 377 | (5 995) | 382 |
| Leasehold improvements | 3 322 | (2 741) | 581 | 3 322 | (2 403) | 919 |
| **Total** | **22 589** | **(19 074)** | **3 515** | **22 417** | **(17 498)** | **4 919** |

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Leasehold property | 1 260 | - | - | (47) | 1 213 |
| Furniture and fixtures | 1 147 | 50 | (2) | (616) | 579 |
| Motor vehicles | 284 | 192 | - | (151) | 325 |
| Office equipment | 927 | 34 | - | (377) | 584 |
| IT equipment | 382 | 38 | - | (187) | 233 |
| Leasehold improvements | 919 | - | - | (338) | 581 |
| | **4 919** | **314** | **(2)** | **(1 716)** | **3 515** |

# Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 9. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Leasehold property | 1 307 | - | (47) | 1 260 |
| Furniture and fixtures | 1 739 | 42 | (634) | 1 147 |
| Motor vehicles | 409 | - | (125) | 284 |
| Office equipment | 1 297 | 125 | (495) | 927 |
| IT equipment | 199 | 333 | (150) | 382 |
| Leasehold improvements | 1 570 | 8 | (659) | 919 |
| | **6 521** | **508** | **(2 110)** | **4 919** |

### Net carrying amounts of leased assets

| | 2019 | 2018 |
|---|---|---|
| Leasehold property | 1 213 | 1 260 |
| Leasehold improvements | 581 | 919 |
| | **1 794** | **2 179** |

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 10. Stated capital

| | 2019 | 2018 |
|---|---|---|
| **Reconciliation of number of shares issued:** | | |
| Reported as at 1 April | 181 000 | 81 000 |
| Issue of shares | - | 100 000 |
| | **181 000** | **181 000** |
| **Issued** | | |
| | 181 000 | 181 000 |
| **Capital adequacy** | | |
| **Core capital (Tier 1)** | | |
| Stated capital | 181 000 | 181 000 |
| Retained earnings | 101 243 | 101 243 |
| Dividends | (18 100) | - |
| IFRS 9 - Transition provision adjustments to CET 1 (75% of Stage 1 and Stage 2 Provision) | 17 010 | - |
| | **281 153** | **282 243** |
| **Supplementary capital (Tier 2)** | | |
| General risk reserve | - | 9 302 |
| Unpublished current year's profits | 30 900 | - |
| IFRS 9 - Transition provision on Stage 1 and Stage 2 | 11 876 | - |
| Portfolio impairment | - | 2 574 |
| | **42 776** | **11 876** |
| **Total eligible capital (Unimpaired capital) - Tier 1 + Tier 2** | **323 929** | **294 119** |
| **Risk weighted assets** | | |
| Credit risk | 1 138 120 | 911 925 |
| Operational risk | 41 331 | 60 759 |
| Market risk | 1 861 | 1 711 |
| **Total risk adjusted exposure** | **1 181 312** | **974 395** |
| Minimum capital required as per Bank of Botswana guidelines (15% of Risk adjusted exposure) | 177 197 | 146 159 |
| Excess capital over minimum required | 146 732 | 147 960 |
| Capital adequacy ratio | 27.42 % | 30.18 % |
| Bank of Botswana required minimum ratio | 15.00 % | 15.00 % |
| Excess over the minimum required (%) | 12.42 % | 15.18 % |

### 11. General risk reserves

The bank had maintained an amount equivalent to the provision made on performing financial assets with no history of default as a general risk reserve when impairment provisions were recognised on incurred loss model under IAS 39 - Financial instruments. With the adoption of IFRS 9 during the current year, the bank no longer maintains a reserve for the provision on standard assets. Instead, the provision is netted off against the loans and advances.

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 11. General risk reserves (continued)

As per Section 14 of the Banking Act 46:04, a commercial bank is expected to maintain a special reserve account which is, in the opinion of the Central Bank, adequate, and which is reserved exclusively for the purpose of making good any loss resulting from the negligence or dishonesty of any director, principal officer or any other officer or employee of the bank; or insure itself against any loss, to such an amount and in such terms, as the Central Bank deems adequate, with a person approved by the Central Bank and carrying on insurance business, or the business of guaranteeing against such loss as aforesaid. In line with these requirements, the bank has adequately insured itself and hence no specific reserve is maintained.

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 9 302 | 9 302 |
| Transfers during the year | 22 680 | - |
| Reversals during the year (Transfers to provisions) | (31 982) | - |
| | **-** | **9 302** |

### 12. Balances due to other banks

| | 2019 | 2018 |
|---|---|---|
| Balances due to other banks | 134 366 | 9 597 |

**Exposure to liquidity risk**

Refer to note 30 Financial instruments and financial risk management for details of liquidity risk exposure and management.

**Exposure to currency risk**

Refer to note 30 Financial instruments and financial risk management for details of currency risk management for balances due to other banks.

**Exposure to interest rate risk**

Refer to note 30 Financial instruments and financial risk management for details of interest rate risk management for balances due to other banks.

### 13. Deposits due to customers

**Held at amortised cost**

| | 2019 | 2018 |
|---|---|---|
| Interest bearing deposits | 1 209 002 | 1 274 729 |
| Non interest bearing deposits | 154 766 | 117 255 |
| | **1 363 768** | **1 391 984** |

**Exposure to liquidity risk**

Refer to note 30 Financial instruments and financial risk management for details of liquidity risk exposure and management.

**Exposure to currency risk**

Refer to note 30 Financial instruments and financial risk management for details of currency risk management for deposits due to customers.

**Exposure to interest rate risk**

Refer to note 30 for details of interest rate risk management for investments in deposits due to customers.

### 14. Creditors and accruals

| | 2019 | 2018 |
|---|---|---|
| Creditors and accruals | 8 700 | 5 460 |
| VAT | 630 | 337 |

| Figures in Pula thousand | | 2019 | 2018 |
|---|---|---|---|

### 14. Creditors and accruals (continued)

| | | | |
|---|---|---|---|
| | | **9 330** | **5 797** |

**Exposure to liquidity risk**

Refer to note 30 Financial instruments and financial risk management for details of liquidity risk exposure and management.

### 15. Interest and similar income

| | | | |
|---|---|---|---|
| Interest from loans and advances | | 85 679 | 77 171 |
| Interest and gains from BOBC and similar instruments | | 2 462 | 3 635 |
| Interest from financial assets and bank placements | | 9 025 | 584 |
| | | **97 166** | **81 390** |

### 16. Interest and similar expenditure

| | | | |
|---|---|---|---|
| Total Interest expenditure | | 34 726 | 27 858 |
| Interest on call deposits | | 1 643 | 2 725 |
| Interest on savings deposits | | 4 159 | 4 569 |
| Interest on call and term deposits | | 27 942 | 19 320 |
| Interest on short term borrowings | | 982 | 1 244 |
| | | **34 726** | **27 858** |

### 17. Other operating income

| | | | |
|---|---|---|---|
| Miscellaneous income and recoveries | | 3 406 | 3 029 |
| Commissions received | | 2 204 | 3 927 |
| Recoveries in bad debts written off | | 95 | 20 |
| Gain on foreign exchange transactions | | 14 708 | 9 578 |
| | | **20 413** | **16 554** |

### 18. Other operating gains (losses)

| | | | |
|---|---|---|---|
| **Gains (losses) on disposals, scrappings and settlements** | | | |
| Property, plant and equipment | 9 | 50 | 62 |

### 19. Operating profit (loss)

Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:

| | | | |
|---|---|---|---|
| **Auditor's remuneration - external** | | | |
| Audit fees | | 500 | 542 |
| | | | |
| **Remuneration, other than to employees** | | | |
| Administrative and managerial services | | 683 | 666 |
| Consulting and professional services | | 1 352 | 651 |
| | | **2 035** | **1 317** |

**Leases**

| | | | |
|---|---|---|---|
| **Operating lease charges** | | | |
| Premises | | 3 019 | 2 723 |

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
| --- | --- | --- |

### 19. Operating profit (loss) (continued)

**Depreciation and amortisation**

| | 2019 | 2018 |
| --- | --- | --- |
| Depreciation of property, plant and equipment | 1 716 | 2 110 |

**Movement in credit loss allowances**

| | 2019 | 2018 |
| --- | --- | --- |
| Loans and advances | 25 772 | 57 992 |

**Expenses by nature**

| | 2019 | 2018 |
| --- | --- | --- |
| Employee costs | 10 420 | 9 487 |
| Operating lease charges | 3 019 | 2 723 |
| Depreciation, amortisation and impairment | 1 716 | 2 110 |
| Other expenses | 11 174 | 8 982 |
| | **26 329** | **23 302** |

### 20. Depreciation, amortisation and impairment losses

**Depreciation**

| | 2019 | 2018 |
| --- | --- | --- |
| Property, plant and equipment | 1 716 | 2 110 |

### 21. Taxation

**Major components of the tax income**

**Current**

| | 2019 | 2018 |
| --- | --- | --- |
| Local income tax - current period | - | 6 852 |
| Local income tax - recognised in current tax for prior periods | (98) | - |
| | **(98)** | **6 852** |

**Reconciliation of the tax expense**

Reconciliation between accounting profit and tax expense.

| | 2019 | 2018 |
| --- | --- | --- |
| Accounting profit | 30 802 | (11 146) |
| Tax at the applicable tax rate of 22% (2018: 22%) | 6 776 | (2 452) |
| **Tax effect of adjustments on taxable income** | | |
| Disallowances-Excess of provision for doubtful debts over 1.5% of the total advances | - | 9 304 |
| Allowances allowed - Specific write off (capped at) | (6 776) | - |
| | **-** | **6 852** |

No provision has been made for 2019 tax year as the bank's has claimed the provision on specific advances, previously disallowed, as allowable deductions due to the write-offs pertaining to a specific customer. The allowance is restricted to the maximum tax payable on a conservative basis. Deferred tax asset not recognised in the current year on account of tax losses after the allowance for specific provision is P 3 113 386.

### 22. Earnings per share

**Basic earnings per share**

Basic earnings per share is determined by dividing profit or loss attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 21. Taxation (continued)

| **Basic earnings (loss) per share** | | |
|---|---|---|
| Profit attributable to equity shareholders | 30 900 | (17 998) |
| Weighted average number of shares in issue (in thousands) | 181 000 | 181 000 |
| **Earnings per share - In thebe** | **17.07** | **(9.94)** |

| **Reconciliation of basic earnings to earnings used to determine diluted earnings per share** | | |
|---|---|---|
| Basic earnings (loss) | 30 900 | (17 998) |
| **Adjusted for:** | | |

### 23. Cash generated from operations

| | | |
|---|---|---|
| Profit before taxation | 30 802 | (11 146) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 1 716 | 2 110 |
| Gains on disposals, scrappings and settlements of assets and liabilities | (50) | (62) |
| Net impairments and movements in credit loss allowances | 25 772 | 57 992 |
| **Changes in working capital:** | | |
| Loans and advances | 22 907 | (113 126) |
| Other receivables | (2 401) | (643) |
| Creditors and accruals | 3 529 | (1 054) |
| Deposit due to customers | (28 216) | 73 564 |
| Movements in general risk reserve | (9 299) | (409) |
| | **44 760** | **7 226** |

### 24. Tax refunded

| | | |
|---|---|---|
| Balance at beginning of the year | - | (57) |
| Current tax for the year recognised in profit or loss | 98 | (6 852) |
| | **98** | **(6 909)** |

### 25. Dividends paid

| | | |
|---|---|---|
| Dividends | (18 100) | - |

### 26. Commitments

**Undrawn commitments**

| | | |
|---|---|---|
| Undrawn commitments on loans and advances | 111 924 | 92 722 |

**Operating leases – as lessee (expense)**

| **Minimum lease payments due** | | |
|---|---|---|
| - within one year | 2 326 | 2 490 |
| - in second to fifth year inclusive | 7 217 | 4 311 |
| | **9 543** | **6 801** |

Operating lease payments represent rentals payable by the bank for certain of its office properties. Leases are negotiated for an average term of five years and rentals and have an average annual escalation of 5%. No contingent rent is payable.

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 27. Contingencies

Litigations

In 2015, a claim of P 1.5 million was instituted against the Bank for the unauthorised usage of an individual's photograph in a local advertisement. It is view of the Bank's management that the marketing consultant engaged by the Bank had used the photograph based on some arrangement they had and the claimant has named the Bank as the third party to the suit. The Bank has engaged its attorneys to defend the suit. Management does not expect any pay-out to the merits of the case as they are of the view that the case is primarily between the marketing consultant and the claimant. Consequentially, no provision has been recognised in the financial statements.

Guarantees

Guarantees provided by the Bank consist significantly of financial guarantees and performance guarantees provided to clients in the construction, telecommunication operators and service industry.

These guarantees are fully secured against customer deposits and are therefore fully reimbursable in the event of the Bank being called upon to meet its obligations.

It is impracticable to determine the timing of any outflows, as this is entirely dependent on the meeting of obligations by clients.

| **Contingencies** | | |
|---|---|---|
| -Guarantees | 68 062 | 69 420 |
| Letters of credit | 6 266 | 2 454 |
| | **74 328** | **71 874** |

### 28. Related parties

Bank of Baroda Botswana Limited is a fully owned subsidiary of Bank of Baroda, a company incorporated in India. Subsidiary companies and branches of Bank of Baroda are related parties of Bank by the virtue of holding/subsidiary relationship.

Related parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business.

**Relationships**

| | |
|---|---|
| Holding company | Bank of Baroda, India |
| Fellow subsidiaries | Bank of Baroda (Guyana) Limited<br>Bank of Baroda (Tanzania) Limited<br>Bank of Baroda (Trinidad & Tobago) Limited<br>Bank of Baroda (Ghana) Limited<br>Bank of Baroda (Kenya) Limited<br>Bank of Baroda (Uganda) Limited<br>Bank of Baroda (New Zealand) Limited<br>BOB Financial Solutions Limited (Erstwhile)<br>BOBCARDS Limited<br>BOB Capital Markets Limited<br>Nainital Bank Limited |
| Overseas branches(outside India) of the holding company | Bank of Baroda New York<br>Bank of Baroda London<br>Bank of Baroda Singapore<br>Bank of Baroda Durban<br>Bank of Baroda Brussels<br>Bank of Baroda Johannesburg |
| Associate of holding company | Baroda Pioneer Asset Management Company Limited<br>Baroda Uttar Pradesh Gramin Bank<br>Baroda Rajasthan Gramin Bank<br>Baroda Gujarat Gramin Bank<br>Indo Zambia Bank Limited<br>India International Bank Malaysia Berhad |
| Directors | Please refer General Information Page |
| Members of key management | Mr.Ravindra Krishnarao Patil (Part of the year)<br>Mr Shailendra Kumar Singh |

# Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 28. Related parties (continued)

### Related party balances

| | 2019 | 2018 |
|---|---|---|
| **Nostro balances** | | |
| Bank of Baroda - Mumbai branch | 1 169 | 90 |
| Bank of Baroda - New York branch | (48 193) | 11 068 |
| Bank of Baroda - London branch | 4 185 | 5 677 |
| Bank of Baroda - Brussels branch | 5 758 | 12 403 |
| | **(37 081)** | **29 238** |
| **Amounts borrowed from related parties** | | |
| Bank of Baroda - New York branch | - | 9 541 |
| Bank of Baroda (Uganda) Limited | 43 057 | - |
| | **43 057** | **9 541** |
| **Deposits and current accounts** | | |
| Directors and key management personnel | 75 | 50 |
| Loans and advances to key management personnel | 136 | 166 |
| | **211** | **216** |

### Related party transactions

| | 2019 | 2018 |
|---|---|---|
| **Interest paid to (received from) related parties** | | |
| Bank of Baroda (Uganda) Limited | 379 | - |
| Bank of Baroda - New York branch | 38 | 496 |
| | **417** | **496** |
| **Transactions with key management** | | |
| Salary and other short term benefits- Executive Director | 550 | 612 |
| Board sitting fees - Non Executive Directors | 36 | 72 |
| | **586** | **684** |

## 29. Comparative figures

Certain comparative figures have been reclassified. There is no material impact due to these reclassifications.

### 30. Financial instruments and risk management

**Categories of financial instruments**

**Categories of financial assets**

**2019**

| | Note | Amortised cost | Total | Fair value |
|---|---|---|---|---|
| Balances with other banks | 5 | 362 229 | 362 229 | 363 229 |
| Financial assets and investments | 6 | 336 245 | 336 245 | 336 245 |
| Loans and advances | 7 | 996 763 | 996 763 | 996 763 |
| Cash and cash equivalents | 4 | 99 910 | 99 910 | 99 910 |
| | | **1 795 147** | **1 795 147** | **1 796 147** |

**2018**

| | Note(s) | Amortised cost | Total | Fair value |
|---|---|---|---|---|
| Balances with other banks | 5 | 144 028 | 144 028 | 144 028 |
| Financial assets and investments | 6 | 431 859 | 431 859 | 431 859 |
| Loans and advances | 7 | 1 045 442 | 1 045 442 | 1 045 442 |
| Cash and cash equivalents | 4 | 71 232 | 71 232 | 71 232 |
| | | **1 692 561** | **1 692 561** | **1 692 561** |

# Notes to the Annual Financial Statements

## 30. Financial instruments and risk management (continued)

### Categories of financial liabilities

**2019**

| | Note(s) | Amortised cost | Total | Fair value |
|---|---|---|---|---|
| Accruals and other payables | 14 | 8 697 | 8 697 | 8 697 |
| Balances due to banks | 12 | 134 366 | 134 366 | 134 366 |
| Deposits due to customers | 13 | 1 363 768 | 1 363 768 | 1 363 768 |
| | | **1 506 831** | **1 506 831** | **1 506 831** |

**2018**

| | Note(s) | Amortised cost | Total | Fair value |
|---|---|---|---|---|
| Accruals and other payables | 14 | 5 461 | 5 461 | 5 461 |
| Balances due to banks | 12 | 9 597 | 9 597 | 9 597 |
| Deposits due to customers | 13 | 1 391 984 | 1 391 984 | 1 391 983 |
| | | **1 407 042** | **1 407 042** | **1 407 041** |

### Capital risk management

The Bank's objective when maintaining capital, is to comply with the requirements set by the regulators of the banking markets where the Bank operates, to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders and to maintain a strong capital base to support the development of its business

### Regulatory compliance

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

These techniques include the risk weighted asset ratio, which the Bank of Botswana regards as a key supervisory tool. The Bank of Botswana has set the individual minimum ratio requirements for Banks in Botswana at 15% which is above the Basel Committee minimum guideline of 8%. The ratio calculation involves the application of designated risk weightings to reflect an estimate of credit, operational, market and other risks associated with broad categories of transactions and counterparties.

Regulatory guidelines define two tiers of capital resources: Tier 1 (core) capital, comprising mainly shareholders' funds, is the highest tier. Tier 2 capital includes perpetual, medium and long term subordinated debt, general provisions for bad and doubtful debts as well as property and equipment revaluation reserves. Both tiers can be used to meet trading and banking activity requirements although tier 2 capital, included in the risk asset ratio calculation, may not exceed tier 1 capital.

The Bank has complied with all externally imposed capital requirements throughout the period

### 30. Financial instruments and risk management (continued)

**Financial risk management**

**Overview**

The bank is exposed to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

**Credit risk**

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It is the risk that the Bank's customers, clients or counterparties will not be able or willing to pay interest, repay capital or otherwise fail to fulfil their contractual obligations under loan agreements or other credit facilities. Credit risk also arises through the downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall. Furthermore, credit risk is manifested as sector risk where difficulties experienced by the sector in which the exposure is domiciled may impede payment or reduce the value of the asset. Settlement risk is another special form of credit risk which is the possibility that the Bank may pay a counterparty – for example, a Bank in a foreign exchange transaction – and fail to receive the corresponding settlement in return

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

The bank is exposed to credit risk on financial assets - investments, loans and advances, balances with other banks, cash and cash equivalents, loan commitments and financial guarantees.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The bank only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Credit risk exposure arising on cash and cash equivalents is managed by the bank through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer belongs, period for which the customer has been active, external credit references etc. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account.

**Credit rating assessment at the time of sanction and review**

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 30. Financial instruments and risk management (continued)

The Bank uses an internally developed credit rating system for exposure limits to business and commercial loans in excess of P 200 000 . The rating system takes into account the financial discipline of the borrower and is based on the latest financial statements availed to the Bank. Ratings of the most credit-worthy customer are assigned at AAA and decremental points system is used. Ratings below BBB are not considered by the Bank as viable option. Loans to individuals are not rated.

At the reporting date, exposures to customers categorised into ratings are as follows

| | 2019 | 2018 |
|---|---|---|
| AAA | 853 372 | 876 376 |
| AA | 18 487 | 7 262 |
| A | 98 | 191 |
| B and BBB | 56 057 | 50 891 |
| Unrated and NPA | 204 723 | 211 650 |
| | **1 132 737** | **1 146 370** |

The maximum exposure to credit risk is presented in the table below:

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Gross carrying amount** | **Credit loss allowance** | **Amortised cost / fair value** | **Gross carrying amount** | **Credit loss allowance** | **Amortised cost / fair value** |
| Balances with other banks | 5 | 362 229 | - | 362 229 | 144 028 | - | 144 028 |
| Financial assets and other investments | 6 | 336 245 | - | 336 245 | 431 859 | - | 431 859 |
| Loans and advances to customers | 7 | 1 132 737 | (135 974) | 996 763 | 1 146 370 | (100 928) | 1 045 442 |
| Cash and cash equivalents | 4 | 99 910 | - | 99 910 | 71 232 | - | 71 232 |
| | | **1 931 121** | **(135 974)** | **1 795 147** | **1 793 489** | **(100 928)** | **1 692 561** |

### Collateral and other credit enhancements obtained

The following table analyses the collateral and other credit enhancements before impairments

| **Collateral classified as follows** | 2019 | 2018 |
|---|---|---|
| Cash deposits | 14 651 | 77 949 |
| Mortgage bonds and others | 938 744 | 946 294 |
| Unsecured | 179 342 | 122 127 |
| | **1 132 737** | **1 146 370** |

### Aged analysis of loans and receivables (Only Comparitives)

The following table provides an aged analysis of the loan book at their carryings amounts respectively as at the year end.

Credit quality of loans and advances

| | 2019 | 2018 |
|---|---|---|
| Neither past due nor impaired | | 942 759 |
| Past due for less than 90 days and not impaired | | 102 683 |
| Past due - Over 90 days and not impaired | | - |
| | | **1 045 442** |

Loans by Industry sector

The following table breaks down the bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the banks counterparties.

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

**30. Financial instruments and risk management (continued)**

| | 2019 | 2018 |
|---|---|---|
| Vehicle loans | 42 020 | 36 676 |
| Housing loans | 107 681 | 113 208 |
| Personal loans | 31 299 | 41 952 |
| Corporate business/industry | 951 737 | 954 534 |
| | **1 132 737** | **1 146 370** |

Concentration risk

The bank had a significant concentration risk resulting from its top ten customers. The total exposure relating to these customers was P 317 070 631 (2018: P 347 735 524), comprising 30% of the gross loan book at the reporting date.

In addition, these exposures individually exceeded 10% of the bank's unimpaired capital and comprised 118% of the unimpaired capital at the reporting date.

**Liquidity risk**

The liquidity risk is the risk of being unable to meet financial or settlement obligation to customers or counterparties.

The Bank's Asset-Liabilities Committees (ALCO) is charged to ensure access to funds and to avoid a concentration of funding needs at any one time or from any one source. Meetings are held every quarter and also when there are changes to Bank of Botswana rate.

ALCO also controls asset maturities as well as the volume and quality of holdings of liquid assets and short term funds. In evaluating the Bank's liquidity position, ALCO takes account of lending commitments not drawn, the use of overdraft facilities and the possible impact of outstanding contingent liabilities, such as letters of credit and guarantees.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the business of the Bank. 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.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Primary reserve held is 5% of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

**Maturity Profile**

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

| **At 31 March 2019** | **Upto 3months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Cash and Balances with Bank of Botswana | 99 910 | - | - | - | 99 910 |
| Balances with other banks | 362 229 | - | - | - | 362 229 |
| Other financial assets | 336 245 | - | - | - | 336 245 |
| Loans and advances to customers | 45 248 | 135 569 | 617 742 | 198 204 | 996 763 |
| Total financial assets | 843 632 | 135 569 | 617 742 | 198 204 | 1 795 147 |
| Plant and equipment | - | - | - | 3 525 | 3 525 |
| Other assets | - | 3 834 | - | - | 3 834 |
| Deferred tax | - | - | - | - | - |
| **Total assets** | **843 632** | **139 403** | **617 742** | **201 729** | **1 802 506** |

## Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

### 30. Financial instruments and risk management (continued)

| | | | | | |
|---|---|---|---|---|---|
| | - | - | - | - | - |
| Deposit due to customers | 1 012 845 | 277 048 | 73 875 | - | 1 363 768 |
| Due to other banks | 134 366 | - | - | - | 134 366 |
| Creditors and accruals | - | 9 330 | - | - | 9 330 |
| Total financial liabilities | 1 147 211 | 286 378 | 73 875 | - | 1 507 464 |
| Equity funds | - | - | - | 295 042 | 295 042 |
| **Total liabilities and equity** | **1 147 211** | **286 378** | **73 875** | **295 042** | **1 802 506** |
| **Net liquidity gap** | **(303 579)** | **(146 975)** | **543 867** | **(93 313)** | **-** |
| Operating lease commitments- Payable | 705 | 1 621 | 7 217 | - | 9 543 |
| Off balance sheet items- Guarantees and LCs | 7 792 | 11 291 | 24 422 | 30 804 | 74 309 |

| **At 31 March 2018** | **Upto 3months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Assets | - | - | - | - | - |
| Cash and Balances with Bank of Botswana | 71 232 | - | - | - | 71 232 |
| Balances with other banks | 144 028 | - | - | - | 144 028 |
| Other financial assets | 431 859 | - | - | - | 431 859 |
| Loans and advances to customers | 359 262 | 72 825 | 148 919 | 464 436 | 1 045 442 |
| Total financial assets | 1 006 381 | 72 825 | 148 919 | 464 436 | 1 692 561 |
| Plant and equipment | - | - | - | 4 919 | 4 919 |
| Other assets | 1 433 | - | - | - | 1 433 |
| Deferred tax | - | - | 10 | - | 10 |
| **Total assets** | **1 007 814** | **72 825** | **148 929** | **469 355** | **1 698 923** |
| Liabilities | - | - | - | - | - |
| Deposits due to customers | 835 612 | 484 427 | 71 944 | - | 1 391 983 |
| Balance due to other banks | 9 597 | - | - | - | 9 597 |
| Creditors and accruals | - | 5 799 | - | - | 5 799 |
| Total financial liabilities | 845 209 | 490 226 | 71 944 | - | 1 407 379 |
| Equity funds | - | - | - | 291 544 | 291 544 |
| **Total liabilities and equity** | **845 209** | **490 226** | **71 944** | **291 544** | **1 698 923** |
| **Net liquidity gap** | **162 605** | **(417 401)** | **76 985** | **177 811** | **-** |
| Off balance sheet items- Guarantees | - | - | 71 874 | - | 71 874 |
| Operating lease commitments - Payable | 646 | 1 844 | 4 311 | - | 6 801 |

| Figures in Pula thousand | | 2019 | 2018 |
|---|---|---|---|

## 30. Financial instruments and risk management (continued)

### Foreign currency risk

The bank is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary. The foreign currencies in which the bank deals primarily are US Dollars, Euros, GBP, ZAR and INR.

The bank through treasury, manages foreign currency risk in accordance with broad risk guidelines set by the Board. Foreign currency risk arises as a result of fluctuations in exchange rates and the resultant impact on the Bank's position, which is established during normal day to day trading. During the financial year under review, the Bank's authorised Net open position exposure limit was USD 500 000. The limits were adhered to throughout the year and at year end. Even though treasury may take position on any major currencies, for the purposes of exposure limit, these are calculated in USD after considering the forward and spot contracts.

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

### Exposure in Pula

The net carrying amounts, in Pula, of the various exposures, are denominated in the following currencies. The amounts have been presented in Pula by converting the foreign currency amounts at the closing rate at the reporting date: (Amounts in 000)
**US Dollar exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Loans and advances to customers | | 108 490 | 166 886 |
| Cash and cash equivalents | | 2 006 | 12 294 |
| Balances with other banks | | 226 049 | - |
| Deposits due to customers | | (200 459) | (165 002) |
| Balances due to other banks | | (134 307) | (9 597) |
| **Net US Dollar exposure** | | **1 779** | **4 581** |
| **Euro exposure:** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | | 5 758 | 12 403 |
| Deposits due to customers | 13 | (1 995) | (11 540) |
| **Net Euro exposure** | | **3 763** | **863** |
| **GBP exposure:** | | | |
| Cash and cash equivalents | | 4 184 | 5 677 |
| Deposit due to customers | | (4 192) | (5 842) |
| **Net GBP exposure** | | **(8)** | **(165)** |
| **ZAR exposure:** | | | |
| Cash and cash equivalents | | 19 436 | 14 389 |
| Financial assets | | 3 707 | - |
| Deposit due to customers | 13 | (13 347) | (12 713) |
| **ZAR exposure** | | **9 796** | **1 676** |
| **INR exposure:** | | | |
| Cash and cash equivalents | | 1 169 | 90 |
| **Net exposure to foreign currency in Pula** | | **16 499** | **7 045** |

### 30. Financial instruments and risk management (continued)

**Exposure in foreign currency amounts**

The net carrying amounts, in foreign currency (amount in 000) of the above exposure was as follows:

**US Dollar exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Loans and advances to customers | 7 | 10 078 | 17 489 |
| Cash and cash equivalents | 4 | 186 | 1 288 |
| Financial assets - investments | 6 | 21 000 | - |
| Deposit due to customers | 13 | (18 622) | (17 292) |
| Balances due to other banks | 12 | (12 477) | (1 000) |
| **Net US Dollar exposure** | | **165** | **485** |

**Euro exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 476 | 1 043 |
| Deposit due to customers | 13 | (165) | (970) |
| **Net Euro exposure** | | **311** | **73** |

**GBP exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 296 | 422 |
| Deposit due to customers | 13 | (297) | (435) |
| **Net GBP exposure** | | **(1)** | **(13)** |

**ZAR exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 26 209 | 17 749 |
| Financial assets | | 5 000 | - |
| Deposit due to customers | 13 | (18 000) | (15 682) |
| **Net ZAR exposure** | | **13 209** | **2 067** |

**INR exposure:**

| | Note | 2019 | 2018 |
|---|---|---|---|
| Cash and cash equivalents | 4 | 7 453 | 615 |

**Exchange rates**

The following closing exchange rates were applied at reporting date:

| **Pula per unit of foreign currency:** | 2019 | 2018 |
|---|---|---|
| US Dollar | 10.764 | 9.541 |
| Euro | 12.075 | 11.890 |
| ZAR | 0.741 | 0.811 |
| GBP | 14.29 | 13.45 |
| INR | 0.16 | 0.15 |

**Foreign currency sensitivity analysis**

The following information presents the sensitivity of the bank to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

### 30. Financial instruments and risk management (continued)

| Increase or decrease in rate | 2019 Increase | 2019 Decrease | 2018 Increase | 2018 Decrease |
|---|---|---|---|---|
| **Impact on profit or loss:** | | | | |
| US Dollar 10% (2018: 10 %) | 13 | (13) | 421 | (421) |
| Euro 10% (2018: 10 %) | 341 | (341) | 78 | (78) |
| GBP 10% (2018: 10 %) | (1) | 1 | (15) | 15 |
| ZAR 10% (2018: 10 %) | 728 | (728) | 152 | (152) |
| INR 10% (2018:10 %) | 43 | (43) | 8 | (8) |
| | **1 124** | **(1 124)** | **644** | **(644)** |

**Interest rate risk**

**Interest rate profile**

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

The bank has an active ALCO whose responsibilty is for balance sheet planning from risk returns perspective, particularly strategic management of interest rate risk. There is an interest rate risk management policy that gives guidance on the management of the following: 1. Gap or Mismatch risk 2. Basis risk 3. Embedded Option risk 4. Yield Curve risk 5. Price risk 6. Reinvestment risk

**Gap or Mismatch Risk Gap** or mismatch risk arises from differences in maturity dates, repricing dates and principal amounts of assets and liabilities. On account of the mismatch, interest rate change can alter the income and economic value.

**Basis Risk** Even in a perfectly matched gap position, there is a risk that the interest rates of different instruments on different basis viz. BOBCs yield or US$ LIBOR etc. will not change by the same degree during a given period of time. Basis risk arises from the possibility that the interest rates of different assets and liabilities, which have different basis, change in different magnitudes.

**Embedded Option Risk:** Changes in the level of interest rates can cause prepayment of loans and the exercise of put/call options on bonds and withdrawal of deposits before their stated maturity dates. If not adequately managed, instruments with optionality features can pose significant risk as options are generally exercised to the advantage of the holder of the option.

**Yield Curve Risk:** The yield on various assets does not change equally with change in interest rate due to differing maturities. The unequal change in yield of different assets for different maturities for a specific change in interest rate gives rise to yield curve risks. The Bank's endeavour will be to take a view of possible movement of interest rate change over a period of twelve months, since major part of our assets are by way of Overdraft facility for twelve months and Loan facility extending beyond twelve months.

**Price Risk:** When assets are sold at a price lower than cost price a price risk occurs. However, the Bank's policy is to manage our liabilities in such a way that we will not be in a situation where securities will be sold at a price lower than purchase price.

**Reinvestment Risk:** This risk arises from the uncertainty regarding the interest rate at which future cash flow can be reinvested. Thus the interest rate risk of the financial institution has to be seen not from the traditional earnings perspective only, but more importantly, from the economic value perspective also as variation in interest rates can affect the economic value of its assets, liabilities and off balance sheet positions. The sensitivity of economic value to fluctuations in interest rates is of considerable importance to all the stakeholders and the supervisors.

| At 31 March 2019 | Under-3 months | 3-12 Months | 1-5 years | over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|
| Cash and balances with Bank of Botswana | - | - | - | - | 99 910 | 99 910 |
| Investments in Bank of Botswana Certificates and Securities | 336 245 | - | - | - | - | 336 245 |
| Balances with other banks | 362 229 | - | - | - | - | 362 229 |
| Loans and advances to customers | 30 855 | 14 393 | 135 569 | 617 742 | 198 204 | 996 763 |

# Notes to the Annual Financial Statements

| Figures in Pula thousand | 2019 | 2018 |
|---|---|---|

## 30. Financial instruments and risk management (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Total financial assets | 729 329 | 14 393 | 135 569 | 617 742 | 298 114 | 1 795 147 |
| Plant and equipment | - | - | - | - | 3 515 | 3 515 |
| Deferred tax | - | - | - | - | 10 | 10 |
| Other assets | - | - | - | - | 3 834 | 3 834 |
| **Total Assets** | **729 329** | **14 393** | **135 569** | **617 742** | **305 473** | **1 802 506** |
| Liabilities | | | | | | |
| Deposits due to customers | 478 348 | 204 936 | - | 524 852 | 155 632 | 1 363 768 |
| Creditors, accruals and operating lease liability | - | - | - | - | 9 330 | 9 330 |
| Fixed term borrowings with other banks | 43 002 | 43 171 | 48 193 | - | - | 134 366 |
| Total financial liabilities | 521 350 | 248 107 | 48 193 | 524 852 | 164 962 | 1 507 464 |
| Equity funds and other liabilities | - | - | - | - | 295 042 | 295 042 |
| **Total liabilities** | **521 350** | **248 107** | **48 193** | **524 852** | **460 004** | **1 802 506** |
| **Net interest gap liquidity** | **207 979** | **(233 714)** | **87 376** | **92 890** | **(154 531)** | **-** |

| At 31 March 2018 | Under-3 months | 3 to 12 months | 1-5 years | Over 5 years | Non - interest bearing | Total |
|---|---|---|---|---|---|---|
| Cash and balances with Bank of Botswana | - | - | - | - | 71 232 | 71 232 |
| Balances with other banks | 144 028 | - | - | - | - | 144 028 |
| Investment in Bank of Botswana Certificates | 431 859 | - | - | - | - | 431 859 |
| | - | - | - | - | - | - |
| Loans and advances to customers | 359 262 | 72 825 | 148 919 | 464 436 | - | 1 045 442 |
| Total financial assets | 935 149 | 72 825 | 148 919 | 464 436 | 71 232 | 1 692 561 |
| Plant and equipment | - | - | - | - | 4 919 | 4 919 |
| Deferred tax | - | - | - | - | 10 | 10 |
| Other assets | - | - | - | - | 1 433 | 1 433 |
| **Total Assets** | **935 149** | **72 825** | **148 919** | **464 436** | **77 594** | **1 698 923** |
| Liabilities | | | | | | |
| Deposits due to customers | 723 158 | 484 427 | 71 944 | - | 112 455 | 1 391 984 |
| Balance due to other banks | 9 597 | - | - | - | - | 9 597 |
| Creditors, accruals and operating lease liability | - | - | - | - | 5 797 | 5 797 |
| Total financial liabilities | 732 755 | 484 427 | 71 944 | - | 118 252 | 1 407 378 |
| Equity funds and other liabilities | - | - | - | - | 291 545 | 291 545 |
| **Total liabilities** | **732 755** | **484 427** | **71 944** | **-** | **409 797** | **1 698 923** |
| **Net interest gap liquidity** | **202 394** | **(411 602)** | **76 975** | **464 436** | **(332 203)** | **-** |

### 30. Financial instruments and risk management (continued)

**Interest rate sensitivity analysis**

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period. These calculations are based on simplified scenarios. Based on the simulations performed, the impact on pre-tax profit of a .5% shift in interest rates would result in the following. (Amounts in 000s)

| | 2019 | 2019 | 2018 | 2018 |
|---|---|---|---|---|
| **Increase or decrease in rate** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| **Impact on profit or loss:** | | | | |
| Financial assets - Investments and bank balances | 348 | (348) | 287 | (287) |
| Loans and advances | 514 | (514) | 522 | (522) |
| Deposits to customers | (682) | 682 | (695) | 695 |
| Borrowings from banks | (67) | 67 | (4) | 4 |
| | **113** | **(113)** | **110** | **(110)** |

**Operational risk**

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.
The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the holding Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the parent Bank's and the Bank of Botswana's requirements are supported by a periodic review undertaken by the senior management of the Bank. Spot rectifications are, where ever possible, carried out.

### 31. Fair value information

#### Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observable significant inputs to the measurement, as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Bank can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

All financial assets and liabilities are categorised under Level 2 for the purposes of disclosure.

For loans and advances to customers which are in the nature of overdrafts and short term loans, the estimated fair value approximates to the carrying value. For deposits due to customers with no stated maturity value which includes non-interest bearing deposits, the fair value is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Due to the nature of the instruments, the carrying values of all financial assets and liabilities approximately equates to their fair values.

### 32. Events after the reporting period

There are no events after the reporting period that require an adjustment or disclosure in these financial statements.

# Detailed Income Statement

| Figures in Pula thousand | Note(s) | 2019 | 2018 |
|---|---|---|---|
| **Interest and similar income** | 15 | **97 166** | **81 390** |
| **Interest and similar expenditure** | 16 | **(34 726)** | **(27 858)** |
| **Net interest income** | | **62 440** | **53 532** |
| **Other operating income** | 17 | **20 413** | **16 554** |
| **Other operating gains (losses)** | | | |
| Gains on disposal of assets or settlement of liabilities | | 50 | 62 |
| Movement in credit loss allowances | 19 | (25 772) | (57 992) |
| **Expenses (Refer to page 62)** | | **(26 329)** | **(23 302)** |
| **Profit (loss) before taxation** | | **30 802** | **(11 146)** |
| Taxation | 21 | 98 | (6 852) |
| **Profit (loss) for the year** | | **30 900** | **(17 998)** |



The supplementary information presented does not form part of the annual financial statements and is unaudited

## Detailed Income Statement

| Figures in Pula thousand | Note(s) | 2019 | 2018 |
|---|---|---|---|
| **Other operating expenses** | | | |
| Administration and management fees | | (683) | (666) |
| Advertising | | (188) | (326) |
| Auditors remuneration - external auditors | 19 | (500) | (542) |
| Consulting and professional fees | | (928) | (224) |
| Consulting and professional fees - legal fees | | (424) | (427) |
| Depreciation | | (1 716) | (2 110) |
| Donations | | (50) | (50) |
| Employee costs | | (10 420) | (9 487) |
| Entertainment | | (358) | (565) |
| VAT expenses | | (861) | (105) |
| Fines and penalties | | - | (3) |
| Insurance | | (1 228) | (1 211) |
| IT expenses | | (79) | (20) |
| Lease rentals on operating lease | | (3 019) | (2 723) |
| Rates, licenses and levies | | (160) | (139) |
| Medical expenses | | (357) | (316) |
| Motor vehicle expenses | | (149) | (133) |
| Municipal expenses | | (261) | (300) |
| Board sitting fees | | (36) | (72) |
| Printing and stationery | | (497) | (302) |
| Repairs and maintenance | | (2 244) | (1 700) |
| Security | | (743) | (719) |
| Staff welfare | | (87) | (145) |
| Telephone and fax | | (998) | (823) |
| Travel | | (343) | (194) |
| | | **(26 329)** | **(23 302)** |