Bank SBI Botswana Limited

Annual financial statements
for the year ended 31 March 2020

General Information

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Commercial Banking
Directors	Subbaramaiah Rajapur Ramesh Ketane Sithole Landrick Oteng Sianga Suresh Vishwanath Pramod Pal Pankaj Arora
Registered office	Plot 50370 Fairgrounds Gaborone Botswana
Business address	2nd Floor Exponential Plot 54351 Central Business District Gaborone Botswana
Holding company	State Bank of India (SBI) incorporated in India
Auditors	Grant Thornton Chartered Accountants
Secretary	R K Accountants (Proprietary) Limited
Bank registration number	BW00000449537
Date of incorporation	17 August 2000

Index

Directors' Responsibilities and Approval

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

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

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

The directors 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 2021 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 with the support of its holding company.

The external auditors are responsible for independently auditing and reporting on the bank's annual financial statements. The annual financial statements have been examined by the bank's external auditors and their report is presented on pages 6 to 9.

The annual financial statements set out on pages 10 to 52, which have been prepared on the going concern basis, were approved by the Board of Directors on and were signed on their behalf by:

Director **Director**

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Bank SBI Botswana Limited for the year ended 31 March 2020.

1. Incorporation

The bank was incorporated on 27 January 2006 as a Company with limited liability under the Companies Act (CAP 42:01) and was licensed as a Commercial Bank on 29 July 2013 under Section 6 of the Banking Act, 1995.The name of Bank was changed from State Bank of India Botswana Ltd to Bank SBI Botswana .The Bank is wholly owned subsidiary of State Bank of India. It started its operations by opening its first branch at CBD Gaborone on 26 November 2013.

The bank is domiciled in Botswana where it is incorporated as a private bank limited by shares under the Banking Act (Cap 46:04). The address of the registered office is set out on page 1.

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 (Cap 46:04). The accounting policies have been applied consistently compared to the prior year.

During the period under review the, the Bank's has facilitated continuance of loans under different activities. The loan utilization this year has been improved and trading activities and economic activities improved during the reporting year. The bank focused largely on rationalization of the operations and registered negative growth of BW 39.12 Million (-15.61 % Growth) in loan and Advances. The Deposits level of the Bank has decreased by BWP 88.80 Million (28.17 % Growth) during year. The Bank has registered net profit of BWP 1.21 Mio (-74.14 Growth %) during year 2019-20. The Bank is actively engaged in providing non fund based credit facilities to the customers.

Bank is adhering all norms for disclosure of Bank Charges, interest rate and disclosures under Pillar 3 (Basel) effective from June 2016. Best practices of the Corporate Governance have been complied with. Full details of the financial position, results of operations and cash flows of the bank are set out in these annual financial statements.

3. Share capital

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

4. Technology Enabled Business Programme and data site

The Bank uses Finacle Core Banking Solutions for its operations. Internet banking facility for viewing rights with enhanced facilities and transaction rights has been rolled out during year 2019-2020the previous periods. Bank is also maintaining Disaster recovery site to meet any contingencies for data retrieval and parallel functioning from other site.

5. Directorate

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

Directors	Office	Designation
Subbaramaiah Rajapur Ramesh	Chairperson	Non-executive
Ketane Sithole	Chairman - RMCOD committee	Non-executive Independent
Landrick Oteng Sianga	Director	Non-executive Independent
Suresh Vishwanath	Chairperson - Audit Committee	Non-executive Independent
Pramod Pal	Managing Director	Executive
Pankaj Arora	Director	Non-executive Independent

6. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report except as disclosed in the financial statements

Directors' Report

7. Secretary

The company secretary is M/s R K Accountants (Proprietary) Limited.

8. Acknowledgements

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

The annual financial statements set out on pages 10 to 52, which have been prepared on the going concern basis, were approved by the board of directors on , and were signed on its behalf by:

Approval of annual financial statements

Director **Executive**	**Director** **Executive**

Independent Auditor's Report

To the shareholder of Bank SBI Botswana Limited

Opinion

We have audited the annual financial statements of Bank SBI Botswana Limited set out on pages 10 to 50, which comprise the statement of financial position as at 31 March 2020, 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 SBI Botswana Limited as at 31 March 2020, 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 (Cap 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.

Emphasis of matter

We draw attention to Note 27 to the annual financial statements which contains information that the holding company and shareholders of the bank, State Bank of India, India had conveyed their decision to exit the operations in Botswana to the Board of Directors of the Bank in the previous years.

These financial statements are prepared on the assumptions that the Bank shall continue as a going concern in the foreseeable future. The ability to continue as a going concern depends on several factors including the ability to meet obligations as and when they fall due and to comply with the capital adequacy requirements as laid down in the Banking Act (Chapter 46:04) and banking regulations. As at the date of this report, the Bank continues to operate as a banking company/ depository institution and is actively involved in the activities that the bank has been licensed to do. Hence, these financial statements , prepared as a going concern, follow principles of accounting and reporting applicable to a going concern and our opinion is not modified in respect of this matter.

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	Reference to the related disclosure(s) in the annual financial statements
The assessment for loan loss provision for loans to customers		
The credit impairment provision inherently contains a significant amount of estimation uncertainty especially with regard to identifying impaired receivables and quantifying loan impairment because significant judgement is required of management regarding inputs into the calculation. To assess the amount of provisions for expected losses, the bank uses internal rating system, historical default information and financial strength of the customers. 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 is 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 at the 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 receivable (Stage I and Stage II). The bank does not use any statistical	Our audit procedures included considering the appropriateness of the provision for impairment on loans and advances. Our audit response focused on the significant inputs used by management in their impairment calculation. We gained an understanding of the various parameters used by the bank for its internal credit rating system and also reviewed the past history of default of various class of accounts. Our assessment of the inputs used within the cash flow model included an assessment of the probability of default, which is an area of significant judgement. We assessed the appropriateness of the methodologies and assumptions used, to the extent that this could have materially impacted the estimations around the timing and amount of the future cash flows. We compared this to our own methodologies and available industry data. 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.	Loans and advances - Note 7,

Key audit matter	How our audit addressed the key audit matter	Reference to the related disclosure(s) in the annual financial statements
model for deriving the probability of default, the loss given default or the exposure at default. Instead, probability of default is assigned using the internal ratings of the customers. These internal ratings are based on various parameters that have been established by the bank.		

Other matter

Covid-19 is expected to affect the bank and result in certain uncertainties for the future financial position and performance. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the bank, the related disclosures and the appropriateness of the going concern assumption in the financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the bank's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknown factors or all possible future implications for a bank and this is particularly the case in relation to Covid 19.

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 Banking Act (Cap 46:04), which we obtained prior to the date of this report. 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 (Cap 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.

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.

Chartered Accountants
Certified Auditors of Public Interest Entity
Certified Auditors of Public Interest Entity
Aswin Vaidyanathan (BICA Membership Number :)
BAOA Membership number :
Gaborone

Statement of Financial Position as at 31 March 2020

Figures in Pula	Note	2020	2019
Assets			
Cash and cash equivalents	4	31,552,746	18,605,521
Balances with other banks	5	37,803,977	3,332,988
Financial assets and investments	6	58,934,612	154,293,125
Loans and advances to customers	7	211,497,644	250,612,730
Other assets	10	1,042,862	1,657,716
Deferred tax	8	872,292	1,153,292
Property, plant and equipment	9	6,219,433	1,797,462
Total Assets		**347,923,566**	**431,452,834**
Equity and Liabilities			
Equity			
Stated capital	11	124,851,651	124,851,651
Accumulated losses		(8,921,479)	(10,134,029)
		115,930,172	**114,717,622**
Liabilities			
Deposit due to customers	13	226,454,119	315,258,275
Creditors and other payables	15	798,936	1,371,780
Lease liabilities	14	4,740,339	-
Operating lease liability		-	105,157
		231,993,394	**316,735,212**
Total Equity and Liabilities		**347,923,566**	**431,452,834**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Pula	Note	2020	2019
Interest and similar income	16	20,622,133	22,997,563
Interest and similar expenditure	17	(9,551,777)	(6,744,496)
Net interest income		**11,070,356**	**16,253,067**
Non-interest income	18	4,506,023	4,941,839
Movement in credit loss allowances	19	(898,602)	(1,135,126)
Other operating expenses		(13,184,224)	(13,995,677)
Operating profit	19	**1,493,553**	**6,064,103**
Profit before taxation		**1,493,553**	**6,064,103**
Income tax expenses	20	(281,000)	(1,383,000)
Profit for the year		**1,212,553**	**4,681,103**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,212,553**	**4,681,103**

Statement of Changes in Equity

Figures in Pula	Stated capital	General risk reserve	Accumulated losses	Total equity
Balance at 01 April 2018	**124,851,651**	**1,166,522**	**(15,981,654)**	**110,036,519**
Profit for the year	-	-	4,681,103	4,681,103
Total comprehensive income for the year	**-**	**-**	**4,681,103**	**4,681,103**
Movements to general risk reserve	-	(1,166,522)	1,166,522	-
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**(1,166,522)**	**1,166,522**	**-**
Balance at 01 April 2019	**124,851,651**	**-**	**(10,134,032)**	**114,717,619**
Profit for the year	-	-	1,212,553	1,212,553
Total comprehensive income for the year	**-**	**-**	**1,212,553**	**1,212,553**
Balance at 31 March 2020	**124,851,651**	**-**	**(8,921,479)**	**115,930,172**
Note(s)	11	12		

Statement of Cash Flows

Figures in Pula	Note(s)	2020	2019
Cash flows from operating activities			
Cash (used in)/generated from operations	21	(46,186,683)	21,996,185
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(245,286)	(244,298)
Cash flows from financing activities			
Finance lease payments		(1,508,330)	-
Total cash movement for the year		**(47,940,299)**	**21,751,887**
Cash at the beginning of the year		176,231,634	154,479,747
Total cash at end of the year	4	**128,291,335**	**176,231,634**

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 (Cap 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.

These accounting policies are consistent with the previous period, except for the changes set out in note International Financial Reporting Standards.

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:

Expected manner of realisation for deferred tax

Management have reviewed the manner of recovery of the deferred tax asset which is based on future profitability.

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.

Impairment testing

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

Useful lives of property, plant and equipment

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

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

Accounting Policies

1.3 Property, plant and equipment

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

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the bank, and the cost of the item can be measured reliably.

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

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

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

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	6-10 years
Office equipment	Straight line	4-6 years
IT equipment	Straight line	3-4 years
Computer software	Straight line	3-4 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 equity instruments:
- Mandatorily at fair value through profit or loss; or

Financial assets which are debt instruments:

Accounting Policies

Financial instruments (continued)

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

Financial liabilities:

- Amortised cost; or

Note 25 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:

Amortised cost assets

Classification

Cash and cash equivalents, balances with other banks, financial assets and investments and loans and advances to customers 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

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

They are subsequently measured at amortised cost.

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

Application of the effective interest method

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

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

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

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).

Accounting Policies

Financial instruments (continued)

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 25).

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.

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 installment 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.

Accounting Policies

Financial instruments (continued)

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.

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

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

Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 25).

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).

Accounting Policies

Financial instruments (continued)

Financial liabilities

Classification

Deposit due to customers, Creditors and other payables (note 15), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

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

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

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

Financial liabilities including deposits to customers and other payables expose the bank to liquidity risk and possibly to interest rate risk. Refer to note 25 for details of risk exposure and management thereof.

Financial liabilities denominated in foreign currencies

When deposits due to customers are denominated in a foreign currency, the carrying amount of the payables are 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).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management note (note 25).

Cash and cash equivalents

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

1.5 Tax

Deferred tax assets and liabilities

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting Policies

1.5 Tax (continued)

Tax expenses

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

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

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

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

1.6 Leases (Comparative information only)

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

Operating leases – lessee

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

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

1.7 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.
- tests goodwill acquired in a business combination for impairment annually.

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

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

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

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

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

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

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

Accounting Policies

1.8 Share 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

Short-term employee benefits

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

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

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

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 Interest income and expenses

The Bank recognises interest income and expense in profit or loss for instruments measured at amortised cost using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The bank suspends recognition of interest on non-performing advances until realised

Accounting Policies

1.11 Fee and commission income

Fee and commission income
The Bank recognises fee and commission income on an accrual basis when the service is rendered. Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments and not as non-interest income.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:
• Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example banking fees and commission income and asset management and related fees.
• Fees that are earned on the execution of a significant act, for example fee and commission income and non-banking fee and commission income when the significant act has been completed.
• Commission income on acceptances, guarantees, bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.
Fee and commission expense
Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income and are recognised in non-interest income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income..

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.

Application of IFRS 16 Leases

In the current year, the bank has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 01 April 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the bank's annual financial statements is described below.

The bank has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 01 April 2019.

Leases where bank is lessee

Leases previously classified as operating leases

The bank undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate at the date of initial application.
- recognised right-of-use assets measured on a lease by lease basis, at either the carrying amount (as if IFRS 16 applied from commencement date but discounted at the incremental borrowing rate at the date of initial application) or at an amount equal to the lease liability adjusted for accruals or prepayments relating to that lease prior to the date of initial application.

The bank applied IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

The bank applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- when a portfolio of leases contained reasonably similar characteristics, the bank applied a single discount rate to that portfolio;
- leases which were expiring within 12 months of 01 April 2019 were treated as short term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.
- hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases which contained extension or termination options.

Impact on financial statements

On transition to IFRS 16, the bank did not recognise any right to use asset or lease liability due to the short term contracts that existed on that date. Subsequently, the bank recognised these assets and liabilities during the year.

When measuring lease liabilities, bank discounted lease payments using its incremental borrowing rate at 01 April 2019. The weighted average rate applied is 4%.

Notes to the Annual Financial Statements

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:

Uncertainty over Income Tax Treatments

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

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

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

The impact of the interpretation is not material.

IFRS 16 Leases

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

Bank as lessee:

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

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

Notes to the Annual Financial Statements

3. New Standards and Interpretations (continued)

The bank has adopted the standard for the first time in the 2020 annual financial statements.

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

Notes to the Annual Financial Statements

Figures in Pula		2020	2019

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand		4,626,136	4,046,744
Balances with Bank of Botswana		26,926,610	14,558,777
		31,552,746	18,605,521
Other cash equivalents for the purposes of cash flow statement			
Bank of Botswana Securities - Repo instruments	6	-	19,989,200
Balances with foreign banks	5	37,803,977	3,332,988
Bank of Botswana Certificates	6	58,934,612	79,984,040
Short term investments with other banks	6	-	54,319,885
		96,738,589	**157,626,113**
Cash and balances with Bank of Botswana		31,552,746	18,605,521
Other short term cash and cash equivalents		96,738,589	157,626,113
Total cash and cash equivalents for cash flow statement		**128,291,335**	**176,231,634**
Primary statutory reserve maintained with Bank of Botswana (Included in Balances with Bank of Botswana) and not available for use by the bank.		12,700,000	10,687,000

Credit quality of cash and balances with Bank of Botswana

Cash in hand denominated in Pula and balances with the Bank of Botswana carry the sovereign credit risk rating of the Government of Botswana which is rated A2 by Standard & Poor. The ratings for other cash and cash equivalents is given in the respective notes.

Exposure to currency risk

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

5. Balances with other banks

Balances with foreign banks	37,803,977	3,332,988

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.

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 and the financial positions of the counterparties.

5. Balances with other banks (continued)

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

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

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

Credit rating framework

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

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	Low risk of default and no amounts are past due	12 Month ECL
Doubtful	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	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

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:

2020

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
State Bank of India and its subsidiaries	Baa3/P-3	Moodys	Performing	12m ECL	35,576,175	35,576,175
First Rand Bank Limited	BB	S & P	Performing	12m ECL	2,227,803	2,227,803
					37,803,978	**37,803,978**

2019

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
State Bank of India and its subsidiaries	Baa3/P-3	Moodys	Performing	12m ECL	2,144,563	2,144,563
First Rand Bank Limited	BB	S & P	Performing	12m ECL	1,188,425	1,188,425
					3,332,988	**3,332,988**

Exposure to currency risk

Refer to note 25 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 25 Financial instruments and financial risk management for details of interest rate risk management for balances with other banks.

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

5. Balances with other banks (continued)

Fair value of balances with other banks

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

6. Financial assets and investments

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

Bank of Botswana Certificates Securities -Repo instruments	-	19,989,200
Bank of Botswana Certificates	58,934,612	79,984,040
Fixed term deposits with other banks and other short term money market placements	-	54,319,885
	58,934,612	**154,293,125**

Financial assets pledged as security

The Bank usually pledges the Bank of Botswana Certificates included in the "Financial Assets and Investments" to Bank of Botswana for the intra/inter day bank borrowings. As at the year end P 28.2 million was pledged to Bank of Botswana.

Exposure to credit risk

Financial assets and 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. Please refer the section "Exposure to Credit Risk" 25 in Note for details

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

6. Financial assets and investments (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:

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	-BBB	S&P	Performing	12m ECL	58,934,612	58,934,612

2019

Instrument	External credit rating (where applicable)	Rating agency	Internal credit rating (where applicable)	Basis of loss allowance	Gross Carrying amount	Amortised cost
Bank of Botswana Securities	-BBB	S&P	Performing	12m ECL	19,989,200	19,989,200
Bank of Botswana Certificates	-BBB	S&P	Performing	12m ECL	79,984,040	79,984,040
State Bank of India- New York	Baa3/P-3	Moodys	Performing	12m ECL	54,319,885	54,319,885
					154,293,125	**154,293,125**

Exposure to currency risk

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for financial assets and investments.

Exposure to interest rate risk

Refer to note 25 for details of interest rate risk management for investments in financial assets and investments.

Fair value of loans receivable

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

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

7. Loans and advances to customers

	2020	2019
Financial instruments:		
Term loans	116,428,945	146,830,142
Demand loans and overdrafts	98,500,701	106,315,988
Loss allowance	(3,432,002)	(2,533,400)
Loans and advances at amortised cost	211,497,644	250,612,730
Total loans and advances	**211,497,644**	**250,612,730**

Exposure to credit risk

Loans and advances to customers 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. More information is provided under Note

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.

The loss allowance provision is determined as follows:

	2020	2020	2019	2019
Expected credit loss rate:	**Estimated gross carrying amount at default**	**Loss allowance (Lifetime expected credit loss)**	**Estimated gross carrying amount at default**	**Loss allowance (Lifetime expected credit loss)**
Performing - no default history- Stage 1				
Business loans	209,548,836	2,297,360	236,352,894	1,632,107
Personal loans	3,813,721	51,348	14,817,260	471,055
	213,362,557	**2,348,708**	**251,170,154**	**2,103,162**
Previously defaulting customers- Stage 2				
Personal loans	-	-	1,975,976	430,238
Defaulting customers - Stage 3				
Business loans	967,690	483,845	-	-
Personal loans	599,449	599,499	-	-
	1,567,139	**1,083,344**	**-**	**-**
Total	**214,929,696**	**3,432,052**	**253,146,130**	**2,533,400**

Exposure to currency risk

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

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

8. Deferred tax

Deferred tax asset

Tax losses available for set off against future taxable income	872,292	1,153,292

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

Deferred tax asset	872,292	1,153,292

Reconciliation of deferred tax asset / (liability)

At beginning of year	1,153,292	2,536,292
Increases (decrease) in tax loss available for set off against future taxable income - gross of valuation allowance	(281,000)	(1,383,000)
	872,292	**1,153,292**

9. Property, plant and equipment

	2020			2019		
	Cost or revaluation	**Accumulated depreciation**	**Carrying value**	**Cost or revaluation**	**Accumulated depreciation**	**Carrying value**
Plant and machinery	1,105,657	(676,176)	429,481	1,101,983	(515,596)	586,387
Furniture and fixtures	3,919,844	(2,894,535)	1,025,309	3,776,436	(2,664,930)	1,111,506
Motor vehicles	426,709	(426,709)	-	426,709	(426,709)	-
IT equipment	2,086,607	(1,957,146)	129,461	1,988,402	(1,888,833)	99,569
Right to Use Asset	6,248,669	(1,613,487)	4,635,182	-	-	-
Total	**13,787,486**	**(7,568,053)**	**6,219,433**	**7,293,530**	**(5,496,068)**	**1,797,462**

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Right to use asset	Depreciation	Total
Plant and machinery	586,387	3,674	-	(160,580)	429,481
Furniture and fixtures	1,111,506	143,408	-	(229,605)	1,025,309
IT equipment	99,569	98,204	-	(68,312)	129,461
Right to use asset	-	-	6,248,669	(1,613,487)	4,635,182
	1,797,462	**245,286**	**6,248,669**	**(2,071,984)**	**6,219,433**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Total
Plant and machinery	597,741	140,200	(151,554)	586,387
Furniture and fixtures	1,309,000	30,456	(227,950)	1,111,506
IT equipment	140,166	73,642	(114,239)	99,569
	2,046,907	**244,298**	**(493,743)**	**1,797,462**

10. Other asset

	2020	2019
Security and utility deposits	617,410	721,270
Prepaid expenses	419,641	284,485
Value Added Tax refundable	7,968	45,869
Net Clearing accounts	(2,158)	606,093
	1,042,861	**1,657,717**

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

11. Stated capital

Reconciliation of number of shares issued:		
Reported as at 1 April	124,851,651	124,851,651
	124,851,651	**124,851,651**
Issued		
181000000 (2017: 81000000) Ordinary shares of no par value	124,851,651	124,851,651
Capital adequacy		
Core capital (Tier 1)		
Stated capital	124,851,651	124,851,651
Retained earnings at the beginning of the year	(10,134,029)	(15,981,654)
Transfer during the year between reserves	-	1,166,522
	114,717,622	**110,036,519**
Supplementary capital (Tier 2)		
Unpublished current year's profits	1,212,553	4,681,103
Total eligible capital (Unimpaired capital) - Tier 1 + Tier 2	**115,930,175**	**114,717,622**
Risk weighted assets		
Credit risk	214,656,800	264,707,950
Operational risk	25,212,770	19,981,410
Market risk	11,852,570	10,029,100
Total risk adjusted exposure	**251,722,140**	**294,718,460**
Minimum capital required as per Bank of Botswana guidelines (15% of Risk adjusted exposure)	37,758,321	44,207,769
Excess capital over minimum required	78,171,854	70,509,853
Capital adequacy ratio	46.05 %	38.92 %
Tier 1 Capital Ratio (Core capital ratio: Basel Committee guide 4%)	45.57 %	37.34 %
Bank of Botswana required minimum ratio	15.00 %	15.00 %
Excess over the minimum required (%)	31.05 %	23.92 %

12. General risk reserve

The bank previously maintained a risk reserved equivalent to the general provision on performing assets. With the adoption of IFRS 9, the bank has transferred the reserve back to the retained earnings.

General risk reserve	-	1,166,522
Transfer to retained earnings	-	(1,166,522)
	-	**-**

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

13. Deposit due to customers

Held at amortised cost

Time deposits	128,812,455	207,600,707
Savings and current deposits	97,641,664	107,657,568
	226,454,119	**315,258,275**

Exposure to liquidity risk

Refer to note 25 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to currency risk

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for deposits due to customers.

Exposure to interest rate risk

Refer to note 25 for details of interest rate risk management for investments in deposit due to customers.

14. Lease liabilities

Minimum lease payments due		
- within one year	1,818,974	-
- in second to fifth year inclusive	3,331,275	-
	5,150,249	-
less: future finance charges	(409,910)	-
Present value of minimum lease payments	**4,740,339**	**-**

The average lease term was 2-5 years and the average effective borrowing rate was 4% -%)

15. Creditors and other payables

Withholding taxes payable	499,851	249,573
Other creditors	299,085	922,056
Accruals and margins	-	200,151
	798,936	**1,371,780**

Exposure to currency risk

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for creditors and accruals .

Exposure to liquidity risk

Refer to note 25 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to interest rate risk

Refer to note 25 Financial instruments and financial risk management for details of interest rate risk management for creditors and other payables.

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

16. Interest and similar income

Loans and advances to customers	18,088,648	20,460,895
Interest and gains from BOBc and Repo instruments	1,710,700	855,648
Interest income on other financial assets	822,785	1,681,020
	20,622,133	**22,997,563**

17. Interest and similar expenditure

Interest expenditure	9,551,777	6,744,496

Interest expenditure		
Interest on lease liability	256,432	-
Savings, Current and call accounts	230,349	774,054
Term deposits	9,064,996	5,860,462
Money market borrowings	-	109,980
	9,551,777	**6,744,496**

18. Other operating income

Foreign exchange and treasury operations	2,949,083	4,085,966
Commission and incidental charges	1,556,940	855,873
	4,506,023	**4,941,839**

19. Operating profit (loss)

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

Auditor's remuneration - external		
Audit fees	206,000	265,218
Auditor's remuneration - internal	120,000	120,000
Depreciation and amortisation		
Depreciation of property, plant and equipment	2,071,984	493,743
Movement in credit loss allowances		
Trade and other receivables	898,602	1,135,126

Expenses by nature

The general and administrative expenses, maintenance expenses and other operating expenses are analysed by nature as follows:

Employee costs	4,074,839	3,861,690
Operating lease charges	471,846	2,253,084
Depreciation, amortisation and impairment	2,071,984	493,743
Other general and administrative expenses	6,565,555	7,387,160
	13,184,224	**13,995,677**

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

20. Taxation

Major components of the tax expense

Deferred		
Originating and reversing temporary differences	281,000	1,383,000

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	22.00 %	22.00 %

21. Cash (used in)/generated from operations

Profit before taxation	1,493,553	6,064,103
Adjustments for:		
Depreciation and amortisation	2,071,984	493,743
Net impairments and movements in credit loss allowances	898,602	1,135,126
Movements in operating lease assets and accruals	(105,157)	-
Changes in working capital:		
Loans and advances to customers	38,216,484	41,249,189
Other assets	614,854	1,321,066
Creditors and other payables	(572,847)	(243,364)
Deposit due to customers	(88,804,156)	(28,023,678)
	(46,186,683)	**21,996,185**

22. Commitments

Operating leases – as lessee (expense - Only comparatives)

Minimum lease payments due		
- within one year	-	2,024,499
- in second to fifth year inclusive	-	5,224,769
	-	**7,249,268**

Operating lease payments represent rentals payable by the bank for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Figures in Pula	2020	2019

23. Related parties

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

Relationships

Holding company	State Bank of India (SBI)
Directors	Refer index page
Members of key management	Mr Pramod Pal

Related party balances

	2020	2019
Balances with other banks - Nostro		
State Bank of India, New York	32,700,170	508,582
State Bank of India, India	825,087	409,901
State Bank of India, Johannesburg	8,762	30,183
State Bank of India, Frankfurt	1,272,229	970,725
State Bank of India, London	769,927	225,172
	35,576,175	**2,144,563**
Financial assets and investments (Money market placements)		
State Bank of India,New York	-	54,319,885

Related party transactions

	2020	2019
Key management remuneration		
Pramod Pal	534,435	636,360
Board sitting allowances		
Ketane Sithole	49,500	54,000
Oteng Sianga	40,500	45,000
Suresh Vishwanath	40,500	49,500
Pankaj Arora	49,500	49,500
	180,000	**198,000**

24. Comparative figures

Certain comparative figures have been reclassified.

Notes to the Annual Financial Statements

25. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	37,803,977	37,803,977	37,803,977
Financial assets and investments	6	58,934,612	58,934,612	58,934,612
Loans and advances	7	211,497,644	211,497,644	211,497,644
Cash and cash equivalents	4	31,552,746	31,552,746	31,552,746
		339,788,979	**339,788,979**	**339,788,979**

2019

	Note(s)	Amortised cost	Total	Fair value
Balances with other banks	5	3,332,988	3,332,988	3,332,988
Financial assets and investments	6	154,293,125	154,293,125	154,293,125
Loans and advances	7	250,612,730	250,612,730	250,612,730
Cash and cash equivalents	4	18,605,521	18,605,521	18,605,521
		426,844,364	**426,844,364**	**426,844,364**

Notes to the Annual Financial Statements

25. Financial instruments and risk management (continued)

Categories of financial liabilities

2020

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	798,936	-	798,936	798,936
Deposits due to customers	13	226,454,119	-	226,454,119	226,454,119
Finance lease obligations	14	-	4,740,339	4,740,339	4,740,339
		227,253,055	**4,740,339**	**231,993,394**	**231,993,394**

2019

	Note(s)	Amortised cost	Leases	Total	Fair value
Accruals and other payables	15	1,371,783	-	1,371,783	1,371,783
Deposits due to customers	13	315,258,275	-	315,258,275	315,258,275
Operating lease accrual		-	105,157	105,157	105,157
		316,630,058	**105,157**	**316,735,215**	**316,735,215**

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 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

25. 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, interest rate risk and price risk).

Credit risk

Credit risk 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 and investments, balances with other banks, loans and advances to customers, 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. When dealing with investments and other banks, 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 group through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all loans and advances to customers and other financial assets. 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 is engaged, period for which the customer has been engaged, 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.

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

Notes to the Annual Financial Statements

25. Financial instruments and risk management (continued)

		2020			2019		
		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	37,803,977	-	37,803,977	3,332,988	-	3,332,988
Financial assets and other investments	6	58,934,612	-	58,934,612	154,293,125	-	154,293,125
Loans and advances to customers	7	214,929,646	(3,432,002)	211,497,644	253,146,130	(2,533,400)	250,612,730
Cash and cash equivalents	4	31,552,746	-	31,552,746	18,605,521	-	18,605,521
		343,220,981	**(3,432,002)**	**339,788,979**	**429,377,764**	**(2,533,400)**	**426,844,364**

Collateral and other credit enhancements obtained

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

Collateral classified as follows		
Cash deposits	27,712,319	27,716,706
Mortgage bonds and others	181,731,054	212,336,618
Unsecured	5,487,223	13,092,806
	214,930,596	**253,146,130**

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

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

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

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

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

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

Maturity Profile

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

At 31 March 2020	Upto 3months	3-12 months	1-5 years	Over 5 years	Total
Cash and Balances with Bank of Botswana	31,552,746	-	-	-	31,552,746
Balances with other banks	37,803,977	-	-	-	37,803,977

Notes to the Annual Financial Statements

25. Financial instruments and risk management (continued)

Other financial assets	58,934,612	-	-	-	58,934,612
Loans and advances to customers	98,581,646	1,822,000	43,629,000	67,464,998	211,497,644
Total financial assets	226,872,981	1,822,000	43,629,000	67,464,998	339,788,979
Plant and equipment	-	-	6,219,433	-	6,219,433
Other assets	-	1,042,862	-	-	1,042,862
Deferred tax	-	-	872,292	-	872,292
Total assets	**226,872,981**	**2,864,862**	**50,720,725**	**67,464,998**	**347,923,566**
	-	-	-	-	-
Deposit due to customers	167,918,119	50,954,000	7,492,000	90,000	226,454,119
Finance lease liabilities	-	-	4,740,339	-	4,740,339
Other creditors and accruals	-	798,936	-	-	798,936
Total financial liabilities	167,918,119	51,752,936	12,232,339	90,000	231,993,394
Equity funds	-	-	-	115,930,172	115,930,172
Total liabilities and equity	**167,918,119**	**51,752,936**	**12,232,339**	**116,020,172**	**347,923,566**
Net liquidity gap	**58,954,862**	**(48,888,074)**	**38,488,386**	**(48,555,174)**	**-**
Off balance sheet items- Guarantees and LCs	-	14,072,147	-	-	14,072,147

25. Financial instruments and risk management (continued)

At 31 March 2019	Upto 3months	3-12 months	1-5 years	Over 5 years	Total
Assets	-	-	-	-	-
Cash and Balances with Bank of Botswana	18,605,521	-	-	-	18,605,521
Balances with other banks	3,332,988	-	-	-	3,332,988
Other financial assets	154,293,125	-	-	-	154,293,125
Loans and advances to customers	103,895,730	1,376,000	55,305,000	90,036,000	250,612,730
Total financial assets	280,127,364	1,376,000	55,305,000	90,036,000	426,844,364
Plant and equipment	-	-	-	1,797,462	1,797,462
Other assets	-	1,657,716	-	-	1,657,716
Deferred tax	-	-	1,153,292	-	1,153,292
Total assets	**280,127,364**	**3,033,716**	**56,458,292**	**91,833,462**	**431,452,834**
Liabilities	-	-	-	-	-
Deposits due to customers	201,835,275	97,130,000	16,293,000	-	315,258,275
Creditors and accruals	-	1,371,780	105,157	-	1,476,937
Total financial liabilities	201,835,275	98,501,780	16,398,157	-	316,735,212
Equity funds	-	-	-	114,717,622	114,717,622
Total liabilities and equity	**201,835,275**	**98,501,780**	**16,398,157**	**114,717,622**	**431,452,834**
Net liquidity gap	**78,292,089**	**(95,468,064)**	**40,060,135**	**(22,884,160)**	**-**
Off balance sheet items- Guarantees	-	10,632,981	-	-	10,632,981
Operating lease commitments - Payable	-	2,024,499	5,224,769	-	7,249,268

Foreign currency risk

The bank is exposed to foreign currency risk as a result of certain transactions 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, South African Rand (ZAR), Euros, Great Britain Pound (GBP) and Indian Rupee (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 open position exposure limit was 30% of the unimpaired capital . The limit 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

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:

US Dollar exposure:

Cash and balance with other banks	4&5	32,905,819	636,531
Financial assets and investments		-	54,319,885
Deposits from customers	13	(31,931,674)	(54,387,853)
Net US Dollar exposure		**974,145**	**568,563**

Notes to the Annual Financial Statements

25. Financial instruments and risk management (continued)

Euro exposure:

Cash and balance with other banks	4&5	1,281,379	979,170
Deposits from customers	13	(1,194,405)	(952,580)
Net Euro exposure		**86,974**	**26,590**
INR exposure:			
Cash and balance with other banks	4&5	825,087	409,901
ZAR exposure:			
Cash and balance with other banks	4&5	2,236,564	1,210,463
Deposits from customers	13	(1,403,647)	(848,997)
ZAR exposure		**832,917**	**361,466**
GBP exposure:			
Cash and balance with other banks	4&5	769,927	225,170
Deposits from customers	13	(705,801)	(206,636)
GBP exposure		**64,126**	**18,534**
Net exposure to foreign currency in Pula		**2,783,249**	**1,385,054**

Exposure in foreign currency amounts

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

US Dollar exposure:

Cash and balance with other banks	4&5	2,760,798	59,261
Financial assets and investments	6	-	5,057,181
Deposits from customers	13	(2,679,067)	(5,062,843)
Net US Dollar exposure		**81,731**	**53,599**
Euro exposure:			
Cash and balance with other banks	4&5	98,025	81,173
Deposits from customers	13	(91,385)	(78,968)
Net Euro exposure		**6,640**	**2,205**
ZAR exposure:			
Cash and balances with other banks	4&5	3,345,902	1,641,952
Deposits due to customers	13	(2,094,995)	(1,143,938)
Net ZAR exposure		**1,250,907**	**498,014**
GBP exposure:			
Cash and balances with other banks	4&5	52,047	16,009
Deposit due to customers	13	(47,721)	(14,692)

25. Financial instruments and risk management (continued)

Net GBP exposure		**4,326**	**1,317**

INR exposure:

Cash and bank balances	6	5,235,176	2,638,740

Exchange rates

The following closing exchange rates were applied at reporting date:

Pula per unit of foreign currency:		
US Dollar	11.910	10.740
Euro	13.070	12.740
ZAR	0.670	0.740
GBP	14.79	14.06
INR	0.16	0.15

Foreign currency sensitivity analysis

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

	2020	2020	2019	2019
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
US Dollar 10% (2019: 10 %)	108,238	(108,238)	18,875	(18,875)
Euro 10% (2019: 10 %)	9,644	(9,644)	2,016	(2,016)
ZAR 10% (2018: 10 %)	92,907	(92,907)	41,067	(41,067)
INR 10% (2018: 10 %)	91,676	(91,676)	45,544	(45,544)
GBP 10% (2018: 10 %)	7,109	(7,109)	25,018	(25,018)
	309,574	**(309,574)**	**132,520**	**(132,520)**

Interest rate risk

Interest rate profile

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

Notes to the Annual Financial Statements

25. Financial instruments and risk management (continued)

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	-	-	-	-	31,552,746	31,552,746
Investments in Bank of Botswana Certificates and Securities	58,934,612	-	-	-	-	58,934,612
Fixed term deposits with other banks	-	-	-	-	-	-
Balances with other banks	37,803,977	-	-	-	-	37,803,977
Loans and advances to customers	98,581,646	1,822,000	43,629,000	67,464,998	-	211,497,644
Total financial assets	195,320,235	1,822,000	43,629,000	67,464,998	31,552,746	339,788,979
Plant and equipment	-	-	-	-	6,219,433	6,219,433
Deferred tax	-	-	-	-	872,292	872,292
Other assets	-	-	-	-	1,042,862	1,042,862
Total Assets	**195,320,235**	**1,822,000**	**43,629,000**	**67,464,998**	**39,687,333**	**347,923,566**
Liabilities						
Deposits due to customers	101,263,830	50,954,000	7,582,000	-	66,654,289	226,454,119
Creditors, accruals and operating lease liability	-	-	-	-	798,936	798,936
Lease liability	-	-	4,740,339	-	-	4,740,339
Total financial liabilities	101,263,830	50,954,000	12,322,339	-	67,453,225	231,993,394
Equity funds and other liabilities	-	-	-	-	115,930,172	115,930,172
Total liabilities	**101,263,830**	**50,954,000**	**12,322,339**	**-**	**183,383,397**	**347,923,566**
Net interest gap liquidity	**94,056,405**	**(49,132,000)**	**31,306,661**	**67,464,998**	**(115,918,399)**	**-**

At 31 March 2019	Under-3 months	3 to 12 months	1-5 years	Over 5 years	Non - interest bearing	Total
Cash and balances with Bank of Botswana	-	-	-	-	18,605,521	18,605,521
Balances with other banks	3,332,988	-	-	-	-	3,332,988
Investment in Bank of Botswana Certificates	99,973,239	-	-	-	-	99,973,239
Fixed term deposits with other banks	54,319,884	-	-	-	-	54,319,884
	-	-	-	-	-	-
Loans and advances to customers	103,875,730	1,376,000	55,305,000	90,056,000	-	250,612,730
Total financial assets	261,501,841	1,376,000	55,305,000	90,056,000	18,605,521	426,844,362
Plant and equipment	-	-	-	-	1,797,462	1,797,462
Deferred tax	-	-	-	-	1,153,292	1,153,292
Other assets	-	-	-	-	1,657,716	1,657,716
Total Assets	**261,501,841**	**1,376,000**	**55,305,000**	**90,056,000**	**23,213,991**	**431,452,832**
Liabilities						
Deposits due to customers	126,020,415	97,130,000	16,293,000	-	75,814,860	315,258,275
Fixed term borrowings with other banks	-	-	-	-	-	-
Creditors, accruals and operating lease liability	-	-	-	-	1,476,935	1,476,935

25. Financial instruments and risk management (continued)

Total financial liabilities	126,020,415	97,130,000	16,293,000	-	77,291,795	316,735,210
Equity funds and other liabilities	-	-	-	-	114,717,622	114,717,622
Total liabilities	**126,020,415**	**97,130,000**	**16,293,000**	**-**	**192,009,417**	**431,452,832**
Net interest gap liquidity	**135,481,426**	**(95,754,000)**	**39,012,000**	**90,056,000**	**(168,795,426)**	**-**

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.

	2020	2020	2019	2019
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**
Impact on profit or loss:				
Net interest income 10% (2018:10%)	113,289	(113,289)	162,530	(162,530)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations.

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

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

25. Financial instruments and risk management (continued)

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.

26. Fair value information

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined 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.

Valuation techniques used to derive level 2 fair values

Fair value is described as the value for which an asset can be exchanged or a liability settled between knowledgeable, wiling parties in an arm's length transaction. The best evidence of fair value is a price quoted in an active market. It is the Bank's policy to make use of such information when it is available for example the valuation of futures, listed bonds and listed equities. Where there is no active market for a particular instrument the Bank determines the value based on valuation techniques. Where available these valuation techniques give preference to inputs which are observable in an active market.

Financial Assets -Investments in Bank of Botswana Certificates (Level 2)
The fair values of Bank of Botswana Certificates is estimated based using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable yield percentage published by Bank of Botswana.
Financial Assets-Fixed term deposits with other Banks (Level 2)
The fair values of the fixed term deposits with other Banks are estimated using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable minimum interest rates for deposit accounts as prescribed by Bank of Botswana plus margin if any.
Financial Assets - Loans and advances to customers (Level 2)
The fair values of the loans and advances to customers comprising overdraft facility is estimated using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from prime lending rates as published by Bank of Botswana plus margin if any.

27. Going concern

The current shareholders of the bank, State Bank of India (SBI), India have expressed their intent to exit from Botswana operations to the management and this has also been communicated with Bank of Botswana who are the regulators of the bank. As at the year end, the management of the bank are in discussions with another local bank to transfer the customer loans and advances and customer deposit liabilities on normal banking terms related to such transfers and have entered into a memorandum of understanding. This memorandum considers that the customers of the bank shall be given an option to choose an altogether different bank to transfer their business. The management expects that until such time the transfers are effected, the bank shall continue as a going concern and carry the business for which it was licensed.

These financial statements are prepared on the assumptions that the Bank shall continue as a going concern in the foreseeable future. The ability to continue as a going concern depends on several factors including the ability to meet obligations as and when they fall due and to comply with the capital adequacy requirements as laid down in the Banking Act (Chapter 46:04) and regulations of Bank of Botswana. As at the date of this report, the Bank continues to operate as a banking company/ depository institution and is actively involved in the activities that the bank has been licensed to do. Hence, these financial statements , prepared as a going concern, follow principles of accounting and reporting applicable to a going concern.

Notes to the Annual Financial Statements

Figures in Pula	2020	2019

28. 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. Management is closely monitoring the evolution of this pandemic, including how it may affect the bank, its customers, the economy and the general population. Management has determined the financial impact of these events does not significantly affect the bank during the current year due to the diversity of customer base. Management has not been aware of any cases of COVID-19 infection among its people and the outbreak has not had a significant impact to the bank’s operations to date. Management currently has an appropriate response plan in place. Management will continue to monitor and assess the ongoing development and respond accordingly

Detailed Income Statement

Figures in Pula	Note(s)	2020	2019
Interest and similar income	16	**20,622,133**	**22,997,563**
Interest expenditure	17	**(9,551,777)**	**(6,744,496)**
Net interest income		**11,070,356**	**16,253,067**
Other operating income	18	**4,506,023**	**4,941,839**
Movement in credit loss allowances	19	(898,602)	(1,135,126)
Expenses (Refer to page 52)		**(13,184,224)**	**(13,995,677)**
Profit before taxation		**1,493,553**	**6,064,103**
Taxation	20	(281,000)	(1,383,000)
Profit for the year		**1,212,553**	**4,681,103**

Detailed Income Statement

Figures in Pula	Note(s)	2020	2019
Other operating expenses			
Auditors remuneration - external auditors	19	(206,000)	(265,218)
Auditors remuneration - internal audit	19	(120,000)	(120,000)
Consulting and professional fees		(162,000)	(429,137)
Consulting and professional fees - legal fees		(11,679)	(34,670)
Depreciation		(2,071,984)	(493,743)
Donations		(30,200)	(53,638)
Employee costs		(4,074,839)	(3,861,690)
Sundry expenses		(841,545)	(841,654)
Travelling and other expenses		(849,366)	(1,194,344)
Utilities		(50,298)	(98,032)
VAT expenses		(256,781)	(248,718)
Insurance		(129,884)	(158,358)
IT expenses		(673,921)	(626,119)
Lease rentals on operating lease		(471,846)	(2,253,084)
Medical expenses		(17,137)	(20,260)
Printing and stationery		(465,627)	(608,663)
Repairs and maintenance		(1,053,853)	(1,003,757)
Security		(142,230)	(190,323)
Telephone and fax		(1,428,385)	(1,298,868)
Training		(126,649)	(195,401)
		(13,184,224)	**(13,995,677)**

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