Bank of Baroda (Botswana) Limited

Annual financial statements

for the year ended 31 March 2021

Bank of Baroda (Botswana) Limited
(Registration number BW00000570268)
Annual Financial Statements for the year ended 31 March 2021

General Information

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Commercial Banking
Directors	S Bagopi N N Mosimakoko G Setume S K Singh M K Chary S T Nlebgwa A Singh
Registered office	Plot 50370 Acumen Park Fairgrounds Gaborone Botswana
Business address	Plot 14456 Kamushungo Road G West Industrial Gaborone Botswana
Holding company	Bank of Baroda incorporated in India
Auditors	Grant Thornton Chartered Accountants Member of Grant Thornton International
Secretary	R K Accountants (Proprietary) Limited
Bank registration number	BW00000570268
Date of incorporation	17 August 2000

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Directors' Responsibilities and Approval

The directors are required in terms of the Banking Act (46:04) and Companies Act (42:01) 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 board 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 2022 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 8 to 10.

The annual financial statements set out on pages 11 to 60, which have been prepared on the going concern basis, were approved by the board on 23 June 2021 and were signed on their behalf by:

S Bagopi	S K Singh

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 2021.

1. The Botswana Economy

Economic activity of Botswana decreased in the year 2020 due to COVID -19 lock down and other movement restrictions. The global slowdown has its impact on Botswana. In Botswana, real Gross Domestic Product (GDP) contracted by 6.4 percent in the twelve months to September 2020, compared to a growth of 3.7 percent in the year to September 2019, the contraction was mainly attributable to a decline in output of the mining and non-mining sectors resulting from the adverse impact of the COVID-19 pandemic on the economy. The demand for its main export commodity i.e. diamonds witnessed a slow down during the year 2020. Non-mining output also affected adversely due to the pandemic-induced domestic restrictions and falling global markets. Major sub-sectors affected during the COVID 19 Pandemic were Trade, Construction, Manufacturing, Hotels and Restaurants, Tourism and Transport. This has also affected the investment and consumption. Though a recovery is expected in coming years due to a favourable outlook for the diamond industry, the economic impact of COVID-19 is likely to be deep and long-lasting.

Inflation is forecast to be within the 3 – 6 percent objective range in the medium term. The Central Bank has reduced the Bank Rate twice by a cumulative 100 basis points from 4.75 percent to 3.75 percent in 2020 considering a positive inflation outlook in the medium term.

There have been no material changes to the nature of the bank's business from the prior year.

Directors' Report

2. 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 positive growth of about 17.37% during the year despite subdued economic conditions during the year due to COVID-19 pandemic.

This year net profit of the Bank stood at P51.29 MN for the year as compared to P54.62 MN during the previous year showing marginal negative growth over last year mainly due to reduction in Bank rate which resulted reduction of interest income in Loans and advances.

Asset Quality of the bank has improved during the year and fresh NPLs were P1.01 MN. The Gross NPLs of the Bank were lower by 1.64 % and the gross NPLs to total advances was 0.99 % against 2.63 % in March 2020.

Key financials during 2020-21

- The total business of the Bank grew by 17.37% during the year.
- The total deposit grew from P1578.34 MN to P1807.30 MN during FY 2020-21 up by 14.51%.
- Total CASA deposits increased by 24.24% i.e. growth of P107 MN.
- The total advances grew from P 1246.24 MN to P1507.84 MN during the FY 2020-21 up by 20.99%.
- CD ratio is 83.43 % as on 31 March 2021.
- Capital Adequacy ratio stood at 23.29 % against regulatory requirement of 12.50%
- The cost of deposits has decreased from 2.70% to 2.40% during the year.
- The yield on advances was at 7.38% as against 7.72 % last year.
- Net worth of the Bank as on 31 March 2021 is P391.90 MN.
- Business per employee has increased to P55.25mn as on 31.03.2021 from P47.08 MN on 31.03.2020.
- Gross profits of the Bank reported growth of 3.64% and reached to P65.69mn against last years figure of P63.38 MN.
- Net profit reported marginal decrease to P51.29 MN in 2020-21 from P54.62 MN in last year.
- Net Interest Margin was at 3.47%.
- The cost to income ratio has decreased to 28.80 % against 30.41 % last year.
- Gross NPLs decreased from P32.77 MN. to P14.29mn, whereas the Net NPLs remained at NIL. We have recovered P0.88 MN in NPL A/cs during the Year & able to restrict our fresh slippages to P1.01 MN only.
- Banks NPL provisions coverage ratio is 100 %.

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

3. New Initiatives during the Year:

Bank has introduced following new facilities for the customers:

- Implementation of Central Processing Cell for Loans.
- New products for Loans and Advances, BARODA TRADER LOAN and BARODA LOAN AGAINST FUTURE RENT RECEIVABLES

Directors' Report

- Upgradation of Core Banking Solution from Finacle -7 to Finacle - 10

4. Share capital

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

5. Regulatory compliance

Capital Adequacy

With a capital adequacy ratio of 23.29% as at 31 March 2021 as against the regulatory requirement of 12.50%, 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.

6. Directorate

The directors in office at the date of this report are as follows:

Directors	Designation
S Bagopi	Non-executive Independent - Chairperson
N N Mosimakoko	Non-executive Independent
G Setume	Non-executive Independent
S K Singh	Executive - Related party
M K Chary	Non-executive- Related party
S T Nlebgwa	Non-executive Independent
A Singh	Non-executive Independent

7. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date. The effect of COVID 19 is still being felt across industries and economies across the globe and the bank is susceptible to any uncertainty that this pandemic brings especially with regards to asset quality and related impairments.

8. Acknowledgements

Thanks and appreciation are extended to all of our shareholders, staff, customers and Bank of Botswana for their continued support of the bank.

Directors' Report

The annual financial statements set out on pages 11 to 60, which have been prepared on the going concern basis, were approved by the Board board on 23 June 2021 , and were signed on its behalf by:

Approval of annual financial statements

S Bagopi
Chairperson

S K Singh
Managing Director

Chartered Accountants

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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 11 to 58, which comprise the statement of financial position as at 31 March 2021, 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 2021, 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.

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 (Note 7)	
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.	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.

GRANT THORNTON CHARTERED ACCOUNTANTS GABORONE

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
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. Impairment stage III includes distressed loans and advances where significant increase in credit risk has occurred and where objective proof of impairment exists. When determining the provision amount this impairment stage, the Bank management primarily considers the following factors: • Amount and timing of forecasted cash flows. • The bank's success rate at recovering debt • Collateral value • 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 loan (Stage I and Stage II). 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.	On a sample of the Bank's loans we evaluated appropriateness of provisioning methodologies and application. 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 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. 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.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Detailed Income Statement as required by the Companies Act (42:01) of Botswana, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the annual financial statements and our auditor's report thereon.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the 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.

Those charged with governance are responsible for overseeing the bank's financial reporting process

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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

Chartered Accountants
Certified Auditors of Public Interest Entities
Practising member : Madhavan Venkatachary
(BICA Membership 20030049)
Certified Auditor of Public Interest Entity-
(Certificate Number CAP 0017 2021)

02 July 2021
Gaborone

Statement of Financial Position as at 31 March 2021

Figures in Pula thousand	Note	2021	2020
Assets			
Cash and cash equivalents	4	152,117	120,993
Balances with other banks	5	489,504	1,072,667
Financial assets - Investments	6	111,378	69,746
Loans and advances	7	1,450,351	1,173,161
Other asset		3,731	1,188
Right of use asset	8	10,443	11,486
Deferred tax	9	10	10
Property, plant and equipment	10	5,548	5,960
Total Assets		**2,223,082**	**2,455,211**
Equity and Liabilities			
Equity			
Stated capital	11	181,000	181,000
Retained income		210,902	168,659
		391,902	**349,659**
Liabilities			
Balances due to other banks	12	-	497,423
Deposit due to customers	13	1,809,772	1,584,087
Other accruals and creditors	15	11,043	9,352
Lease liabilities	14	10,365	12,090
Current tax payable		-	2,600
		1,831,180	**2,105,552**
Total Equity and Liabilities		**2,223,082**	**2,455,211**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Pula thousand	Note	2021	2020
Interest and similar income	16	106,079	105,006
Interest and similar expenditure	17	(40,182)	(40,843)
Net interest income		**65,897**	**64,163**
Non-interest income	18	28,058	31,792
Other operating gains (losses)	19	6	(8)
Movement in credit loss allowances	20	(266)	(3,570)
Other operating expenses		(28,003)	(27,686)
Profit before taxation		**65,692**	**64,691**
Income tax expenses	21	(14,400)	(10,074)
Profit for the year		**51,292**	**54,617**
Other comprehensive income		-	-
Total comprehensive income for the year		**51,292**	**54,617**

Statement of Changes in Equity

Figures in Pula thousand	Stated capital	Retained income	Total equity
Balance at 01 April 2019	**181,000**	**114,042**	**295,042**
Profit for the year	-	54,617	54,617
Total comprehensive income for the year	**-**	**54,617**	**54,617**
Balance at 01 April 2020	**181,000**	**168,660**	**349,660**
Profit for the year	-	51,292	51,292
Total comprehensive income for the year	**-**	**51,292**	**51,292**
Dividends	-	(9,050)	(9,050)
Total contributions by owners recognised directly in equity	**-**	**(9,050)**	**(9,050)**
Balance at 31 March 2021	**181,000**	**210,902**	**391,902**
Note(s)	11		

Statement of Cash Flows

Figures in Pula thousand	Note(s)	2021	2020
Cash flows from operating activities			
Cash generated from operations	23	20,412	116,970
Finance costs		(323)	(458)
Income tax received/(paid)	24	(17,000)	(7,474)
Net cash from operating activities		**3,089**	**109,038**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(1,496)	(3,950)
Sale of property, plant and equipment	10	22	(6)
Net cash from investing activities		**(1,474)**	**(3,956)**
Cash flows from financing activities			
Finance lease payments		(3,079)	(2,472)
Dividends paid	25	(9,050)	-
Net cash from financing activities		**(12,129)**	**(2,472)**
Total cash movement for the year		**(10,514)**	**102,610**
Cash at the beginning of the year		765,983	664,018
Effect of exchange rate movement on cash balances		(2,470)	(645)
Total cash at end of the year	4	**752,999**	**765,983**

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:

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.

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.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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.

Impact of CoVID-19 Pandemic

The CoVID 19 pandemic has caused significant economic distress to the world as a whole and impacts the bank's provisioning under the IFRS 9 ECL requirements. The bank uses all reasonable and supportable information that is available to it without undue cost or effort when applying IFRS 9, instead of relying on some mechanistic criterion (for example, treating payment holidays as automatic evidence of a significant increase in credit risk) to determine movements in ECL.

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.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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.

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 19).

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 20).

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 19).

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.

Accruals and other payables

Accounting Policies

Financial instruments (continued)

Classification

Accruals and other payables (note 15), 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 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.

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.

1.6 Leases

Bank as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the bank is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the bank recognises the lease payments as an operating expense (note 20) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the bank under residual value guarantees;
- the exercise price of purchase options, if the bank is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note).

The bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the bank will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Accounting Policies

1.6 Leases (continued)

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

Lease payments included in the measurement of the lease liability comprise the following:
- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the bank incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

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 a right-of-use asset with a cost that is significant in relation to the total cost of the asset 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.

1.7 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.

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.

Accounting Policies

1.8 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.

1.9 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.

1.10 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 26.

1.11 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.

Accounting Policies

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.

1.12 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. These are given in Note 3.

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:

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

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

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

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

The exceptions are as follows:

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

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

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

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

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

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

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

The impact of the amendment is not material.

Presentation of Financial Statements: Disclosure initiative

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

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

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

The impact of the amendment is not material.

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

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

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

3. New Standards and Interpretations (continued)

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

The impact of the amendment 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 2021 or later periods:

IFRS 17 Insurance Contracts

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

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

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

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

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	63,894	33,745
Balances with Bank of Botswana	88,223	87,248
	152,117	120,993
Other cash equivalents for the purposes of cash flow statement		
Bank of Botswana Securities - Registered bonds	61,387	-
Balances with domestic banks	5,745	4,127
Short term placements with domestic banks	261,357	624,201
Balances with foreign banks	222,402	142,887
Short term placements with foreign banks	-	301,452
Bank of Botswana Certificates	49,991	69,746
Balance due to other banks	-	(497,423)
	600,882	**644,990**

Cash and balances with Bank of Botswana	152,117	120,993
Other short term cash and cash equivalents	600,882	644,990
	752,999	**765,983**
Cash and cash equivalents held by the entity that are not available for use by the bank. These are the primary statutory liquidity reserve balances maintained with Bank of Botswana	33,050	55,705

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 A3 by Moody's investor services. The credit rating has has been downgraded from A2 to A3 but outlook has changed from negative to stable.

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

Balances with domestic banks	5,745	4,127
Balances with foreign banks	222,402	142,887
Short term placements with domestic banks	261,357	624,201
Short term placements with foreign banks	-	301,452
	489,504	**1,072,667**

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 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.

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

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:

2021

Instrument	External credit rating (where applicable)	Location	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank ABC Limited	Unrated	Domestic	Performing	12m ECL	95,003	95,003
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	112,002	112,002
First National Bank of Botswana Limited	Unrated	Domestic	Performing	12m ECL	4,661	4,661
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	192,830	192,830
ABSA Limited	Unrated	Foreign	Performing	12m ECL	29,572	29,572
First Capital Bank Limited	Unrated	Domestic	Performing	12m ECL	55,436	55,436
					489,504	**489,504**

2020

Instrument	External credit rating (where applicable)	Location	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank ABC Limited	Unrated	Domestic	Performing	12m ECL	152,416	152,416
Stanbic Bank Botswana Limited	Unrated	Domestic	Performing	12m ECL	101,170	101,170
First National Bank of Botswana Limited	Unrated	Domestic	Performing	12m ECL	2,961	2,961
Bank of Baroda and its branches	Unrated	Foreign	Performing	12m ECL	232,743	232,743
ABSA Bank Limited	Unrated	Foreign	Performing	12m ECL	211,595	211,595
First Capital Bank Limited	Unrated	Domestic	Performing	12m ECL	371,782	371,782
					1,072,667	**1,072,667**

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

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:

	2021	2020
Bank of Botswana registered Bonds	61,387	-
Bank of Botswana Certificates	49,991	69,746
	111,378	**69,746**

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.

Notes to the Annual Financial Statements

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:

2021

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 - bonds	A3	Unrated	Performing	12m ECL	61,387	61,387
Bank of Botswana Certificates	A3	Moody's	Performing	12m ECL	49,991	49,991
					111,378	**111,378**

2020

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 - Security	A2	S&P	Performing	12m ECL	69,746	69,746

Exposure to currency risk

Refer to note 30 Financial instruments and financial risk management for details of currency risk management for financial assets - investments.

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 these instruments approximates their carrying amounts.

Figures in Pula thousand	2021	2020

7. Loans and advances

Financial instruments:		
Term loans	1,203,494	919,910
Loans and overdrafts against bank own deposits	75,887	44,568
Demand and overdraft advances	228,455	284,104
Loss allowance	(57,485)	(75,421)
Loans and advances at amortised cost	1,450,351	1,173,161
Total loans and advances	**1,450,351**	**1,173,161**

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.

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	12m 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

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.

In response to the COVID-19 coronavirus pandemic and the measures implemented by the Government of Botswana, the bank temporarily extended payment holidays for specific customers and used available information when calculating expected credit losses (ECL) on a collective basis. Where a payment holiday was extended, the bank assessed if these resulted in significant increase in credit risk on a case-by-case basis after considering the nature of business, the banking relationship and the security of the customers.

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.

7. Loans and advances (continued)

The loss allowance provision is determined as follows:

Expected credit loss rate:	2021 Estimated gross carrying amount at default	2021 Loss allowance (Lifetime expected credit loss)	2020 Estimated gross carrying amount at default	2020 Loss allowance (Lifetime expected credit loss)
Performing - no default history				
Stage 1 (12 M Credit loss recognised)	1,188,838	24,978	1,186,809	35,706
Previously defaulting customers				
Stage 2- Lifetime Credit loss recognised	304,071	17,581	28,909	6,851
Customers in default				
Stage 3	14,926	14,926	32,864	32,864
Total	**1,507,835**	**57,485**	**1,248,582**	**75,421**

The table below represents the different stages for the loan categories as at 31 Mar 2021

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	949,967	19,994	273,186	16,676	8,725	8,725	1,231,878	45,395
Housing loans	130,940	2,144	21,776	617	592	592	153,308	3,353
Vehicle loans	69,817	1,215	7,962	233	791	791	78,570	2,239
Personal loans	38,114	1,625	1,147	55	4,818	4,818	44,079	6,498
Total	1,188,838	24,978	304,071	17,581	14,926	14,926	1,507,835	57,485

The table below represents the different stages for the loan categories as at 31 March 2020.

Categories	Stage 1	ECL (12 M)	Stage 2	Lifetime ECL	Stage 3	Lifetime ECL	Total Loans	Total ECL
Business loans	994,812	29,982	24,370	5,834	26,405	26,405	1,045,587	62,221
Housing loans	106,682	1,411	3,686	774	653	653	111,021	2,838
Vehicle loans	60,730	1,543	853	243	840	840	62,423	2,626
Personal loans	24,586	2,771	-	-	4,965	4,965	29,551	7,736
Total	1,186,810	35,707	28,909	6,851	32,863	32,863	1,248,582	75,421

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

7. Loans and advances (continued)

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for loans and advances:

	2021	2020
Opening balance in accordance with IFRS 9	**(75,421)**	**(135,974)**
Remeasurement of loss allowance - comparative	-	(111)
Amounts recovered	-	10,034
Loans written off	18,202	59,240
Additional charge to the income statement	(266)	-
Other	-	(8,610)
Closing balance	**(57,485)**	**(75,421)**

Exposure to currency risk

Refer to note 30 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.

8. Right of use asset

	2021	2020
Opening balance	15,014	-
Disposals	(1,842)	-
Other changes, movements	-	15,014
	13,172	**15,014**
Accumulated amortisation		
Depreciation for the year	(2,729)	(3,528)
Carrying value		
Opening balance	15,014	-
Disposals	(1,842)	-
Depreciation	(2,729)	(3,528)
Other changes, movements	-	15,014
	10,443	**11,486**

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2021	2020
Within one year	3,332	3,434
Two to five years	5,877	7,908
More than five years	1,479	1,709
	10,688	13,051
Less finance charges component	(323)	(961)
	10,365	**12,090**

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

9. Deferred tax

Deferred tax liability

Property plant and equipment	10	10
Deferred tax liability	10	10

Reconciliation of deferred tax asset / (liability)

At beginning of year	10	10

Notes to the Annual Financial Statements

10. Property, plant and equipment

	2021			2020		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold property	1,863	(696)	1,167	1,863	(696)	1,167
Furniture and fixtures	7,298	(6,525)	773	6,959	(6,312)	647
Motor vehicles	691	(622)	69	691	(509)	182
Office equipment	5,116	(4,039)	1,077	5,008	(3,459)	1,549
IT equipment	7,409	(6,550)	859	6,982	(6,381)	601
Leasehold improvements	5,520	(3,917)	1,603	5,035	(3,221)	1,814
Total	**27,897**	**(22,349)**	**5,548**	**26,538**	**(20,578)**	**5,960**

Notes to the Annual Financial Statements

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	1,167	-	-	-	1,167
Furniture and fixtures	647	359	-	(233)	773
Motor vehicles	182	-	-	(113)	69
Office equipment	1,549	108	-	(580)	1,077
IT equipment	601	544	(16)	(270)	859
Leasehold improvements	1,814	485	-	(696)	1,603
	5,960	**1,496**	**(16)**	**(1,892)**	**5,548**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	1,213	-	-	(46)	1,167
Furniture and fixtures	579	416	-	(348)	647
Motor vehicles	325	-	-	(143)	182
Office equipment	584	1,254	(2)	(287)	1,549
IT equipment	233	567	-	(199)	601
Leasehold improvements	581	1,713	-	(480)	1,814
	3,515	**3,950**	**(2)**	**(1,503)**	**5,960**

Notes to the Annual Financial Statements

Figures in Pula thousand		2021	2020

11. Stated capital

	2021	2020
Reconciliation of number of shares issued:		
Reported as at 1 April	181,000	181,000
Issued		
Ordinary (181000000 shares at no par value fully paid up)	181,000	181,000
Capital adequacy		
Core capital (Tier 1)		
Stated capital	181,000	181,000
Retained earnings- Beginning of the year	168,659	114,042
Dividends	(9,050)	-
Current year audited profits	51,292	54,617
IFRS 9 - Transition provision adjustments to CET	5,670	11,340
	397,571	**360,999**
Supplementary capital (Tier 2)		
IFRS 9 - Transition provision on Stage 1 and Stage 2	11,876	11,876
Total eligible capital (Unimpaired capital) - Tier 1 + Tier 2	**409,447**	**372,875**
Risk weighted assets		
Credit risk	1,704,538	1,777,335
Operational risk	50,676	41,080
Market risk	2,803	1,991
Total risk adjusted exposure	**1,758,017**	**1,820,406**
Minimum capital required as per Bank of Botswana guidelines (12.5% (2020:15%) of Risk adjusted exposure)	219,752	273,061
Excess capital over minimum required	189,695	99,815
Capital adequacy ratio	23.29 %	20.48 %
Bank of Botswana required minimum ratio	12.50 %	15.00 %
Excess over the minimum required (%)	10.79 %	5.48 %

12. Balances due to other banks

		2021	2020
Balances due to other banks	Amortised cost	-	497,423

These balances represent the Nostro borrowings between banks on normal banking terms. These carry inter bank borrowing rates and are repayable on demand.

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.

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

12. Balances due to other banks (continued)

Exposure to interest rate risk

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

13. Deposits due to customers

Held at amortised cost		
Secured		
Interest bearing deposits from Banks	116,510	111,887
Interest bearing deposits from others	1,435,676	1,271,635
Non interest bearing deposits	257,586	200,565
	1,809,772	**1,584,087**

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.

Exposure to interest rate risk

Refer to note 30 for details of interest rate risk management.

14. Lease liabilities

Minimum lease payments due		
- within one year	3,332	3,434
- in second to fifth year inclusive	5,877	7,908
- later than five years	1,479	1,709
	10,688	13,051
less: future finance charges	(323)	(961)
Present value of minimum lease payments	**10,365**	**12,090**

Present value of minimum lease payments due		
- within one year	3,009	2,473
- in second to fifth year inclusive	5,877	7,908
- later than five years	1,479	1,709
	10,365	**12,090**

The average lease term for the right of use assets was 3-5 years and the average effective borrowing rate was 2% (2020: 3%)-

15. Other accruals and creditors

Creditors and accruals	10,126	8,694
VAT	917	658
	11,043	**9,352**

Exposure to currency risk

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

Notes to the Annual Financial Statements

Figures in Pula thousand		2021	2020

15. Other accruals and creditors (continued)

Exposure to liquidity risk

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

16. Interest and similar income

	2021	2020
Interest from loans and advances	96,510	88,111
Interest and gains from BOBC and similar instruments	2,186	1,827
Interest from financial assets and bank placements	7,383	15,068
	106,079	**105,006**

17. Interest and similar expenditure

	2021	2020
Interest expenses	40,182	40,843
Interest on term deposits	30,810	28,804
Interest on savings deposits	4,341	4,822
Interest on short term borrowings	2,773	4,786
Interest on call deposits	1,935	1,973
Interest on lease liabilities	323	458
	40,182	**40,843**

18. Other operating income

	2021	2020
Miscellaneous income	5,114	3,958
Commissions received	2,330	2,144
Recoveries	15	4,906
Gain on foreign exchange transactions	20,599	20,784
	28,058	**31,792**

19. Other operating gains (losses)

	Note	2021	2020
Gains (losses) on disposals, scrappings and settlements			
Property, plant and equipment	10	6	(8)

20. Operating profit (loss)

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

	2021	2020
Auditor's remuneration - external		
Audit fees	550	554
Employee costs		
Salaries, wages, bonuses and other benefits	11,328	9,924
Housing keeping and other allowances	1,020	847
Retirement benefit plans: defined contribution expense	343	349
Termination benefits	578	560
Total employee costs	**13,269**	**11,680**
Depreciation and amortisation		
Depreciation of property, plant and equipment	1,892	1,503
Depreciation on rights to use asset	2,725	3,528
Total depreciation and amortisation	**4,617**	**5,031**

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

20. Operating profit (loss) (continued)

Movement in credit loss allowances

Loans and advances	266	3,570

Expenses by nature

Employee costs	13,269	11,680
Operating lease charges	72	-
Depreciation, amortisation and impairment	4,617	5,031
Other expenses	10,045	10,975
	28,003	**27,686**

21. Taxation

Major components of the tax expense

Current		
Local income tax - current period	14,400	10,074

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	65,692	64,691
Tax at the applicable tax rate of 22% (2020: 22%)	14,452	14,232
Tax effect of adjustments on taxable income		
Permanent allowances and deductions	(53)	(1,045)
Set off of carry forwards losses	-	(3,113)
	14,399	**10,074**

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.

Basic earnings per share		
Profit for the year	51,292	54,617
Number of shares in issue (in thousands)	181,000	181,000
Earnings per share - In thebe	**28.34**	**30.18**

Dividends per share

Final (thebe)	0.50	-

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

23. Cash generated from operations

Profit before taxation	65,692	64,691
Adjustments for:		
Depreciation and amortisation	4,617	5,031
(Gains) losses on disposals, scrappings and settlements of assets and liabilities	(6)	8
Effect of forex exchange gains on cash balances	2,470	645
Net impairments and movements in credit loss allowances	266	3,570
Changes in working capital:		
Loans and advances	(277,456)	(179,968)
Other asset	(2,543)	2,646
Other accruals and creditors	1,687	29
Deposit due to customers	225,685	220,318
	20,412	**116,970**

24. Tax paid

Balance at beginning of the year	(2,600)	-
Current tax for the year recognised in profit or loss	(14,400)	(10,074)
Balance at end of the year	-	2,600
	(17,000)	**(7,474)**

25. Dividends paid

Dividends	(9,050)	-

26. 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	84,369	72,591
Letters of credit	9,063	4,380
	93,432	**76,971**

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

27. 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
Fellow subsidiaries under common management	Baroda Trustee India Private Limited (Formerly known as Baroda Pioneer Trustee Company Pvt. Limited) Baroda Asset Management India Limited (Formerly known as Baroda Pioneer Asset Management Company Limited) Baroda Global Shared Services Limited BOB Financial Solutions Limited BOB Capital Markets Ltd. Nainital Bank Ltd Bank of Baroda (Kenya) Ltd. Bank of Baroda (Uganda) Ltd. Bank of Baroda (Guyana) Inc. Bank of Baroda (New Zealand) Ltd. Bank of Baroda (Tanzania) Ltd. Bank of Baroda (UK) Ltd
Overseas branches of Bank of Baroda, India	Bank of Baroda New York Bank of Baroda London Bank of Baroda Singapore Bank of Baroda Brussels Bank of Baroda Mauritius Bank of Baroda Sydney Bank of Baroda Dubai
Associates of the holding company	Baroda Uttar Pradesh Gramin Bank Baroda Rajasthan Gramin Bank Baroda Gujarat Gramin Bank Indo Zambia Bank Limited India International Bank Malaysia Behrad
Directors of the bank	Refer to information page
Members of key management	Mr S K Singh

Notes to the Annual Financial Statements

Figures in Pula thousand	2021	2020

27. Related parties (continued)

Related party balances and transactions

	2021	2020
Balances with banks		
Bank of Baroda Mumbai	2,018	1,501
Bank of Baroda New York	180,344	44,899
Bank of Baroda London	6,759	4,954
Bank of Baroda Brussels	3,480	-
Bank of Baroda Sydney	227	236
Bank of Baroda Dubai branch	-	119,643
Bank of Baroda New York branch - Short term placements	-	61,509
	192,828	**232,742**
Balances due to other banks and short term borrowings		
Bank of Baroda New York	-	(95,694)
Bank of Baroda (Uganda) Limited	-	(119,687)
Bank of Baroda Mauritius	-	(84,994)
Bank of Baroda Brussels	-	(124,627)
	-	**(425,002)**
Interest income		
Bank of Baroda Brussels	-	1,455
Bank of Baroda Mauritius	-	719
Bank of Baroda New York	8,284	3,772
Bank of Baroda London	-	523
Bank of Baroda Dubai	314	-
	8,598	**6,469**
Interest expenditure		
Bank of Baroda (Uganda) Limited	765	2,452
Bank of Baroda Mauritius	2,261	1,262
	3,026	**3,714**
Transactions with key management		
Salaries and benefits	-	735
Board sitting fees	123	76
Management fees paid		
Bank of Baroda, India	960	2,241

28. Prior period errors

In the prior year, on first time adoption of IFRS 16 on leases, the Bank had presented the value of addition to Right of Use asset and the resultant Lease liability as Cash outflow from Investing Activity and Cash inflow from financing activity respectively in the Statement of Cash Flows for the year ended 31 March 2020 even though there was no inflow or outflow of cash. This presentation error has been corrected in these financial statements to reflect only the actual payments made by the Bank towards the lease liabilities as outflow from financing activity. There has been no impact to the Statement of Financial Position or the Statement of Other Comprehensive income due to the correction of this error.

29. Comparative figures

Certain comparative figures have been reclassified. There is no material impact due to these reclassifications. These reclassifications are made in the statement of cash flows and its related notes.

Notes to the Annual Financial Statements

30. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2021

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	489,504	489,504	489,504
Financial assets and investments	6	111,378	111,378	111,378
Loans and advances	7	1,450,351	1,450,351	1,450,351
Cash and cash equivalents	4	152,117	152,117	152,117
		2,203,350	**2,203,350**	**2,203,350**

2020

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	1,072,667	1,072,667	1,072,667
Financial assets and investments	6	69,746	69,746	69,746
Loans and advances	7	1,173,161	1,173,161	1,173,161
Cash and cash equivalents	4	120,993	120,993	120,993
		2,436,567	**2,436,567**	**2,436,567**

Notes to the Annual Financial Statements

30. Financial instruments and risk management (continued)

Categories of financial liabilities

2021

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	10,121	-	10,121	10,121
Deposits due to customers	13	1,809,772	-	1,809,772	1,809,771
Finance lease obligations	14	-	10,365	10,365	10,365
		1,819,893	**10,365**	**1,830,258**	**1,830,257**

2020

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	8,694	-	8,694	8,694
Balances due to banks	12	497,423	-	497,423	497,423
Deposits due to customers	13	1,584,087	-	1,584,087	1,584,087
Finance lease obligations	14	-	12,090	12,090	12,090
		2,090,204	**12,090**	**2,102,294**	**2,102,294**

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

Notes to the Annual Financial Statements

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, 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

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 decrement 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

AAA	941,009	910,190
AA	349,040	140,860
A	85,440	13,262
B and BBB	4,538	34,257
Unrated and NPA	127,810	150,013
	1,507,837	**1,248,582**

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

		2021			2020		
		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	489,504	-	489,504	1,072,667	-	1,072,667
Financial assets and other investments	6	111,378	-	111,378	69,746	-	69,746
Loans and advances to customers	7	1,507,836	(57,485)	1,450,351	1,248,582	(75,421)	1,173,161
Cash and cash equivalents	4	152,117	-	152,117	120,993	-	120,993
		2,260,835	**(57,485)**	**2,203,350**	**2,511,988**	**(75,421)**	**2,436,567**

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forwardlooking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets. The management uses inflation, GDP information, unemployment and other macro factors for calculations of the ECL. The management estimates that the credit loss would increase by P 5 million should there be any change by more than 10% in the underlying factors and resultantly would decrease the profit after tax and the equity by the same amount.

Collateral and other credit enhancements obtained

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

Collateral classified as follows		
Secured by cash	75,880	46,835
Secured by mortgages on properties and hypothecation of other assets	1,396,780	1,161,826
Unsecured	35,196	39,921
	1,507,856	**1,248,582**

Concentration risk

The bank had a significant concentration risk resulting from its top ten customers. The total exposure relating to these customers was P (000) 316 314 (2020: P322 777), 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 81% (2020:86%) of the unimpaired capital at the reporting date.

30. Financial instruments and risk management (continued)

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 2.5% (2020:5%) 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 2021	**Upto 3months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets	-	-	-	-	-
Cash and Balances with Bank of Botswana	152,117	-	-	-	152,117
Balances with other banks	489,504	-	-	-	489,504
Other financial assets	49,991	-	-	61,387	111,378
Loans and advances to customers	229,096	47,991	345,655	827,609	1,450,351
Total financial assets	920,708	47,991	345,655	888,996	2,203,350
Plant and equipment and ROU	-	-	-	15,991	15,991
Other assets	-	3,731	-	-	3,731
Deferred tax	-	-	10	-	10
Total assets	920,708	51,722	345,665	904,987	2,223,082
Liabilities					
Deposits due to customers	1,283,336	349,565	176,871	-	1,809,772
Finance lease liability	-	3,009	5,877	1,479	10,365
Creditors, accruals and tax	-	11,043	-	-	11,043
Total financial liabilities	1,283,336	363,617	182,748	1,479	1,831,180
Equity funds	-	-	-	391,902	391,902
Total liabilities and equity	1,283,336	363,617	182,748	393,381	2,223,082
Net liquidity gap	(362,628)	(311,895)	162,917	511,606	-
Off balance sheet items- Guarantees	-	-	93,432	-	93,432

Notes to the Annual Financial Statements

30. Financial instruments and risk management (continued)

At March 31, 2020	Upto 3months	3-12 months	1-5 years	Over 5 years	Total
Cash and Balances with Bank of Botswana	120,993	69,746	-	-	190,739
Balances with other banks	951,180	121,487	-	-	1,072,667
Loans and advances to customers	255,259	22,216	253,453	642,233	1,173,161
Total financial assets	1,327,432	213,449	253,453	642,233	2,436,567
Plant and equipment and right to use asset	-	-	-	17,446	17,446
Other assets	-	1,188	-	-	1,188
Deferred tax	-	-	10	-	10
Total assets	1,327,432	214,637	253,463	659,679	2,455,211
	-	-	-	-	-
Deposit due to customers	571,543	344,144	668,400	-	1,584,087
Due to other banks	412,429	84,994	-	-	497,423
Finance lease liability	-	3,422	8,668	-	12,090
Creditors and accruals and taxation payable	-	11,948	-	-	11,948
Total financial liabilities	983,972	444,508	677,068	-	2,105,548
Equity funds	-	-	-	349,663	349,663
Total liabilities and equity	983,972	444,508	677,068	349,663	2,455,211
Net liquidity gap	343,460	(229,871)	(423,605)	310,016	-
Off balance sheet items- Guarantees and LCs	-	-	76,971	-	76,971

Notes to the Annual Financial Statements

Figures in Pula thousand		2021	2020

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 1 000 000 (2020 :USD 1 000 000). 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)

	Note	2021	2020
US Dollar exposure:			
Loans and advances		18,569	35,925
Cash and cash equivalents		96	1,491
Balances with other banks		347,691	526,910
Deposits due to customers		(362,153)	(194,319)
Balances due to other banks		-	(360,185)
Net US Dollar exposure		**4,203**	**9,822**
Euro exposure:			
Balance with other banks		3,481	138,655
Deposits due to customers	13	(3,433)	(3,329)
Balance due to other banks		-	(137,232)
Net Euro exposure		**48**	**(1,906)**
GBP exposure:			
Balances with other banks		6,760	4,953
Deposits due to customers		(6,083)	(5,288)
Net GBP exposure		**677**	**(335)**
ZAR exposure:			
Cash and cash equivalents		55	552
Balance with other banks		29,606	91,328
Deposits due from customers	13	(21,501)	(24,935)
ZAR exposure		**8,160**	**66,945**

AUD and INR exposure

Notes to the Annual Financial Statements

Figures in Pula thousand		2021	2020
30. Financial instruments and risk management (continued)			
Balance with other banks		2,246	1,737
Deposits due to customers	13	(324)	-
Net AUD and INR exposure:		**1,922**	**1,737**
Net exposure to foreign currency in Pula		**15,010**	**76,263**

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:		
Loans and advances	1,675	124
Cash and cash equivalents	9	44,049
Balances with other banks	31,362	3,003
Deposit due to customers	(32,666)	(16,245)
Balances due to other banks	-	(30,111)
Net US Dollar exposure	**380**	**820**
Euro exposure:		
Balances with other banks	278	11,000
Deposits due to customers	(274)	(264)
Balances due to other banks	-	(10,887)
Net Euro exposure	**4**	**(151)**
GBP exposure:		
Balances with other banks	443	336
Deposit due to customers	(398)	(358)
Net GBP exposure	**(398)**	**(22)**
ZAR exposure:		
Cash and cash equivalents	73	784
Balances with other banks	39,728	129,687
Deposit due to customers	(28,852)	(35,408)
Net ZAR exposure	**10,949**	**95,063**
AUD and INR exposure:		
Balances with other banks	13,287	9,430
Deposit due to customers	(38)	-
Net AUD and INR exposure	**13,249**	**9,430**

Exchange rates

The following closing exchange rates were applied at reporting date:

Figures in Pula thousand	2021	2020

30. Financial instruments and risk management (continued)

Pula per unit of foreign currency:		
US Dollar	11.090	11.961
Euro	12.520	12.605
ZAR	0.750	0.704
GBP	15.27	14.76
INR	0.15	0.16

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.

	2021	2021	2020	2020
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
US Dollar 10% (2020: 10 %)	(420)	420	982	(982)
Euro 10% (2020: 10 %)	(5,221)	5,221	(190)	190
GBP 10% (2020: 10 %)	(68)	68	6,694	(6,694)
ZAR 10% (2020: 10 %)	(816)	816	(33)	33
INR and AUD 10 10% (2020: 10 %)	(296)	296	150	(150)
	(6,821)	**6,821**	**7,603**	**(7,603)**
Impact on equity:				
Increase in Tier 1 Capital due to increase in exchange rates	6,821	(6,821)	(7,603)	7,603
	-	-	-	-

30. Financial instruments and risk management (continued)

Interest rate risk

The bank has an active ALCO whose responsibility 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 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 it 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.

30. Financial instruments and risk management (continued)

Interest rate profile

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

At 31 March 2021	Under-3 months	3 to 12 months	1-5 years	Over 5 years	Non - interest bearing	Total
Cash and balances with Bank of Botswana	-	-	-	-	152,117	152,117
Balances with other banks	489,504	-	-	-	-	489,504
Investment in Bank of Botswana Certificates	49,991	-	-	61,387	-	111,378
	-	-	-	-	-	-
Loans and advances to customers	229,096	47,991	345,655	827,609	-	1,450,351
Total financial assets	768,591	47,991	345,655	888,996	152,117	2,203,350
Plant and equipment and ROU	-	-	-	-	15,991	15,991
Deferred tax	-	-	-	-	10	10
Other assets	-	-	-	-	3,731	3,731
Total Assets	768,591	47,991	345,655	888,996	171,849	2,223,082
Liabilities						
Deposits due to customers	1,026,515	349,565	-	176,871	256,821	1,809,772
Balance due to other banks	-	-	-	-	-	-
Creditors, accruals and lease liability	-	3,009	5,877	1,479	11,043	21,408
Total financial liabilities	1,026,515	352,574	5,877	178,350	267,864	1,831,180
Equity funds and other liabilities	-	-	-	-	391,902	391,902
Total liabilities	1,026,515	352,574	5,877	178,350	659,766	2,223,082
Net interest gap liquidity	(257,924)	(304,583)	339,778	710,646	(487,917)	-

At 31 March 2020	Under-3 months	3-12 Months	1-5 years	over 5 years	Non interest bearing	Total
Cash and balances with Bank of Botswana	-	-	-	-	120,993	120,993
Investments in Bank of Botswana Certificates and Securities	69,746	-	-	-	-	69,746
Balances with other banks	951,180	121,487	-	-	-	1,072,667
Loans and advances to customers	255,259	22,216	253,453	642,233	-	1,173,161
Total financial assets	1,276,185	143,703	253,453	642,233	120,993	2,436,567
Plant and equipment and right to use asset	-	-	-	-	17,446	17,446
Deferred tax	-	-	-	-	10	10
Other assets	-	-	-	-	1,188	1,188
Total Assets	1,276,185	143,703	253,453	642,233	139,637	2,455,211
Liabilities						
Deposits due to customers	371,777	344,144	668,400	-	199,766	1,584,087
Creditors, accruals and lease liability	3,422	8,668	-	-	8,689	20,779

30. Financial instruments and risk management (continued)

Balances due to other banks	412,429	84,994	-	-	-	497,423
Total financial liabilities	787,628	437,806	668,400	-	208,455	2,102,289
Equity funds and other liabilities	-	-	-	-	349,663	349,663
Taxation and VAT payable	-	-	-	-	3,259	3,259
Total liabilities	787,628	437,806	668,400	-	558,118	2,455,211
Net interest gap liquidity	488,557	(294,103)	(414,947)	642,233	(418,481)	-

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)

	2021	**2021**	**2020**	**2020**
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
Investments and bank balances	911	(911)	5,363	(5,363)
Loans and advances	9,191	(9,191)	5,865	(5,865)
Deposits due to customers	(3,826)	3,826	(6,921)	6,921
Balances due to other banks	-	-	(2,487)	2,487
	6,276	**(6,276)**	**1,820**	**(1,820)**
Impact on equity:				
Impact on Tier 1 capital	(6,276)	6,276	(1,820)	1,820

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;

30. Financial instruments and risk management (continued)

- 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

On 11 March 2020, the World Health Organisation (WHO) officially declared COVID-19, the disease caused by novel coronavirus, a pandemic and this regard, the Government of Botswana declared a State of Emergency from the 02 April 2020 which is effective until 30 September 2021. Due to the pandemic, the country and the economy continue to face several challenges including but no limited to contraction of the economy, rise in unemployment amongst others. These factors will continue to impact the bank in its operations in the near and medium future.

Detailed Income Statement

Figures in Pula thousand	Note(s)	2021	2020
Interest and similar income	16	**106,079**	**105,006**
Interest and similar expenditure	17	**(40,182)**	**(40,843)**
Net interest income		**65,897**	**64,163**
Other operating income	18	**28,058**	**31,792**
Other operating gains (losses)			
Gains (losses) on disposal of assets or settlement of liabilities		6	(8)
Movement in credit loss allowances	20	(266)	(3,570)
Expenses (Refer to page 60)		**(28,003)**	**(27,686)**
Profit before taxation		**65,692**	**64,691**
Taxation	21	(14,400)	(10,074)
Profit for the year		**51,292**	**54,617**

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)	2021	2020
Other operating expenses			
Administration and management fees		(960)	(2,241)
Advertising		(199)	(220)
Auditors remuneration - external auditors	20	(550)	(554)
Board sitting fees		(123)	(77)
Consulting and professional fees		(533)	(435)
Consulting and professional fees - legal fees		(151)	(256)
Depreciation		(1,892)	(1,503)
Depreciation- Rights of use asset		(2,725)	(3,528)
Donations		-	(99)
Employee costs		(13,269)	(11,680)
Entertainment		(5)	-
IT expenses		(23)	(21)
Insurance		(1,022)	(834)
Lease rentals on operating lease		(72)	-
Motor vehicle expenses		(239)	(218)
Municipal expenses		(362)	(306)
Printing and stationery		(378)	(725)
Rates, licenses and levies		(512)	(144)
Repairs and maintenance		(1,628)	(1,808)
Security		(805)	(695)
Staff welfare		(260)	(158)
Telephone and fax		(894)	(1,060)
Travel		(436)	(166)
VAT expenses		(965)	(958)
		(28,003)	**(27,686)**