Capricorn Group

Capricorn Investment Holdings (Botswana) Limited

Consolidated and Separate Annual Financial Statements
for the year ended June 30, 2022

General Information

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Investment holdings
Directors	Sybrand Abram Coetzee Marthinus Johannes Prinsloo Mbiganyi Charles Tibone Tertius Benjamin Liebenberg Tsaone Raboloko (Appointed on 9 June 2022)
Registered office	Capricorn House, Plot 74768 Cnr. 2nd Commercial & Western Commercial, New Central Business District Gaborone Botswana
Business address	Capricorn House, Plot 74768 Cnr. 2nd Commercial & Western Commercial, New Central Business District Gaborone Botswana
Company secretary	Gorata Hlope Plot 57800, Block 10 Gaborone Botswana
Independent auditor	PricewaterhouseCoopers Chartered Accountants Plot 50371 Fairgrounds office park, Gaborone PO Box 294 Botswana
Postal address	Private Bag 00325 Gaborone Botswana
Holding company	Capricorn Group Limited incorporated in Namibia
Registration number	BW00000129772
Functional currency	Botswana Pula "P"

Contents

Directors' Responsibilities and Approval

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of affairs of the company and the group at the end of the financial year and the profit and cash flow for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

- the board sets standards and management implements systems of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;

- the group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to various board committees, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and

- the Board Audit Committee of the group subsidiaries, together with the external and internal auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis.

The consolidated annual financial statements, presented on pages 8 to 102, have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Botswana Companies Act, 2003 and Banking Act (Cap 46:04).

The directors have no reason to believe that the company and the group as a whole will not be a going concern in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on a going concern basis.

The financial statements have been audited by the independent auditing firm, PricewaterhouseCoopers, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit report is presented on pages 4 to 6.

The consolidated and separate annual financial statements set out on pages 8 to 102, which have been prepared on going concern basis, were approved by the board on October 13, 2022 and authorised for signature on their behalf by:

Approval of financial statements

Marthinus Johannes Prinsloo	**Sybrand Abram Coetzee**
Board Chairperson	**Managing Director**

Independent auditor's report

To the Shareholder of Capricorn Investment Holdings (Botswana) Limited

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Capricorn Investment Holdings (Botswana) Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2022, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Capricorn Investment Holdings (Botswana) Limited's consolidated and separate financial statements set out on pages 8 to 102 which comprise:

- the consolidated and separate statements of financial position as at 30 June 2022;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "*Capricorn Investment Holdings (Botswana) Limited Consolidated and Separate Annual Financial Statements for the year ended June 30, 2022*". The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other

PricewaterhouseCoopers, Plot 64289, Tlokweng Road, Gaborone, Botswana
P O Box 294, Gaborone, Botswana
T: (267) 370 9700, www.pwc.com/bw

information is materially inconsistent with the consolidated and separate 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 consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company'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 Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's and the Company'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 Group's and the Company'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 consolidated and separate 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 Group and/or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers
Firm of Certified Auditors
Practicing Member: Rudi Binedell (CAP003 2022)

24 November 2022
Gaborone

Directors' Report

The directors have pleasure in submitting their report on the consolidated and separate annual financial statements of Capricorn Investment Holdings (Botswana) Limited and the group for the year ended June 30, 2022.

1. General review

Capricorn Investment Holdings (Botswana) Limited is an investment holding company registered in Botswana.

2. Financial results and dividends

Profit/(loss) after tax for the year ended 30 June, 2022 was P 59,647,000 (2021: P 49,877,000). Full details of the financial results of the group are set out on pages 8 to 102. No Dividend declared and paid to shareholders registered at 30 June, 2022 (2021: P0).

3. Stated capital

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

4. Holding company

Capricorn Group Limited, a company registered in Namibia and listed on the Namibian Stock Exchange (NSX) holds 84.8% shareholding of the company.

5. Directors and Company Secretary

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

Directors	Designation	Nationality	Date appointed
Marthinus Johannes Prinsloo	Managing Director	South Africa	20 November 2013
Sybrand Abram Coetzee	Independent non-executive Chairman	Namibia	01 July 2015
Mbiganyi Charles Tibone	Independent non-executive	Botswana	15 February 2013
Tertius Benjamin Liebenberg	Independent non-executive	Namibia	22 November 2018
Tsaone Raboloko	Independent non-executive	Botswana	09 June 2022
Sejo Lenong	Non-executive	Botswana	01 October 2019

Ms Gorata Hlope was the Company Secretary during the year under review.

Resignation

Director	Cause of change	Designation	Date
Sejo Lenong	Resignation	Non-executive	June 9, 2022

6. Auditors

PricewaterhouseCoopers will continue in office as auditor, until the next annual general meeting, in accordance with the Botswana 's Companies Act.

Consolidated and Separate Statements of Comprehensive Income

		Group		Company	
Figures in Pula Thousands	Note(s)	2022	2021	2022	2021
Interest and similar income	3	495,708	452,748	182	52
Interest and similar expense	3	(252,464)	(204,628)	-	-
Net interest income		**243,244**	**248,120**	**182**	**52**
Impairment charges on loans and advances	4	(21,084)	(38,647)	-	-
Net interest income after loan impairment charges		**222,160**	**209,473**	**182**	**52**
Fee and commission income	5	62,191	46,495	-	-
Net trading income	6	31,657	21,057	-	-
Other operating income	7	4,294	6,081	7,137	804
Fee and commission expense	8	(11,471)	(2,260)	-	-
Operating expenses	9&10	(232,068)	(211,346)	(107)	(512)
Profit before taxation		**76,763**	**69,500**	**7,212**	**344**
Taxation	11	(17,116)	(19,623)	(779)	-
Profit for the year		**59,647**	**49,877**	**6,433**	**344**
Other comprehensive income		**-**	**-**		
Total comprehensive income for the year		**59,647**	**49,877**	**6,433**	**344**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**59,647**	**49,877**	**6,433**	**344**

Consolidated and Separate Statements of Financial Position as at June 30, 2022

		Group		Company	
Figures in Pula Thousands	Note(s)	2022	2021	2022	2021
Assets					
Cash and balances with the Central Bank	12	58,578	76,040	7,926	7,879
Bank of Botswana Certificates	13	224,853	229,954	-	-
Due from other banks and other financial institutions	14	1,978,413	1,470,314	-	-
Loans and advances to customers	15	5,278,278	4,804,979	-	-
Investment in equity instruments	13	5,339	4,173	211	210
Other assets	16	53,634	53,952	2,598	1,848
Intangible assets	18	15,713	7,966	-	-
Property, plant and equipment	19	101,676	107,337	-	-
Deferred tax	20	5,338	336	-	-
Goodwill	21	20,025	20,025	-	-
Investments in subsidiaries	17	-	-	262,743	242,743
Current tax receivable		110	-	-	-
Total Assets		**7,741,957**	**6,775,076**	**273,478**	**252,680**
Liabilities					
Due to other banks	22	462	171,034	-	-
Deposits from customers	23	6,501,017	5,540,336	-	-
Other borrowings	24	62,216	40,973	-	-
Current tax payable		1,357	809	190	-
Other liabilities	25	298,609	167,681	466	603
Debt securities in issue	29	298,387	328,389	20,000	-
Total Liabilities		**7,162,048**	**6,249,222**	**20,656**	**603**
Equity					
Stated capital	31	247,307	247,307	247,307	247,307
Retained earnings		334,695	280,738	5,515	4,770
Staff Share Scheme Treasury shares		(2,093)	(2,191)	-	-
		582,002	528,045	252,822	252,077
Non-controlling interest		-	-	-	-
		579,909	**525,854**	**252,822**	**252,077**
Total Equity and Liabilities		**7,741,957**	**6,775,076**	**273,478**	**252,680**

Consolidated and Seperate Statements of Changes in Equity

Figures in Pula Thousands	Stated capital	Treasury shares	Retained earnings	Total equity
Group				
Balance at July 1, 2020	**247,307**	**(1,749)**	**230,861**	**476,419**
Profit for the year	-	-	49,877	49,877
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**49,877**	**49,877**
Staff share scheme treasury shares	-	(442)	-	(442)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**(442)**	**-**	**(442)**
Balance at July 1, 2021	**247,307**	**(2,191)**	**280,736**	**525,852**
Profit for the year	-	-	59,647	59,647
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**59,647**	**59,647**
Staff share scheme treasury shares	-	98	-	98
Dividends	-	-	(5,688)	(5,688)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**98**	**(5,688)**	**(5,590)**
Balance at June 30, 2022	**247,307**	**(2,093)**	**334,695**	**579,909**
Note(s)	31			
Company				
Balance at July 1, 2020	**247,307**	**-**	**4,426**	**251,733**
Profit for the year	-	-	344	344
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**344**	**344**
Balance at July 1, 2021	**247,307**	**-**	**4,770**	**252,077**
Profit for the year	-	-	6,433	6,433
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**6,433**	**6,433**
Dividends	-	-	(5,688)	(5,688)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**-**	**(5,688)**	**(5,688)**
Balance at June 30, 2022	**247,307**	**-**	**5,515**	**252,822**
Note(s)	31			

Consolidated and Separate Statements of cash flows

		Group		Company	
Figures in Pula Thousands	Note(s)	2022	2021 Restated*	2022	2021
Cash flows from operating activities					
Adjustments for:					
Interest receipts	3	495,708	452,748	182	52
Interest payments	3	(252,464)	(204,628)	-	-
Commission, fee receipts and other income		95,665	73,633	898	804
Commission paid		(11,471)	(2,260)	-	-
Amount recovered during the year		1,798	4,468	-	-
Cash payments to employees and suppliers		(175,551)	(176,210)	(108)	(512)
Redemption of placements with banks and financial institutions*		1,634,573	1,581,764	-	-
Additions to placements with banks and financial institutions*		(1,704,254)	(1,591,200)	-	-
Changes in operating assets and liabilities:					
Net increase in loans and advances to customers		(494,383)	(297,060)	-	-
Net increase in other assets		318	(257,100)	(750)	(174)
Net increase in deposits from customers		960,681	520,912	-	-
Net increase in other liabilities		130,928	160	(137)	149
Cash generated from operations		**681,548**	**105,227**	**85**	**319**
Tax (paid) received	33	(16,678)	(18,293)	(589)	-
Net cash from operating activities		**664,870**	**86,934**	**(504)**	**319**
Cash flows from investing activities					
Purchase of property, plant and equipment	19	(19,209)	(15,860)	-	-
Proceeds from disposal of property , plant and equipment		15	261	-	-
Purchase of other intangible assets	18	(9,321)	(4,325)	-	-
Dividends received		3,019	-	6,239	-
Investment in shares (Net)		(1,167)	(1,367)	(20,000)	(70)
Net cash from investing activities		**(26,663)**	**(21,291)**	**(13,761)**	**(70)**
Cash flows from financing activities					
Proceeds from issue of bond Tier II and other equity	29	-	12,389	20,000	-
Preference share/debenture payment	29	(50,002)	-	-	-
Dividends paid		(5,668)	-	(5,688)	-
(Repayment towards)/proceeds from other borrowings	24	21,243	(18,059)	-	-
Finance charge on right of use assets		(5,632)	(5,916)	-	-
Capital - Right of use assets		(11,721)	(10,633)	-	-
Net cash from financing activities		**(51,780)**	**(22,219)**	**14,312**	**-**

Consolidated and Separate Statements of cash flows

		Group		Company	
Figures in Pula	Note(s)	2022	2021	2022	2021
Total cash movement for the year		**586,427**	**43,424**	**47**	**249**
Cash at the beginning of the year		1,347,080	1,303,657	7,879	7,630
Total cash at end of the year	34	**1,933,507**	**1,347,081**	**7,926**	**7,879**

*Refer note 38.

Accounting Policies

General information

Capricorn Investment Holdings (Botswana) Limited is a public limited company incorporated and domiciled in Botswana.

1. Basis of Preparation

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards and IFRS Interpretation Committee (IFRIC) interpretations applicable to companies reporting under IFRS. The consolidated and separate annual financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial assets and liabilities (refer accounting policy regarding financial instruments) which have been measured at fair value and incorporate the principal accounting policies set out below. The functional and presentation currency of the group is Pula, which is the currency of the primary economic environment in which the bank operates. These accounting policies are consistent with the previous period unless otherwise stated.

The preparation of the consolidated and separate annual financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.

Going concern

The group’s forecasts and projections, taking account of the prevailing economic conditions, other available information about future risks and uncertainties and reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current financing. The group continue to adopt the going concern basis in preparing its annual financial statements.

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Botswana Pula, which is the group and the company's functional and presentation currency, rounded to the nearest thousand, unless indicated otherwise.

1.1 Consolidation

Basis of consolidation

The consolidated and separate annual financial statements incorporate the annual financial statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the group.

The group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use its power over the entity.

The results of subsidiaries are included in the consolidated and separate annual financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the consolidated and separate annual financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the Consolidated and Seperate Statements of Changes in Equity.

1.1 Consolidation (continued)

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the company.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investments in subsidiaries in the separate financial statements

In the company's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. This excludes investments which are held for sale and are consequently accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Any contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments. Otherwise, all subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognised in either profit or loss or in other comprehensive income, in accordance with relevant IFRS's. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets Held For Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the acquiree's assets and liabilities are reassessed in terms of classification and are reclassified where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests in the acquiree are measured on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This treatment applies to non-controlling interests which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS's.

In cases where the group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. If, in the case of a bargain purchase, the result of this formula is negative, then the difference is recognised directly in profit or loss.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

1.1 Consolidation (continued)

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the group at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

1.2 Significant judgements and sources of estimation uncertainty

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

Critical judgements in applying accounting policies

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

Lease classification

The group is party to leasing arrangements as a lessee. At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16.The group has elected not to recognise right-of-use assets and lease liabilities for leases for which the underlying asset is of low value and short-term leases by using practical expedients provided by IFRS 16. In making their judgement on what constitutes a short-term lease consideration was given to termination options, and for low value leases, consideration was made on a lease-by lease basis.

Expected manner of realisation for deferred tax

Management have reviewed the investment property portfolio of the group in order to determine the appropriate rate at which to measure deferred tax. Investment property is measured at fair value. The manner of recovery of the carrying amount, i.e. through use or sale, affects the determination of the deferred tax assets or liabilities. IFRS assumes that the carrying amount of investment property is recovered through sale rather than through continued use. Management considered the business model of the portfolio and concluded that the assumption is not rebutted and that the deferred taxation should be measured on the sale basis.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option: or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets (refer note 25).

Key sources of estimation uncertainty

COVID-19 related estimation uncertainty

The group has assessed the impact of COVID-19 on its financial statements based on the internal and external information up to the date of approval of these financial statements and expects to recover the carrying amounts of its receivable. The group will continue to monitor the future economic conditions and update its assessment.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group'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 note 1.25 addressing financial assets.

Impairment of plant and equipment

The group reviews and tests the carrying value of plant and equipment when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, the directors determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions.

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 fittings, IT equipments are determined based on group 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.

Impairment of deferred tax assets

Management constantly monitor the group's perfomance and implement measure to ensure the assets are optimally utilised. Management has prepared a budget and business plan for the 2023 financial year, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. Based on these budgets and forecast management have concluded that the group will earn sufficient future taxable income from which the deferred tax asset will be utilised.

Residual value of property,plant and equipment

At end of each reporting period management continuously reassessed the property, plant and equipment's residual values by considering estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in condition expected at the end of its useful life. Based on their assessment of the group's assets management have concluded that there are no residual values for all the property, plant and equipment asset categories as they do not plan to sell the assets and there is no history of the group regularly selling the assets.

1.3 Translation of foreign currencies

Functional and presentation currency

The consolidated and separate annual financial statements are presented in Pula, which is also the functional currency of the group.

Foreign currency transactions and balances

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

In circumstances where the group receives or pays an amount in foreign currency in advance of a transaction, the transaction date for purposes of determining the exchange rate to use on initial recognition of the related asset, income or expense is the date on which the group initially recognised the non-monetary item arising on payment or receipt of the advance consideration.

Accounting Policies

1.3 Translation of foreign currencies (continued)

If there are multiple payments or receipts in advance, group determines a date of transaction for each payment or receipt of advance consideration.

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 consolidated and separate 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 Pula by applying to the foreign currency amount the exchange rate between the Pula and the foreign currency at the date of the cash flow.

1.4 Financial instruments

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

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

Financial assets which are equity instruments:
- Mandatorily at fair value through profit or loss;

Financial assets which are debt instruments (Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans,government and corporate bonds):
- Amortised cost
- Fair value through other comprehensive income; or
- Mandatorily at fair value through profit or loss.

Derivatives which are not part of a hedging relationship:
- Mandatorily at fair value through profit or loss.

Financial liabilities:
- Amortised cost

Note 1.26 Risk management presents the financial instruments held by the group based on their specific classifications.

Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

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

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 group are presented below:

Loans and advances receivable at amortised cost

Accounting Policies

1.4 Financial instruments (continued)

Classification

Loans and advances provided including Related party receivables (note 27) 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 group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the group 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 finance income (note 3).

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

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

Impairment

The group 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 assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

> An unbiased and probability-weighted amount that is determined by using the transition matrix methodology;

> The time value of money; and

> Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Accounting Policies

1.4 Financial instruments (continued)

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the group 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 group 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.

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 group 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 group 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 group considers that default has occurred when a loan instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write off policy

The group 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 group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

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

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.

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 impairment charges on loans and advances in profit or loss as a movement in credit loss allowance (note 4).

Credit risk

Details of credit risk related to loans receivable are included in the specific notes and the risk management (note 1.25).

Accounting Policies

1.4 Financial instruments (continued)

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.

Due from other banks and other financial institutions

Classification

Due from other banks and other financial institutions, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 14). They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the group's business model is to collect the contractual cash flows on due from other banks and other financial institutions.

Recognition and measurement

Due from other banks and other financial institutions are recognised when the group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost. The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

For receivables which contain a significant financing component, interest income is calculated using the effective interest method, and is included in profit or loss in finance income (note 3).

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

- The effective interest rate is applied to the gross carrying amount of the receivable, provided the receivable is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a receivable is a 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 receivable, even if it is no longer credit-impaired.
- If a receivable 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 receivable in the determination of interest. If, in subsequent periods, the receivable is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Impairment

The group recognises a loss allowance for expected credit losses on due from other banks and other financial institutions, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The group measures the loss allowance for due from other banks and other financial institutions which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL), when there has been a significant increase in credit risk.

Measurement and recognition of expected credit losses

The group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on due from other banks and other financial institutions. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

Accounting Policies

1.4 Financial instruments (continued)

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of due from other banks and other financial institutions, through use of a loss allowance account. The impairment loss is included in impairment charges on loans and advances in profit or loss as a movement in credit loss allowance (note 4).

Write off policy

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

Credit risk

Details of credit risk are included in the due from other banks and other financial institutions note (note 14) and the risk management note (note 1.26).

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 due from other banks and other financial institutions is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost line item.

Accounting Policies

1.4 Financial instruments (continued)

Investments in equity instruments and certificates

Classification

Investments in equity instruments and certificates are presented in note 13. They are classified as mandatorily at fair value through profit or loss. As an exception to this classification, the group may make an irrevocable election, on an instrument by instrument basis, and on initial recognition, to designate certain investments in equity instruments as at fair value through other comprehensive income.

The designation as at fair value through other comprehensive income is never made on investments which are either held for trading or contingent consideration in a business combination.

Recognition and measurement

Investments in equity instruments are recognised when the group becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. Transaction costs are added to the initial carrying amount for those investments which have been designated as at fair value through other comprehensive income. All other transaction costs are recognised in profit or loss.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised either in profit or loss or in other comprehensive income (and accumulated in equity in the reserve for valuation of investments) , depending on their classification.

Dividends received on equity investments are recognised in profit or loss when the group's right to received the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in other income (note 7).

Impairment

Investments in equity instruments are not subject to impairment provisions.

Derecognition

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

The gains or losses which accumulated in equity in the reserve for valuation of investments for equity investments at fair value through other comprehensive income are not reclassified to profit or loss on derecognition. Instead, the cumulative amount is transferred directly to retained earnings.

Borrowings and loans from related parties

Classification

Related party payables (note 27) are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings and loans from related parties are recognised when the group 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 using the effective interest method.

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

Interest expense, calculated on the effective interest method, is included in profit or loss in finance costs (note 3.)

Accounting Policies

1.4 Financial instruments (continued)

Borrowings expose the group to liquidity risk and interest rate risk. Refer to note 1.26 for details of risk exposure and management thereof.

Loans denominated in foreign currencies

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

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the risk management (note 1.25).

Derecognition

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

Deposits from customers

Classification

Deposits from customers (note 23), 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 group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.They are subsequently measured at amortised cost using the effective interest method.The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 3).Trade and other payables expose the group to liquidity risk and possibly to interest rate risk. Refer to note 1.25 for details of risk exposure and management thereof.

Derecognition

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

Other financial liabilities

(a)Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial guarantee contracts and loan commitments.

(b)Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

The bank derecognises a financial asset when:

- the contractual rights to the asset expire; or where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the bank retain the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

Where the bank retain substantially all the risks and rewards of ownership of the financial asset, the bank continue to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the bank determine whether it has retained control of the financial asset. In this case:

- if the bank has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The bank derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the bank or the counterparty.

1.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities borrowed are not recognised in the annual financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

1.6 Intangible assets

An intangible asset is recognised when:

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

Intangible assets includes Intangible assets in development and are initially recognised at cost.

1.6 Intangible assets (continued)

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

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

1.7 Property, plant and equipment

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

Projects under which assets are not ready for their intended use are shown as Capital Work-in-Progress.

The cost of 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.

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 group and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

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

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

Accounting Policies

1.7 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings (Right-of-use assets)	Straight line	3-5 years
Plant	Straight line	5 years
Furniture and fixtures	Straight line	6 - 8 years
Motor vehicles	Straight line	5 years
Computer equipment	Straight line	3 - 5 years
Capital work in progress	Straight line	3 - 5 years

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

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.

In the case of right-of-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually.

1.8 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed property is included at the lower of cost or net realisable value, and are derecognised when the assets are sold to a third party.

1.9 Impairment of non-financial assets

The group 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 group estimates the recoverable amount of the asset.

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

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

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

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

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

Accounting Policies

1.9 Impairment of non-financial assets (continued)

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

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

1.10 Leases

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

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets.

The bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use underlying assets.

Lease liability

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

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

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

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 9).

The lease liability is presented within other liabilities on the Consolidated and Separate Statements of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is presented in operating expenses (note 9).

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

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

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

Accounting Policies

1.10 Leases (continued)

Right-of-use assets

Right-of-use assets are presented within property, plant and equipment on the Consolidated and Separate Statements of Financial Position.

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

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

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

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

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

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

However the current lease contracts entered by the bank have a termination clause to cancel the lease anytime during the contract tenure by giving a notice to the other party, as per the terms agreed upon at the inception of the contract. The bank has applied the optional exemptions under IFRS 16 to not to recognise right-of-use assets.

Lease payments are therefore recognised in profit or loss on a straight-line basis over the lease term.

Group as lessor

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

When the group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the group applies the exemption described previously, then it classifies the sub-lease as an operating lease.

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

Accounting Policies

1.10 Leases (continued)

Finance leases

Amounts due from lessees are recognised from commencement date at an amount equal to the group net investment in the lease. They are presented in Loans and advances (note 15) on the statement of financial position.

The interest rate implicit in the lease is used to measure the net investment in the lease. If the interest rate implicit in a sublease cannot be readily determined for a sublease, then the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) is used to measure the net investment in the sublease.

The interest rate implicit in the lease is defined in a manner which causes the initial direct costs to be included in the initial measurement of the net investment in the lease.

Lease payments included in the measurement of the net investment in the lease comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives payable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be receivable by the group from the lessee, a party related to the lessee or a third party unrelated to the group under residual value guarantees (to the extent of third parties, this amount is only included if the party is financially capable of discharging the obligations under the guarantee);
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the option;
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

The group recognises finance income over the lease term, based on a pattern that reflects a constant periodic rate of return on the net investment in the lease. Finance income recognised on finance leases is included note 3.

The group applies the impairment provisions of IFRS 9 to lease receivables.

1.11 Cash and cash equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with less than three months' maturity from the reporting date, including cash and non-restricted balances with the central bank, treasury bills and other eligible bills, placements with other banks, short-term government securities, money market investments and short-term borrowings from other banks. In the statement of financial position, bank overdrafts are shown within 'due to other banks' as liabilities.

After initial recognition, cash and cash equivalents are measured at amortised cost.

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

Provisions are not recognised for future operating losses.

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

Accounting Policies

1.13 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance (calculated as described in note 1.25.1.3); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the group are measured as the amount of the loss allowance (calculated as described in note 1.25.1.3). The group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

1.14 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 and pension obligations

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

The bank operates a defined contribution plan. The plan is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the bank pays fixed contributions into a separate entity.

The bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The bank provides no other post-retirement benefits to other retirees.

Accounting Policies

1.14 Employee benefits (continued)

Severance pay provision

In terms of the Labour Act of 2007, the bank is required to make payments (or provide other benefits) to employees when it terminates their employment. The implications of this requirement is that severance pay has to be paid to all employees who are not pensionable when:

i) The employee is dismissed (except if due to misconduct or poor performance); or
ii) Dies while employed or
iii)Resigns from employment

The bank therefore has an obligation, more specifically a defined benefit, in terms of IAS 19 Employee benefit. The benefit is not funded by any plan assets as defined in IAS 19.

Leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date.

Performance bonus

The bank recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit before tax after certain adjustments. The bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1.15 Tax

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority

Accounting Policies

1.15 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.

1.16 Revenue

Type of Service

The group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.

Nature and timing of satisfaction of performance obligations, including significant payment terms

Fees for ongoing account management are charged to the customer's account on a monthly basis. The group sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the group.

Revenue recognition as per IFRS 15

Revenue from account service and servicing fees is recognised over time as the services are provided.

Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading as well as foreign exchange gains and losses arising from instruments held for trading.

Interest income and expense

Interest income and expenses are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest 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 group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

Interest income on financial assets at fair value through profit or loss are included in Net interest income.

Dividend income on financial assets at fair value through profit or loss are included in Dividend income.

When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Accounting Policies

1.16 Revenue (continued)

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purch ase or sale of businesses, are recognised on completion of the underlying transaction.

Deposit related fees and commission

Banking fees such as service fees, transactional fees and account management fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, debit order fees etc. are recognised at the point in time of transactions with customers and payment is received monthly. The performance obligation on service fees is satisfied on a monthly basis.

Other operating income

Dividend income is recognised when the right to receive payment is established.

1.17 Stated capital and equity

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

Equity includes stated capital and retained earnings.

Shares held by the employee share trusts are deducted from total shareholders’ equity until the shares are sold.

1.18 Dividend distribution

Dividend distribution to the group’s shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are declared by the Board of Directors.

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

1.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

1.20 Share-based payments

The Capricorn group operates two equity-settled share-based compensation plans:

1) a share appreciation rights plan; and

2) a conditional share plan

Accounting Policies

1.20 Share-based payments (continued)

under which the entities within the group receive services from employees as consideration for equity instruments (shares) of Capricorn Group Ltd. Equity-settled share purchase schemes are valued at grant date. The fair value of the employee services received in exchange for the grant of the shares and share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares and share options granted:

- including any market performance conditions (e.g. an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1.21 Related party

Related parties are defined as those parties:

(a) directly, or indirectly through one or more intermediaries, if the party:

i. controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

ii. has an interest in the entity that gives it significant influence over the entity; or

(b) that are members of the key management personnel of the entity, including close members of the family.

All dealings with related parties are transacted on an arm's length basis and accordingly included in total comprehensive income for the year.

1.22 Current versus non-current classification

The group presents assets and liabilities in the statement of financial position based on the order of liquidity. A break of current and non current items are provided in the notes to the financial statements. An asset is treated as current when it is:

i. Expected to be realised or intended to be sold or consumed in normal operating cycle

ii. Held primarily for the purpose of trading

iii. Expected to be realised within twelve months after the reporting period, or

iv. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

i. It is expected to be settled in normal operating cycle

ii. It is held primarily for the purpose of trading

iii. It is due to be settled within twelve months after the reporting period, or

iv. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Accounting Policies

1.22 Current versus non-current classification (continued)

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Advance tax paid is classified as non-current assets.

The operating cycle is the time between the acquisition of assets for processing and their realisation in cash and cash equivalents. The group has identified twelve months as its operating cycle.

1.23 Exceptional items

An item of income or expense which due to its size, type or incidence requires disclosure in order to improve an understanding of the performance of the group is treated as an exceptional item and the same is disclosed in the financial statements.

1.24 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

1.25 Financial risk management

Any business that requires a return on capital investment is exposed to financial risks. Managing these risks continues to play a pivotal role within the group to ensure an appropriate balance is reached between risks and returns.

The Board of Directors is ultimately responsible to manage risks that may either have a positive or negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the group. However, it is the responsibility of management to identify risks, whether real or anticipated, within their business units, and take appropriate actions.

Management's approach to risk management is to ensure all significant risks are identified and managed, and the returns are balanced with the risks taken. Compliance with a set of comprehensive risk management policies is an integral part of the group's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The following key principles are the foundations of the group's risk management process:

- adoption of a risk management framework which applies to all business units and risk types;
- Risk assessment, measurement, monitoring and reporting;
- Independent reviews and assessment; and
- Risk governance processes.

The following subcommittees have been formed to assist the board audit (BAC) and board risk and compliance committee (BRCC) to manage risks:

Board credit committee (BCC) and board lending committee (BLC)

One of the group’s primary activities is lending to retail and commercial borrowers. The group accepts deposits from customers or borrows money from investors at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in quality assets. The BCC and BLC are tasked to ensure this objective is achieved through the sanctioning of credit and thereby ensuring credit exposures remain within an acceptable range of credit standing. Such exposures involve not just loans and advances reflected on the statement of financial position, but also guarantees and other commitments such as letters of credit.

Accounting Policies

1.25 Financial risk management (continued)

Asset and Liability Committee (ALCO)

The primary responsibility of the ALCO is the management of market and liquidity risks within set risk capacity, appetite and tolerance thresholds whilst at the same time optimising the group’s profitability and capital position. The ALCO reviews the macro-economic environment, as well as historical financial and strategic performance as inputs in a strategy development process, which is supported by simulations and forecasting. The group trades in financial instruments where it takes positions in traded instruments, including derivatives, to take advantage of, and hedge against adverse, short-term market movements in bonds and in currency, interest rate and commodity prices. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities.

Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The ALCO also carries the primary responsibility of monitoring the group's liquidity position, as well as formulating the funding strategy. The interest-rate committee, which is part of ALCO, reviews the economic environment and recommends to ALCO interest rate views. ALCO activities are reported to the Board Audit Committee.

Risk Committee

In addition to the mentioned committees, the risk Committee, comprising of members of the executive management team and reporting to the Board Risk and Compliance Committee, was established. Its primary responsibilities are to:

- evaluate the risk management model employed by the bank in terms of effectiveness and efficient deployment of resources (i.e. cost versus benefit);
- discuss and identify gaps and weaknesses in the management information system (MIS) to enable management to make the correct decisions;
- discuss the findings and recommendations of the group’s risk functions and evaluate whether appropriate action has been taken when necessary;
- enhance general risk awareness within the group;
- monitor the management of risks to ensure that the group complies with the Bank of Botswana’s guidelines for effective risk management; and
- discuss in detail any identified, unidentified and potential risks that are material to the bank.

The Board of Directors, through its Board Audit Committee (BAC), also places reliance on the function of internal audit to detect whether business units comply with the risk management policies and report non-compliance thereof.

Credit risk forum (CRF)

The purpose of the CRF is to have an oversight of credit risk management in accordance with the board approved credit risk framework, in order to achieve and maintain an acceptable credit risk profile and an adequate risk and control framework. On portfolio credit risk level, the scope of the CRF includes:

- portfolio analysis and performance;
- key risk indicators and trends;
- risk adjusted pricing performance on portfolio level;
- discuss and review credit portfolio risk and recommend to the business units risk enhancement;
- product and pricing strategies

Accounting Policies

1.25 Financial risk management (continued)

- discuss and review of annual risk appetites and stress testing of the credit portfolio before submission to the risk committee; and
- discuss and review collateral and recommend necessary improvements.

The CRF facilitates compliance with applicable legislative acts;

- Basel and other best practices for credit risk management; and
- Bank credit policies.

IFRS 9 committee

The IFRS 9 committee is the main forum where specific matters that can cause deterioration in credit risk will be discussed. At this meeting decisions will also be made on the risk associated with the prevailing and forecasted macroeconomic conditions and the impact on specific sectors in the applicable economies.

The IFRS 9 committee is established to make the following decisions at each reporting period in terms of the impairment allowance model utilised by the group:

1. Assumptions
2. Inputs, including macro-economic variables
3. Results
4. Movements in sectors/regions
5. Sign-off total impairments for the reporting period

Significant risks to which the bank is exposed are discussed below.

1.25.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the group's customers, clients or market counterparties fail to fulfil their contractual obligations to the group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities (‘trading exposures’) including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements. Credit risk is the single largest risk for the group ’s business; management therefore carefully manages its exposure to credit risk and together with large exposures, is monitored by the BAC and BRCC.

1.25.1.1 Credit risk measurement

a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The group has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the group considers three components, namely: i) the ‘probability of default’ (PD) by the client or counterparty on its contractual obligations; ii) current exposures to the counterparty and its likely future development, from which the group derives the ‘exposure at default’ (EAD); and iii) the expected loss on the defaulted obligations (the ‘loss given default’) (LGD). This is similar to the approach used for the purpose of measuring Expected Credit Loss (ECL) under IFRS 9 (note 1.25.1.2).

Accounting Policies

1.25 Financial risk management (continued)

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel committee on banking regulations and the supervisory practices (the Basel committee) and are embedded in the group's daily operational management

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

ii. Exposure at default (EAD) - The exposure at default under Basel II and IFRS 9 will take into account an expectation of future draw-downs until the default event has occurred by utilising loan run down for amortizing products and a credit conversion factor for non-amortizing products. For example, for a loan this is the face value at the default date. For a commitment, the group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

iii. Loss given default (LGD) - Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur (1 - recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II and IFRS 9.

b) Financial assets measured at amortised cost

Assets in this category mainly relate to investments in financial instruments that have an external credit rating. Implied probability of defaults have been benchmarked against published estimates by external credit rating agencies. LGD's were benchmarked against Basel best practice. The implied PD's and LGD's are used to calculate expected credit losses for these assets.

1.25.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes on credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the group.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Please refer to note 1.25.1.2.1 for a description of how the bank determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 1.25.1.2.2 for a description of how the bank defines credit-impaired and default.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 1.25.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be carried forward-looking information. Note 1.25.1.2.4 includes an explanation of how the group has incorporated this in its ECL models.

Further explanation is also provided of how the bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 1.25.1.2.5)

1.25 Financial risk management (continued)

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

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

1.25.1.2.1 Significant increase in credit risk (SICR)

The group considers a financial instrument to have experienced an increase in credit risk when one or more of the of the following quantitative , qualitative or backstop criteria have been met:

Qualitative criteria

Accounts are classified on a watch list when there is qualitative information available on the client's credit risk increasing. These accounts are moved over to stage 2.

The qualitative criteria used to determine whether the accounts have an increased credit risk incude, but is not limited to ;

- Repayment ability of client
- Sector in which the client operates
- Natural events (i.e. drought)
- Debtors not paying across industries

The criteria used to identify SICR are monitored and reviewed periodically for the appropriateness by the independent Credit Risk team. Once the above matters improved sufficiently, an account can be moved back to stage 1.

Backstop

A backstop is applied and the financial instruments considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments

Credit risk exemption

The group has not used the low credit risk exemption for the below financial instruments in the year ended 30 June, 2022.

- Cash and balances with the central bank : The group maintains accounts only with entiites with credit rating of AAA to BBB (Investment grade).
- Bank of Botswana certificates: These certificates are mainly used for liquidity management and maintained with the central bank of Botswana.

Accounting Policies

1.25 Financial risk management (continued)

- Due from other banks and financial institutions: The group maintains accounts with entiites where credit ratings are AAA to BBB (which also consists of unrated entities as per basel II rating).

- Other assets : Most of the these are receivable witin a perdiod of 30 days and includes highly liquid short term balances.

The group does not use the low credit risk exemption for intercompany balances. Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as stage 1, unless there is evidence of impairment, in which case exposures are moved directly to stage 3.

1.25.1.2.2 Definition of default and credit-impaired assets

The group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance

- The borrower is deceased

- The borrower is insolvent

- The borrower is in breach of financial covenants

- It is becoming probable that the borrower will enter bankruptcy

The group estimates provisions for impairments for stage 3 (non-performing loans) on an individual loan basis. Each loan's impairment is calculated as exposure less discounted value of collateral held.

The criteria above have been applied to all financial instruments held by the group and are consistent with the definition of default used for internal credit risk management purposes.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria and it is fully paid up for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. This is in line with regulatory requirements. When an account has been fully paid up for six months it is moved back to stage 1.

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

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.

- EAD is based on the amount the group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For a revolving commitment, the group includes the current drawn balance plus any further amount that is to be expected to be drawn up to the current contractual limit by the time of default, should it occur.

Accounting Policies

1.25 Financial risk management (continued)

- Loss Given Default (LGD) represents the group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of observation throughout the remainder of the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio segment. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortisation products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the bank's recent default data.

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

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

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

1.25.1.2.4 Forward –looking information incorporated in the ECL models

The measurement of the expected credit loss (ECL) allowance for financial assets requires the use of significant assumptions about future.

A number of significant judgements are required in applying the accounting requirements for measuring ECL, including:

- Determining criteria for significant increase in credit risk (SICR);

- Choosing appropriate models and assumptions for the measurement of ECL;

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

- Establishing groups of similar financial assets for the purposes of measuring ECL.

1.25.1.2.4.1 The assessment and calculation of forward-looking information (FLI)

Stage 1 and 2

As at 30 June, 2022, the group has granted loan deferments to exposures of P61.7 million.

The group did not identify the deferral scheme as a SICR event, and have thus not reclassified any of the loans where deferrals had been allowed to Stage 2. No deferrals were granted on loans already included in Stage 2, as while not yet in default such loans had already displayed indications of increased credit risk and thus did not qualify for the deferral scheme.

Accounting Policies

1.25 Financial risk management (continued)

The group applied historical PDs to determine the likely defaults (before impact of FLI) for those loans categorised as Stage 1 and Stage 2 at 30 June, 2022. Such historical PDs were derived from periods of “normal” economic cycles, and thus do not reflect the likely impact of the severe economic downturn expected because of the COVID-19 pandemic.

Accordingly, these historical PDs were scaled upwards through application of forecasted economic variables, regression analysis and expert judgement to determine an appropriate forward looking view for the ECL calculation. While such statistical inference was used as base, the unique confluence of circumstances facing the global, regional and domestic economies required the group to supplement this through qualitative judgment and input in determination of reasonable ECL outcomes.

This forecasting process was reviewed and approved by the group’s management and governance structures, including the Executive Management Team, Board Credit Committee, Board Audit Committee and ultimately the Board of Directors. In order to determine how the recoverability of the bank loans and advances is impacted through periods of stress, the group performed historical analysis of PD performance for different products:

The group used regression and time series analysis techniques to determine the relationship between the movements in certain macro-economic variables such as Gross Domestic Product (GDP), Unemployment rates, inflation etc., and increases in observed PDs for all loan portfolios during the observed historical period.

1.25 Financial risk management (continued)

The group also considered qualitative factors, which indicate that mitigations instituted in the current period will assist in limiting such impact, including the following:

- The government reduced bank rate and increased significantly government spending on infrastructure and similar investment to assist economic recovery. These are expected to be repeated through the Government Economic and Transformation Recovery Plan, budgeted at P20billion, combined with a recurring budget deficit of P20billion over the upcoming fiscal years (to be financed from existing resources and available funding lines).

- Agricultural revitalisation programmes and policies recently announced by the Government.

- Citizen empowerment initiatives to bolster local industry, including revised Citizen Entrepreneurial Development Agency (CEDA) loan schemes.

Based on the group's assessment, these additional factors will mitigate the stress for the current forecast period more towards that of the 2015 outcomes than the 2009 outcomes.

While estimating the impact of the forecasted economic downturn due to COVID 19 and the effects Geo-Political tensions on the group loan book in the year ended June 2021, a probability weighting of 50:50 was used to stress sensitivities from the 2009 and 2015 economic contractions.

The group applies a 'sensitivity factor' (the rate of change of default rates relative to the average default rate during the PD calibration period) to forecasted GDP growth. The calibration spans from March 2008 to June 2021. PD's were calibrated to historical GDP growth rates on an annual basis using regression modelling. Negative GDP growth is mostly associated with an increase in default rates, while positive GDP growth is associated with a reduction in default rates. The sensitivity factor is used to compute a scalar to the current default rates of each type of loan product that the group and company has. The scalar was applied to the current PD's per product type for all stage 1 and stage 2 exposures. The following table shows the GDP growth assumptions used in calculating the scalar in the forward-looking model:

	2022	**2021**
Growth in the next 12 months	4.00 %	5.54 %
Growth in the following 12 months	4.20 %	7.51 %

Using the PD scalars determined as explained above, the Stage 1 and Stage 2 ECL was increased by P22 million from that indicated by historical PD and expert judgement.

Sensitivity analysis

Expected credit losses calculated for stage 1 and 2 after applying the sensitivity factor above was as follows:

	2022	**2021**
Base ECL for stage 1 and 2	58,619	65,742

Had the GDP forecast been 10% better or 10% worse, the ECL for stage 1 and 2 would be reflected as follows:

	2022	**2021**
GDP 10% improvement	36,021	57,515
GDP 10% deterioration	44,254	70,602

Significant Increase in Credit Risk

Even though COVID-19 had a negative impact on all the economy , it did not impact all industries and all clients equally. For this reason, COVID-19 was not seen as an indicator of SICR for the entire loan book. Clients seeking financial relief were assessed on an individual basis to determine if an indicator of SICR was present.

Accounting Policies

1.25 Financial risk management (continued)

For the sensitivity analysis on the SICR rules the quantitative SICR rules were adjusted. The SICR movements per scenario is shown below:

- Base – 2 credit grades move downwards since origination
- Lower – 3 credit grades move downwards since origination (less stringent)
- Upper – 1 credit grade move downwards since origination (more stringent)

Sensitivity Analysis	**2022**	**2021**
ECL	156,445	167,525
SICR rules		
Lower	116,644	126,956
Upper	149,970	159,551

1.25.1.2.5 Grouping of instruments for losses measured on a collective basis

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

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

- Product type
- Repayment type
- Collateral type

The groupings above only apply to stage 1 and stage 2 credit impairments. All stage 3 exposures are assessed individually.

The appropriateness of groupings is monitored and reviewed on a periodic basis.

1.25.1.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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

Accounting Policies

1.25 Financial risk management (continued)

As at 30 June, 2022	Opening ECL	Transfer from prior year staff impairment	Transfer between stages	Net impairments raised	Impaired accounts written off	Exchange & other movements	Closing
Overdrafts	21,251	-	-	(4,525)	-	5,769	22,495
Stage 1	7,888	-	4,082	(5,662)	-	1,047	7,355
Stage 2	3,282	-	(2,457)	1,217	-	(28)	2,014
Stage 3	10,081	-	(1,625)	(80)	-	4,750	13,126
Term loans	88,477	-	-	7,930	(28,610)	3,907	71,704
Stage 1	28,216	-	802	(3,639)	-	3,107	28,486
Stage 2	9,628	-	(1,899)	(3,552)	-	(30)	4,147
Stage 3	50,633	-	1,097	15,121	(28,610)	830	39,071
Mortgages	38,670	-	-	4,889	(2,954)	1,149	41,754
Stage 1	4,383	-	432	(674)	-	1,096	5,237
Stage 2	1,092	-	(672)	639	-	34	1,093
Stage 3	33,195	-	240	4,924	(2,954)	19	35,424
Instalment finance	19,117	-	-	3,088	(2,398)	685	20,492
Stage 1	9,942	-	(176)	(1,078)	-	825	9,513
Stage 2	1,301	-	(10)	(519)	-	-	772
Stage 3	7,874	-	186	4,685	(2,398)	(140)	10,207
	167,515	**-**	**-**	**11,382**	**(33,962)**	**11,510**	**156,445**

As at 30 June, 2021	Opening ECL	Transfer from prior year staff impairment	Transfer between stages	Net impairments raised	Impaired accounts written off	Exchange & other movements	Closing
Overdrafts	11,014	-	-	12,894	(986)	(1,671)	21,251
Stage 1	10,891	-	(386)	247	-	(2,864)	7,888
Stage 2	631	-	246	2,417	-	(12)	3,282
Stage 3	(508)	-	140	10,230	(986)	1,205	10,081
Term loans	122,009	-	-	16,482	(46,419)	(3,595)	88,477
Stage 1	34,305	-	254	(3,909)	-	(2,434)	28,216
Stage 2	4,518	-	(1,640)	7,013	-	(263)	9,628
Stage 3	83,186	-	1,386	13,378	(46,419)	(898)	50,633
Mortgages	29,081	-	-	12,380	(4,108)	1,317	38,670
Stage 1	2,526	-	225	744	-	888	4,383
Stage 2	1	-	(522)	1,548	-	65	1,092
Stage 3	26,554	-	297	10,088	(4,108)	364	33,195
Instalment finance	17,524	-	-	1,966	(3,716)	3,343	19,117
Stage 1	10,354	-	(355)	(578)	-	521	9,942
Stage 2	434	-	48	883	-	(64)	1,301
Stage 3	6,736	-	307	1,661	(3,716)	2,886	7,874
	179,628	**-**	**-**	**43,722**	**(55,229)**	**(606)**	**167,515**

The unwind of discount on Stage 3 financial assets is reported within 'interest income' so that interest income is recognised on the amortised cost (after deducting the ECL allowance).

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

Overdrafts

- Gross overdrafts increase by P166 million (30.36%) from the prior period, which resulted in an increase in expected credit losses of P 1.2 million year-on-year.

Accounting Policies

1.25 Financial risk management (continued)

Term Loans

- Term loans increased by P262 million (11.97%) from the prior period, mainly driven by growth in commercial loans of 18.75%.

The total ECL for this type decreased by P18 million, which is attributable to write-offs with a gross carrying value of P29 million which resulted in the reduction of the expected credit loss allowance with the similar amount. This also contributed to non performing term loans to decrease by 22.83%.

Mortgages

- Mortgages grew by P124 million (6.45%) over the prior period which contributed to a decrease in non-performing mortgage loans of P 6.1 million (3.76%).

Instalment finance

Instalment finance grew by 6.47% from prior year to 22 million. This resulted in an increase of P1.4 million (7.19%) in expected credit loss allowance.

The increase in total ECL for this type is attributable to the increase in the ECL for stage 3 loans of P2.3 million (29.63%).

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

Credit risk exposures relating to on-statement-of-financial-position assets are as follows:

Cash and balances with the central bank	58,578	76,040	7,926	7,879
Bank of Botswana Certificates	224,853	229,954	-	-
Investment in equity instruments	5,339	4,173	211	210
Due from other banks and other financial institutions	1,978,413	1,470,314	-	-
Gross loans and advances to customers	5,451,145	4,991,037	-	-
Other assets	53,634	53,952	2,598	1,848
Total on-statement of financial position exposure	**7,771,962**	**6,825,470**	**10,735**	**9,937**
Liabilities under guarantees	287,873	188,772	-	-
Loan commitments	135,094	86,292	-	-
Total off-statement of financial position exposure	**422,967**	**275,064**	**-**	**-**
Total credit risk exposure	8,194,929	7,100,534	10,735	9,937

Excluded the impact of interest in suspense and the IFRS 9 effective interest rate. The above table represents a worst case scenario of credit risk exposure to the bank at 30 June 2022 and 2021, without taking account of any collateral held or other credit enhancements attached. For all assets listed on the statement of financial position, the exposures set out above are based on carrying amounts as reported. The most significant exposures are derived from loans and advances to customers.

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

• The group employs a range of policies and practices to mitigate credit risk.

• Mortgage loans and Commercial loans, which represent the biggest group in the loans and advances to customers portfolio, are backed by collateral.

•All financial assets, other than special mention and non-performing loans and advances, are neither past due nor impaired.

Accounting Policies

1.25 Financial risk management (continued)

1.25.1.4.1 Maximum exposure to credit risk - Financial instruments subject to impairment

Additional ECL allowance is recognised. The gross carrying amount of financial assets below also represents the bank's maximum exposure to credit risk on these assets.

As at 30 June, 2022 Loans and advances Credit grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Not rated	49,451	9,168	97,826	156,445
Gross carrying amount	5,048,987	60,172	341,986	5,451,145
Loss allowances	(49,451)	(9,168)	(97,826)	(156,445)
Carrying amount	**4,999,536**	**51,004**	**244,160**	**5,294,700**

As at 30 June, 2022 Other financial instruments Credit grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount	2,281,434	-	-	2,281,434
Loss allowances	-	-	-	-

As at 30 June, 2021 Loans and advances Credit grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Not rated	50,427	15,315	101,783	167,525
Gross carrying amount	4,549,977	125,518	315,543	4,991,038
Loss allowances	(50,427)	(15,315)	(101,783)	(167,525)
Carrying amount	**4,499,550**	**110,203**	**213,760**	**4,823,513**

As at June 30, 2021 Other financial instruments Credit grade	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount	1,830,260	-	-	1,830,260
Loss allowances	-	-	-	-

1.25.1.5 Risk limit control and mitigation policies

The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a monthly basis and are subject to regular review. Limits on the level of credit risk are approved by the board of directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

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

Placements with banks, including loans and advances to banks, are subject to the normal credit process. Credit limits to these banks takes into consideration ratings performed by external rating agencies.

Accounting Policies

1.25 Financial risk management (continued)

Some other specific control and mitigation measures are outlined below:

i) Collateral

The group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Within the credit risk area, mandates are predetermined in order to ensure that the applicable level of authority provides guidance and approval for advances. Risk exposure to advances is reduced by obtaining approved security as defined by the Board Credit Committee and listed in the advance instruction manual.

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

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

Collateral per class of loans and advances:

Mortgages:

- First, second and third covering bond;
- Cession of fire policy.

Instalment finance:

The instalment finance contract binds the article as security.

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

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

Valuation methodologies (which includes applying a hair-cut to the fair value of collateral depending on a number of factors) and the period of validity on collateral are outlined in established policies, which are approved by the board. The group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

The group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Accounting Policies

1.25 Financial risk management (continued)

As at 30 June, 2022	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets				
Overdrafts	47,396	(13,126)	34,270	42,247
Term loans	110,380	(39,071)	71,309	110,856
Mortgages	158,669	(35,423)	123,246	152,674
Instalment finance	25,541	(10,206)	15,335	16,732
	341,986	**(97,826)**	**244,160**	**322,509**

As at 30 June, 2021	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets				
Overdrafts	33,999	(11,774)	22,225	29,168
Term loans	91,916	(48,940)	42,976	58,174
Mortgages	164,868	(33,194)	131,674	166,785
Instalment finance	24,760	(7,875)	16,885	14,993
	315,543	**(101,783)**	**213,760**	**269,120**

Property valuation

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

Life insurance valuation

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

Credit life insurance

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

Long-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss the group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Although revolving individual credit facilities are generally unsecured, these are only granted to clients after stringent credit reviews.

Retrenchment insurance cover

The group has an retrenchment insurance to cover credit events arising from retrenchments. This is mostly applicable to the micro loans portfolio.

Accounting Policies

1.25 Financial risk management (continued)

ii) Derivatives

The group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counterparties.

iii) Master netting arrangements

In accordance with IAS 32 the group offsets financial assets and financial liabilities and presents the net amount in the statement of financial position only if there is both a legally enforceable right to offset and there is an intention to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously. The group is subject to a MNA in the form of ISDA agreements with counterparties. ISDA agreements, under which swaps and derivatives are traded, may not be legally enforceable as one transaction to enforce post insolvency set-off and netting within Botswana, thus the IAS 32 set off requirements are not met. Consequently no financial assets and financial liabilities, subject to MNA's, have been presented on the net amount in the statement of financial position.

iv) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the group on behalf of a customer authorising a third party to draw drafts on the group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

1.25.1.6 Credit quality and management of loans and advances

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

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

Accounting Policies

1.25 Financial risk management (continued)

Subsequent credit assessments

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

- Excesses are reported and reviewed on a daily basis
- The branches submit a monthly report on specific issues in order to take remedial actions on dormant accounts, suspended accounts, irregular accounts (outstanding 45 days and longer), outstanding security, special mention accounts, guarantees, letters of credit and foreign exchange contracts, floor plans, savings accounts in overdraft and bad debts written off within branch mandates.
- The credit department submits a monthly report to the executive management team and a more detailed report to the board of directors on a quarterly basis regarding the status of the credit portfolio of the bank.
- Monthly statistics per product are used to monitor the quality and management of the loan portfolio per branch.
- All clients with exposures approved above branch level are interviewed by credit before non-performing accounts are transferred to legal collection branch.
- All transfers to the legal collections branch with an impairment provision higher than P2,000 are scrutinised by the credit department and categorised under:
- poor assessment, poor management, poor collateral economic reasons; and other

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

30 June, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Article finance	333,037	3,277	25,541	361,855
Commercial loans	2,065,861	24,951	81,141	2,171,953
Individual loans	374,612	2,171	29,239	406,022
Mortgage loans	1,622,612	18,743	158,669	1,800,024
Overdrafts	652,865	11,030	47,396	711,291
Total gross loans and advances	5,048,987	60,172	341,986	5,451,145
Impairments raised	(49,451)	(9,168)	(97,826)	(156,445)
Net loans and advances	**4,999,536**	**51,004**	**244,160**	**5,294,700**

30 June, 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Article finance	307,044	6,369	24,760	338,173
Commercial loans	1,711,683	70,752	45,399	1,827,834
Individual loans	312,927	2,725	46,517	362,169
Mortgage loans	1,728,595	24,407	164,868	1,917,870
Overdrafts	489,728	21,265	33,999	544,992
Total gross loans and advances	4,549,977	125,518	315,543	4,991,038
Impairments raised	(50,427)	(15,315)	(101,783)	(167,525)
Net loans and advances	**4,499,550**	**110,203**	**213,760**	**4,823,513**

Accounting Policies

1.25 Financial risk management (continued)

Loans and advances (Stage 1)

Loans and advances to banks have not been impaired as these placements are made to banks that have high credit standing and, by policy, limits the amounts of credit exposure to any one financial institution. Loans and advances to customers in this category primarily comprise structured finance to large corporate clients, which have no evidence of a deterioration of credit quality. The breakdown by class of loans and advances is as follows:

As at 30 June 2022	Article finance	Commercial loans	Mortgage loans	Individual loans	Overdrafts	Total
Not past due	323,699	2,003,549	1,546,230	372,292	520,064	4,765,834
0 - 30 days	9,338	62,312	76,382	2,320	132,801	283,153
	333,037	**2,065,861**	**1,622,612**	**374,612**	**652,865**	**5,048,987**

As at 30 June 2021	Article finance	Commercial loans	Mortgage loans	Individual loans	Overdrafts	Total
Not past due	299,917	1,651,884	1,664,300	294,860	443,261	4,354,222
0 - 30 days	7,127	59,799	64,295	18,067	46,467	195,755
	307,044	**1,711,683**	**1,728,595**	**312,927**	**489,728**	**4,549,977**

The credit quality of financial assets subject to credit risk, that were neither past due nor impaired, based on the bank's internal credit ratings, was as follows:

Loans granted within last 12 months, with no history of default	1,350,500	1,105,932
Loans granted within last 12 months, with minor history of default	115,300	53,643
Loans granted prior to the last 12 months, with no history of default	3,397,038	3,240,781
Loans granted prior to the last 12 months, with minor history of default	186,149	149,621
	5,048,987	**4,549,977**

Loans and advances individually impaired (Non-performing loans and advances)

Loans and advances are managed with reference to the days in arrears. Days in arrears are calculated based on the amount past due relative to the instalment amount. Loans and advances outstanding for longer than 90 days are considered non-performing and are included in stage 3 for the loss allowance calculation. As determined by the regulatory requirements, any asset which is overdue 30 days or more but less than 90 days shall be classified as special mention, at a minimum and is subject to impairment in accordance with the stage 2 calculations. The bank follows a more conservative approach than the regulators and already classifies loans in 0 - 30 days on a watch list, where, on a case-by-case basis, indicators of a possible future loss event exist. Additionally, loans that are made to a specific industry or individuals that are not past due, but we deem to be risky are assessed and in certain instances subject to impairment in accordance with the stage 2 calculations. Loans categorized on the watch list are performing but subject to the impairment in accordance to the IFRS 9 calculations.

Accounting Policies

1.25 Financial risk management (continued)

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is P341 million (2021: P315 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the bank as security, is as follows:

30 June, 2022	Article finance	Commercial loans	Mortgage loans	Individual loans	Overdrafts	Total
Past due up to 30 days	387	13,073	18,116	634	7,347	39,557
Past due 31 - 60 days	1,854	740	3,664	518	859	7,635
Past due 61 - 90 days	669	1,226	4,957	921	2,441	10,214
Past due 91 - 180 days	4,284	5,447	18,834	3,854	2,917	35,336
Past due more than 180 days	18,347	60,655	113,098	23,312	33,832	249,244
Total	25,541	81,141	158,669	29,239	47,396	341,986
Fair value of collateral held	(15,335)	(63,303)	(123,246)	(8,006)	(34,270)	(244,160)
Total	**10,206**	**17,838**	**35,423**	**21,233**	**13,126**	**97,826**
Impairment raised	10,206	17,838	35,423	21,233	13,126	97,826
Net exposure	-	-	-	-	-	-

30 June, 2021	Article finance	Commercial loans	Mortgage loans	Individual loans	Overdrafts	Total
Past due up to 30 days	3,103	5,095	19,156	855	844	29,053
Past due 31 - 60 days	175	1,111	5,614	252	155	7,307
Past due 61 - 90 days	411	33	6,388	1,251	-	8,083
Past due 91 - 180 days	7,631	7,910	20,795	4,150	721	41,207
Past due more than 180 days	13,440	31,250	112,915	40,009	32,279	229,893
Total	24,760	45,399	164,868	46,517	33,999	315,543
Fair value of collateral held	(16,885)	(35,017)	(131,674)	(7,959)	(22,225)	(213,760)
Total	**7,875**	**10,382**	**33,194**	**38,558**	**11,774**	**101,783**
Impairment raised	7,875	10,382	33,194	38,558	11,774	101,783
Net exposure	-	-	-	-	-	-

The value of tangible collateral disclosed above is limited to the outstanding balance, therefore any over-collateralised portion of a loan is excluded from the value of tangible collateral. Impairments are raised for under-collateralised non-performing loans, resulting in a net exposure of nil. Further information of the impairment allowance for loans and advances to customers is provided in note 1.25.1.3.

1.25.1.7 Credit quality of financial assets other than customer loans and advances

As at 30 June the following financial instruments are neither past due nor impaired:

Cash and balances with central bank	58,578	76,040	7,926	7,879
Financial assets held designated at fair value through profit and loss	230,192	234,127	211	210
Due from other banks	1,978,413	1,470,314	-	-
Other assets	53,634	53,952	2,598	1,848
	2,320,817	**1,834,433**	**10,735**	**9,937**

Accounting Policies

1.25 Financial risk management (continued)

The following section summarises the credit quality of financial assets and exposures to corresponding and counterparty banks for 30 June, 2022.

The group applies credit ratings in line with regulatory requirements to reflect the credit risk of financial instruments. External credit ratings from reputable international rating agencies are utilised for cross border exposures, which is augmented with thorough internal credit and financial analyses in the determination and setting of exposure limits. Distinction between two broad credit quality classes are made, i.e. investment grade (AAA to BBB) and speculative / high-yield (BB and lower). Fitch ratings are utilised as far as possible. If Fitch ratings are not available, Moody's and Standard & Poor's ratings are used for classification. If no ratings are available, i.e. certain African countries for example, these exposures are classified as unrated and are subject to much stricter lending criteria.

Group

30 June, 2022	**Carrying value**	**Investment grade (AAA to BBB)**	**Unrated**	**Total**
Balance with central bank	-	500	-	500
Cash balances	-	58,078	-	58,078
Bank of Botswana certificates	-	-	224,853	224,853
Other securities	-	-	5,339	5,339
Due from other banks	-	521,444	1,456,969	1,978,413
Other assets	53,634	-	-	53,634
Non-financial assets	142,862	-	-	142,862
	196,496	**580,022**	**1,687,161**	**2,463,679**

Company

30 June, 2022	**Carrying value**	**Investment grade (AAA to BBB)**	**Unrated**	**Total**
Cash balances	-	7,926	-	7,926
Other securities	-	-	211	211
Other assets	2,598	-	-	2,598
Non-financial assets	262,743	-	-	262,743
	265,341	**7,926**	**211**	**273,478**

Group

30 June, 2021	**Carrying value**	**Investment grade (AAA to BBB)**	**Unrated**	**Total**
Balance with central bank	-	11,491	-	11,491
Cash balances	-	64,549	-	64,549
Bank of Botswana certificates	-	-	229,954	229,954
Other securities	-	-	4,173	4,173
Due from other banks	-	375,673	1,094,641	1,470,314
Other assets	53,952	-	-	53,952
Non-financial assets	135,664	-	-	135,664
	189,616	**451,713**	**1,328,768**	**1,970,097**

Accounting Policies

1.25 Financial risk management (continued)

Company

30 June, 2021	**Carrying value**	**Investment grade (AAA to BBB)**	**Unrated**	**Total**
Cash balances	-	7,879	-	7,879
Other securities	-	-	210	210
Other assets	1,848	-	-	1,848
Non-financial assets	242,743	-	-	242,743
	244,591	**7,879**	**210**	**252,680**

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

The following risk weightings are applied for due from other banks when calculating the risk-based capital ratios:

Exposure to banks assigned a credit risk assessment rating of AAA to AA-	20 %
Exposure to banks assigned a credit risk assessment rating of A+ to A-	50 %
Exposure to banks assigned a credit risk assessment rating of BB+ to B- or unrated	100 %
Exposure to banks assigned a credit risk assessment rating below B-	150 %

1.25.1.8 Repossessed collateral

The group obtains assets by taking possession of collateral held as security. The loan value of the assets still on the statement of financial position for 30 June 2022 was P187 million (2021: P165 million). Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

Collateral valued at P 20 million was sold during the year consisting of P 13 million of immovable assets and P 7 million of movable assets ended 30 June 2022 (2021 : P 30 million).

Nature and carrying amount of the collateral held (Group)

Nature		
Movable (Vehicles etc)	28,955	24,783
Immovable (Property)	158,652	140,118
	187,607	**164,901**

Accounting Policies

1.25 Financial risk management (continued)

1.25.1.9 Credit risk weighted amounts

The following risk weighted amounts, including related impairments and write-off, have been assigned to the components of credit risk, in accordance with the requirement of the Banking Act (46:04) on capital adequacy. The figures below will not reconcile to the statement of financial position as it represents statutory amounts:

Group

30 June, 2022	**Exposure**	**Impairment**	**Risk-weighted amounts**	**Written off**
Sovereign and central bank	372,909	-	-	-
Security firms	7,385	-	7,385	-
Banks	1,021,473	-	579,834	-
Corporate	2,049,246	14,506	2,039,745	896
Retail	1,473,457	63,163	1,097,052	30,123
Residential mortgage properties	844,812	14,481	336,714	2,283
Commercial real estate	949,261	4,989	945,856	660
Others	1,028,784	-	108,502	-
	7,747,327	**97,139**	**5,115,088**	**33,962**

30 June, 2021	**Exposure**	**Impairment**	**Risk-weighted amounts**	**Written off**
Sovereign and central bank	378,009	-	-	-
Security firms	8,696	-	8,696	-
Banks	695,673	-	430,251	-
Corporate	1,637,640	15,922	1,634,778	1,315
Retail	1,365,933	55,131	1,017,343	49,806
Residential mortgage properties	849,394	18,727	347,807	1,725
Commercial real estate	1,068,476	12,003	1,138,703	2,383
Others	839,545	-	89,444	-
	6,843,366	**101,783**	**4,667,022**	**55,229**

Only claims on banks are risk-weighted based on external credit assessment. The group utilises available external rating agencies' ratings on both short-term and long-term exposures. The sovereign and central bank credit risk weighting has been 0% for local currency issued and controlled by the central bank.

The long-term country credit rating by an external credit rating agency was as follows:

Long-term local currency issuer default rating	BBB	BBB
Long-term issuer default rating	BBB	BBB

The group manages credit concentration risk by imposing credit risk concentration caps on the exposure for different loans and advances classifications, such as product classes, regions and industry. The credit risk concentration caps are directly linked to the board-approved risk capacity, appetite and tolerance thresholds, and are managed as part of the risk management process. The credit concentration risk is also further assessed using stress testing and scenario analyses quantitative models.

Accounting Policies

1.25 Financial risk management (continued)

The following table breaks down the group's main credit exposure at their gross carrying amounts, as categorised by the industry sectors of our counterparties.

Group

As at 30 June, 2022	Cash and balances with central bank	Financial assets	Due from other banks	Loans and advances to customers	Other assets	Closing
Agriculture and forestry	-	-	-	430,650	-	430,650
Mining	-	-	-	34,780	-	34,780
Manufacturing	-	-	-	110,230	-	110,230
Building and construction	-	-	-	136,246	-	136,246
Electricity, gas and water	-	-	-	3,845	-	3,845
Trade and accommodation	-	-	-	128,137	-	128,137
Transport and communication	-	-	-	104,748	-	104,748
Finance and insurance	55,339	-	1,978,413	61,287	-	2,095,039
Business services	-	-	-	1,940,340	-	1,940,340
Commercial real estate	-	-	-	1,086,519	-	1,086,519
Government	500	224,853	-	29,061	-	254,414
Individuals	-	-	-	1,326,646	-	1,326,646
Other	2,739	5,339	-	58,656	196,496	263,230
	58,578	**230,192**	**1,978,413**	**5,451,145**	**196,496**	**7,914,824**

As at 30 June, 2021	Cash and balances with central bank	Financial assets	Due from other banks	Loans and advances to customers	Other assets	Closing
Agriculture and forestry	-	-	-	261,287	-	261,287
Mining	-	-	-	6,246	-	6,246
Manufacturing	-	-	-	64,423	-	64,423
Building and construction	-	-	-	95,757	-	95,757
Electricity, gas and water	-	-	-	5,537	-	5,537
Trade and accommodation	-	-	-	124,460	-	124,460
Transport and communication	-	-	-	59,392	-	59,392
Finance and insurance	-	-	1,470,314	15,197	-	1,485,511
Business services	-	-	-	1,876,734	-	1,876,734
Commercial real estate	-	-	-	1,124,910	-	1,124,910
Government	11,491	229,954	-	52,725	-	294,170
Individuals	-	-	-	1,246,367	-	1,246,367
Other	64,549	4,173	-	58,002	189,616	316,340
	76,040	**234,127**	**1,470,314**	**4,991,037**	**189,616**	**6,961,134**

1.25.1.10 Write-off policy

The group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the group's recovery method is foreclosing on collateral and value of the collateral is such that there is no reasonable expectation of recovering in full.

1.25.1.11 Modification of financial assets

The group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

1.25 Financial risk management (continued)

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to the term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the under the original terms at initial recognition, when the modifications is not substantial and so does not result in derecognition of the original asset. The group monitors the subsequent performance of modified assets. The group may determine that the credit risk has significantly improved after the restructuring, so that the assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have been performed in accordance with the new terms for six consecutive months or more. The group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

1.25.2 Market risk

The group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. It is the group's policy not to enter into long-term, unhedged fixed interest rate contracts for loans and advances. Interest rate structures of deposits reflect the interest rate view and strategy of the ALCO and maturity structures of term deposits are in line with the ALCO policy. Interest rate structures are addressed on a monthly basis by the ALCO. External market resources are used in the determination of interest rate views by ALCO.

1.25.2.1 Market risk measurement techniques

The group employs several measurement techniques to assess potential exposures to market change. Sensitivity analysis is applied to measure the impact of changes in interest rates. This measure is of importance in assessing the exposure of the group's trading portfolio and the effect of such changes on the interest margin.

Other measurement techniques include comprehensive analysis of maturities, both from the advance and funding perspective.

1.25.2.2 Foreign exchange risk

The group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk is managed through the market risk framework as well as the treasury dealing policy, both of which are approved by the board.

Market risk is managed by closely monitoring the limits as set out in the market risk framework. The group follows a conservative approach to the products it deals with, and the approved products as well as the limits thereof are detailed in the dealing limits policy. The board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored continuously.

The traders' limits are a function of responsibility, experience and qualifications. Foreign currency risk management is achieved through an automated risk management system, and the limit management is independently administered by the middle office risk function within the risk department. All traders are required to sign off on the applicable policies, must be knowledgeable on its contents, and have them on hand when trading. All excesses on limits are immediately flagged, investigated, mitigated, and escalated if required.

Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop loss orders and closing or hedging out unwanted exposure via derivatives or in the spot market. Additionally, it is the group's policy to close out all forward and option foreign currency transactions via back-to-back forward and option foreign currency transactions with counterparty banks, which is also diligently monitored by the independent middle office risk function.

Accounting Policies

1.25 Financial risk management (continued)

The table below summarises the group's exposure to foreign currency exchange rate risk at year-end. Included in the table are the bank's financial instruments at the carrying amounts, categorised by currency:

Concentration of foreign denominated currency financial instruments

As at 30 June, 2022	**USD**	**Euro**	**GBP**	**ZAR**
Assets				
Loans and advances to customers	33,176	-	-	-
Due from banks and other financial institutions	373,790	69,646	5,154	72,854
	406,966	**69,646**	**5,154**	**72,854**

As at 30 June, 2022	**USD**	**Euro**	**GBP**	**ZAR**
Liabilities				
Deposit from customers	327,430	67,615	5,057	89,296
Other borrowings	62,216	-	-	-
	389,646	**67,615**	**5,057**	**89,296**
Net financial position	17,320	2,031	97	(16,442)

As at 30 June, 2021	**USD**	**Euro**	**GBP**	**ZAR**
Assets				
Loans and advances to customers	56,982	-	-	-
Due from banks and other financial institutions	238,834	58,653	14,176	64,009
	295,816	**58,653**	**14,176**	**64,009**

As at 30 June, 2021	**USD**	**Euro**	**GBP**	**ZAR**
Liabilities				
Deposit from customers	248,929	58,788	14,352	53,497
Other borrowings	40,973	-	-	-
	289,902	**58,788**	**14,352**	**53,497**
Net financial position	5,914	(135)	(176)	10,512

The following exchange rates (number of units of Pula per unit of foreign currency) were used on conversion of foreign currency monetary items at the reporting date:

Currency		
USD	12.44	10.91
EUR	12.94	12.95
GBP	15.07	15.10
ZAR	1.32	1.31

The following is a sensitivity analysis in absloute number terms, monitored on the following major currencies of non-equity instruments , had a 5% change arise on the currencies and its impact on net profit:

USD/Botswana Pula	10,773	3,226
EUR/Botswana Pula	1,530	101
GBP/Botswana Pula	63	114
ZAR/Botswana Pula	624	401

Accounting Policies

1.25 Financial risk management (continued)

1.25.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

Assets and liabilities are classified as interest-sensitive if the interest rate is floating (classified in the 'up to 1 month' bucket) or if the interest rate applied to the outstanding principal balance fluctuates contractually during its lifespan (classified at the earliest of reprise or maturity). The key assumption made is that when an asset or liability matures within a certain bucket, the principal amount will be reprised. If an asset matures the proceeds are reinvested and when any liability matures the liability is replaced with new funding. Balances classified as 'non-interest sensitive' are not affected by changes in interest rates, e.g. statutory cash balances with the Bank of Botswana, which carries no interest. The balances included in the buckets are therefore exposed to both cash flow risk (to the extent that interest rates are floating) and fair value risk (to the extent that interest rates are fixed until reprised). This is in the manner consistent with information communicated to key management.

The table below summarises the group's exposure to interest rate risks. It includes the group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Group **As at 30 June, 2022**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Assets							
Cash and balances with central bank	58,578	-	-	-	-	-	58,578
Bank of Botswana certificates	224,853	-	-	-	-	-	224,853
Due from other banks	1,650,451	61,527	118,380	-	148,055	-	1,978,413
Loans and advances to customers	577,275	4,885	127,622	1,040,718	3,527,778	-	5,278,278
Other assets	-	-	-	-	-	53,634	53,634
	2,511,157	**66,412**	**246,002**	**1,040,718**	**3,675,833**	**53,634**	**7,593,756**

As at 30 June, 2022	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Liabilities							
Due to other banks	462	-	-	-	-	-	462
Debt securities in issue	-	-	-	-	298,387	-	298,387
Deposits from customers	2,610,909	1,479,150	2,190,294	220,664	-	-	6,501,017
Other liabilities	-	-	-	-	-	234,216	234,216
Other liabilities - Lease liabilities	-	-	12,988	52,762	-	-	65,750
Other borrowings	-	-	-	62,216	-	-	62,216
	2,611,371	**1,479,150**	**2,203,282**	**335,642**	**298,387**	**234,216**	**7,162,048**
Interest sensitivity gap	(100,214)	(1,412,738)	(1,957,280)	705,076	3,377,446	(180,582)	431,708
Cumulative interest sensitivity gap	(100,214)	(1,512,952)	(3,470,232)	(2,765,156)	612,290	431,708	
As at 30 June, 2021 **Summary**							
Interest sensitivity gap	443,755	(1,830,529)	(1,262,545)	255,631	2,894,245	(113,729)	386,828
Cumulative interest sensitivity gap	443,755	(1,386,774)	(2,649,319)	(2,393,688)	500,557	386,828	

Accounting Policies

1.25 Financial risk management (continued)

Company **As at 30 June, 2022**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Assets							
Cash and balances with central bank	7,926	-	-	-	-	-	7,926
Other assets	-	-	-	-	-	2,598	2,598

As at 30 June, 2022	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Liabilities							
Debt securities in issue	-	-	-	-	20,000	-	20,000
Other liabilities	-	-	-	-	-	466	466
	-	**-**	**-**	**-**	**20,000**	**466**	**20,466**
Interest sensitivity gap	7,926	-	-	-	(20,000)	2,132	(9,942)
Cumulative interest sensitivity gap	7,926	7,926	7,926	7,926	(12,074)	(9,942)	
As at 30 June, 2021							
Summary							
Interest sensitivity gap	7,879	-	-	-	-	1,245	9,124
Cumulative interest sensitivity gap	7,879	7,879	7,879	7,879	7,879	9,124	

Accounting Policies

1.25 Financial risk management (continued)

An interest sensitivity analysis shows how net interest income will perform under a variety of scenarios. The sensitivities below measure the effect of overall changes in interest rates on profit or loss (net interest income) as defined by the group's interest rate modelling tool. The extent of the shock (50, 100 or 200 basis points) is applied to all interest rates in the system and the effects of these shocks are detailed below:

As at 30 June, 2022	**2022**	**2021**
50 basis points increase	24,672	10,728
Increase in interest income	36,313	35,925
Increase in interest expenses	(11,641)	(25,197)
50 basis points decrease	(18,830)	(8,930)
decrease in interest income	(26,927)	(28,714)
decrease in interest expenses	8,097	19,784
100 basis points increase	47,751	19,179
Increase in interest income	72,746	71,906
Increase in interest expenses	(24,995)	(52,727)
100 basis points decrease	(38,679)	(18,629)
decrease in interest income	(53,803)	(57,384)
decrease in interest expenses	15,124	38,755
200 basis points increase	94,287	34,689
Increase in interest income	145,996	125,904
Increase in interest expenses	(51,709)	(91,215)
200 basis points decrease	(78,758)	(33,119)
decrease in interest income	(107,317)	(104,987)
decrease in interest expenses	28,559	71,868

Market risk capital charge

The following capital charges have been assigned to the components of market risk for the group, as defined in the ' Guidelines on the revised international convergence of capital measurement and capital standard for Botswana (Basel II)':

Foreign exchange risk	2,072	1,705

1.25.2.4 Price risk

The following fair valued financial instruments expose the bank to price risk: Bank of Botswana Certificates and investment in equity measured at fair value through profit or loss . The investment in equity are listed on the Namibian Stock Exchange and are included in ‘Financial assets at fair value through profit and loss on the statement of financial position. The bank generally does not undertake equity exposure. The exposure arose due to specific circumstances and are managed individually.

Bank of Botswana certificates	224,853	229,954	-	-
Investments in equity	5,339	4,173	211	210
	230,192	**234,127**	**211**	**210**

1.25 Financial risk management (continued)

The following price sensitivity is based on the effect of changes to the price over a twelve-month period on net income:

Bank of Botswana certificates				
100 basis points increase in price	2,200	2,300	-	-
100 basis points decrease in price	(2,200)	(2,300)	-	-
Investments in equity				
100 basis points increase in price	61	40	-	-
100 basis points decrease in price	(61)	(40)	-	-

1.25.3 Liquidity risk

Liquidity risk is the risk that the group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is inherent in the group's business endeavours and represents the ability of the bank to fund increases in assets and meet its financial obligations in a timely manner as they come due without incurring excessive costs, while complying with all statutory and regulatory requirements. The liquidity risk framework and Contingency Funding Plan (CFP) sets out the minimum liquidity risk management requirements for the bank, and explains the low-level internal control processes. Under the policy, the group is required to manage current and future liquidity positions in a prudent manner. This framework formalises the liquidity risk management process of the bank, the goal of which is to:

- maintain liquidity risk at a manageable level through assessment and monitoring;
- assess and advise against any permanent or temporary adverse changes to the liquidity position of the group;
- set and monitor limits for funding mix, investment products and client exposures;
- monitor all applicable financial and statutory ratios; and
- identify those liquidity triggers that may entail the activation of the contingency funding plan.

The framework sets out rules to effectively control liquidity risk within the risk-return parameters dictated by the board of directors' risk appetite. The bank also, from time to time, conducts external-assisted CFP testing to evaluate the effectiveness thereof, while also continuously enhancing the risk management processes.

The framework aims to protect depositors, creditors, shareholders and other stakeholders of the bank by establishing rules and directions for identifying and managing the resolution of possible serious liquidity problems.

Asset liquidity risk represents the availability of sufficient assets in liquid form to meet pressing obligations. In situations where liquid assets on hand could be utilised to earn a higher return instead of paying current obligations, the opportunity cost also plays a role (i.e. potential higher return less the cost of obtaining replacement liquidity). Liquidity management must attempt to match the most appropriate available liquidity to the most appropriate maturing liabilities.

Funding liquidity risk relates to an enterprise's capability to generate funding at short notice at reasonable expense to meet pressing liquidity requirements.

The group's liquidity management process is outlined in the liquidity policy which includes inter alia the bank's funding strategy. Procedures, as set out in this policy, includes:

- Daily monitoring of liquid assets;
- Proactive identification of liquidity requirements and maturing assets;
- Liquid asset minimum limit;
- Proactively identify short, medium and long-term liquidity requirements; and

Accounting Policies

1.25 Financial risk management (continued)

- Relationship management with other financial institutions.

In general the group does not engage in complex activities or structures and therefore it is considered unnecessary to employ sophisticated and expensive models when determining liquidity needs under various scenarios. A basic but thorough forward looking analysis is conducted in the day-to-day, as well as monthly analysis of liquidity positions, needs and risks. Limits and rules stipulated in the liquidity risk management policy and by ALCO form the basis for daily quotes on deposits to ensure that an optimal mix and concentrations are maintained.

As part of the group's strategy, the bank continuously focuses on diversifying its funding sources and reducing its reliance on large depositors, which is a common occurrence in the Southern African financial markets. That said, the bank utilises a broad range of deposit and funding products to attract all spheres of clients and has strong market share representation in all categories. Refer to note 25 for other borrowings obtained during the year and note 29 for the redemption and additions to debt securities.

The group must at all times hold an adequate liquid asset surplus which:

- includes a buffer portion;
- is additional to credit lines;
- is adequate to cater for unexpected outflows; and
- is simultaneously limiting the effect this surplus has on interest margins.

Liquidity risk analysis

The table below presents the cash flows payable by the group by remaining contractual maturities at the date of the group's statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, hence it does not reconcile to the values reflected on the statement of financial position:

Group

As at 30 June, 2022	Call to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial assets						
Cash and balances with central bank	58,578	-	-	-	-	58,578
Bank of Botswana certificates	224,853	-	-	-	-	224,853
Due from other banks	1,650,451	61,527	118,380	-	148,055	1,978,413
Loans and advances to customers	749,037	4,885	127,622	1,040,718	3,528,883	5,451,145
Investment in equity instruments	-	-	-	211	5,128	5,339
Other assets	53,634	-	-	-	-	53,634
	2,736,553	**66,412**	**246,002**	**1,040,929**	**3,682,066**	**7,771,962**

As at 30 June, 2022	Call to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Financial liabilities						
Due to other banks	462	-	-	-	-	462
Debt securities in issue	-	-	-	-	298,387	298,387
Deposits from customers	2,684,425	1,485,874	2,218,447	228,394	-	6,617,140
Other borrowings	-	-	-	62,216	-	62,216
Other liabilities	232,859	-	-	-	-	232,859
Other liabilities - Lease liabilities	-	-	12,988	52,762	-	65,750
	2,917,746	**1,485,874**	**2,231,435**	**343,372**	**298,387**	**7,276,814**

Accounting Policies

1.25 Financial risk management (continued)

As at 30 June, 2022	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Commitments						
Loan commitments	135,094	-	-	-	-	135,094
Liabilities under guarantee	287,873	-	-	-	-	287,873
	422,967	**-**	**-**	**-**	**-**	**422,967**
Total liabilities and commitments	3,340,713	1,485,874	2,231,435	343,372	298,387	7,699,781
Liquidity sensitivity gap	(604,160)	(1,419,462)	(1,985,433)	697,557	3,383,679	72,181
Cumulative liquidity sensitivity gap	(604,160)	(2,023,622)	(4,009,055)	(3,311,498)	72,181	

As at 30 June, 2021	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial assets						
Cash and balances with central bank	76,040	-	-	-	-	76,040
Bank of Botswana certificates	229,954	-	-	-	-	229,954
Due from other banks	1,470,314	-	-	-	-	1,470,314
Loans and advances to customers	574,188	7,599	55,296	968,612	3,385,342	4,991,037
Investment in equity instruments	-	-	-	4,173	-	4,173
Other assets	53,952	-	-	-	-	53,952
	2,404,448	**7,599**	**55,296**	**972,785**	**3,385,342**	**6,825,470**

As at 30 June, 2021	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial liabilities						
Due to other banks	171,034	-	-	-	-	171,034
Debt securities in issue	-	-	-	-	328,389	328,389
Deposits from customers	1,595,298	1,844,166	1,287,795	392,038	480,875	5,600,172
Other borrowings	-	-	-	40,973	-	40,973
Other liabilities	98,656	-	-	-	-	98,656
Other liabilities - Lease liabilities	-	-	10,833	58,192	-	69,025
	1,864,988	**1,844,166**	**1,298,628**	**491,203**	**809,264**	**6,308,249**

As at 30 June, 2021	**Cash and balances with central bank**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Commitments						
Loan commitments	86,292	-	-	-	-	86,292
Liabilities under guarantee	188,772	-	-	-	-	188,772
	275,064	**-**	**-**	**-**	**-**	**275,064**
Total liabilities and commitments	2,140,052	1,844,166	1,298,628	491,203	809,264	6,583,313
Liquidity sensitivity gap	264,396	(1,836,567)	(1,243,332)	481,582	2,576,078	242,157
Cumulative liquidity sensitivity gap	264,396	(1,572,171)	(2,815,503)	(2,333,921)	242,157	

Accounting Policies

1.25 Financial risk management (continued)

Company

As at 30 June, 2022	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial assets						
Cash and balances with central bank	7,926	-	-	-	-	7,926
Investment in equity instruments	-	-	-	211	-	211
Other assets	2,598	-	-	-	-	2,598
	10,524	**-**	**-**	**211**	**-**	**10,735**

As at 30 June, 2022	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial liabilities						
Debt securities in issue	-	-	-	-	20,000	20,000
Other liabilities	466	-	-	-	-	466

As at 30 June, 2022	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Commitments						
	-	-	-	-	-	-
Total liabilities and commitments	466	-	-	-	20,000	20,466
Liquidity sensitivity gap	10,058	-	-	211	(20,000)	(9,731)
Cumulative liquidity sensitivity gap	10,058	10,058	10,058	10,269	(9,731)	

As at 30 June, 2021	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial assets						
Cash and balances with central bank	7,879	-	-	-	-	7,879
Investment in equity instruments	-	-	-	210	-	210
Other assets	1,848	-	-	-	-	1,848
	9,727	**-**	**-**	**210**	**-**	**9,937**

As at 30 June, 2021	**Call to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Financial liabilities						
Other liabilities	603	-	-	-	-	603

As at 30 June, 2021	**Cash and balances with central bank**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Commitments						
	-	-	-	-	-	-
Total liabilities and commitments	603	-	-	-	-	603
Liquidity sensitivity gap	9,124	-	-	210	-	9,334

Accounting Policies

1.25 Financial risk management (continued)

Cumulative liquidity sensitivity gap	9,124	9,124	9,124	9,334	9,334

Accounting Policies

1.25 Financial risk management (continued)

1.25 Financial risk management (continued)

1.25.4 Fair values of financial assets and liabilities

Fair value estimation

The group is presumed to be a going concern and the fair value methodology is therefore appropriate. Fair value is the current price to purchase an asset or to transfer a liability. Such a transaction is characterised by an arm's length and orderly transaction in a free market (neither party is compelled to act), between hypothetical willing, able and well-informed market participants. In addition, the fair value methodology is utilised to accurately reflect the current market conditions and the appropriate market price of such a transaction on the reporting date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The active market should be characterised by sufficient supply and demand by market participants, supported by adequate frequency and volumes to accurately approximate the true market price of such a transaction on an ongoing basis. The quoted market price used for financial assets held by the bank is the price within the current bid-ask price, which is the most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. The valuation techniques include quoted market prices or dealer quotes for similar instruments in active and inactive markets, and discounted cashflow valuation techniques.

Cash and balances with the Central Bank - Due to its short-term nature, the carrying amount approximates the fair value of these financial assets.

Derivative financial instruments and financial assets designated at fair value through profit or loss - Bank of Botswana Certificates and other bonds guaranteed by Botswana governments are measured at fair value through profit or loss income based on the quoted market prices.

Due to and from other banks - Amounts due to and from other banks include inter-bank placements. The fair value of overnight deposits is their carrying amount.

Loans and advances to customers - The loans and advances to customers are recognised at amortised cost. The fair value is determined for disclosure purposes by discounting the future expected cash flows using observable market inputs, such as the prime rate, as appropriate. For short maturity loans and advances the carrying value approximates the fair value. Unobservable market inputs are developed using the best information available that market participants would use when pricing the loan. The credit risk will be approximated by the carrying values of defaulted and impaired accounts.

Deposits and borrowings - The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

Debt securities in issue - Financial instruments included in this category include senior debt, callable bonds and preference shares issued. The fair value of issued debt securities for disclosure purposes is estimated by discounting the future contractual cash flows at the available market interest rate. Quoted prices for similar instruments are utilised in the event that active prices are not available. The fair value of the issued preference shares approximates the carrying value, due to the floating rate nature of the instruments.

Other deposits - The carrying amount approximates the fair value of these financial liabilities.

Other assets and other liabilities - The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair value, due to the short-term nature of these assets and liabilities.

Financial instruments not recorded on the statement of financial position - The estimated fair values of the financial instruments not recorded on the statement of financial position are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

Accounting Policies

1.25 Financial risk management (continued)

Fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

		Group			Company	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
2022						
Assets						
Bank of Botswana certificates	224,853	-	-	-	-	-
Investment in equity instruments	5,339	-	-	211	-	-
Cash and balances with central bank	58,578	-	-	7,926	-	-
Due from other banks and other financial institutions	-	-	1,978,413	-	-	-
Loans and advances	-	-	5,278,278	-	-	-
Other assets	-	-	53,634	-	-	2,598
Liabilities						
Due to other banks	-	-	462	-	-	-
Deposits from customers	-	-	6,501,017	-	-	-
Other borrowings	-	-	62,216	-	-	-
Debt securities in issue	-	-	298,387	-	-	20,000
Other liabilities	-	-	232,859	-	-	466
Lease liabilities	-	-	65,750	-	-	-
2021						
Assets						
Bank of Botswana certificates	229,954	-	-	-	-	-
Investment in equity instruments	4,173	-	-	210	-	-
Cash and balances with central bank	76,040	-	-	7,879	-	-
Due from other banks and other financial institutions	-	-	1,470,314	-	-	-
Loans and advances	-	-	4,804,979	-	-	-
Other assets	-	-	53,952	-	-	1,848
Liabilities						
Due to other banks	-	-	171,034	-	-	-
Deposits from customers	-	-	5,540,336	-	-	-
Other borrowings	-	-	40,973	-	-	-
Debt securities in issue	-	-	328,389	-	-	-
Other liabilities	-	-	98,656	-	-	603
Lease liabilities	-	-	69,025	-	-	-

Sensitivity analysis

Accounting Policies

1.25 Financial risk management (continued)

The sensitivity analysis performed below are for financial instruments for which the fair value is disclosed.

The following is a sensitivity analysis showing the increase / (decrease) in the fair value of loans and advances had the following changes arisen on the significant inputs:

100 basis points increase in discount rate	(104,697)	(97,903)
100 basis points decrease in discount rate	113,775	106,775
100 basis points increase in earnings rate	16,519	16,574
100 basis points decrease in earnings rate	(15,613)	(17,394)
1 month increase in term to maturity	(2,631)	(1,817)
1 month decrease in term to maturity	3,343	2,126

Accounting Policies

1.25 Financial risk management (continued)

1.25.5 Classification of financial instruments

Financial assets and financial liabilities are measure either at fair value or amortised cost. The principal accounting policies on financial instruments, which starts from page 17 describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses are recognised.

The following table analysis the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore measured. The table below includes non-financial assets and liabilities to reconcile to the statement of financial position.

Group

30 June, 2022	**Designated at fair value through profit/loss**	**Amortised cost**	**Non-financial assets**	**Total**
Financial assets				
Cash and balances with central bank	-	58,578	-	58,578
Bank of Botswana certificates	224,853	-	-	224,853
Due from other banks	-	1,978,413	-	1,978,413
Loans and advances to customers	-	5,278,278	-	5,278,278
Investment in equity instruments	5,339	-	-	5,339
Other assets	-	53,634	142,862	196,496
	230,192	**7,368,903**	**142,862**	**7,741,957**

30 June, 2022	**Designated at fair value through profit/loss**	**Amortised cost**	**Non-financial liabilities**	**Total**
Financial liabilities				
Due to other banks	-	462	-	462
Debt securities in issue	-	298,387	-	298,387
Deposits from customers	-	6,501,017	-	6,501,017
Other borrowings	-	62,216	-	62,216
Other liabilities including tax	-	234,216	-	234,216
Other liabilities - Lease liabilities	-	65,750	-	65,750
	-	**7,162,048**	**-**	**7,162,048**

30 June, 2021	**Designated at fair value through profit/loss**	**Amortised cost**	**Non-financial assets**	**Total**
Financial assets				
Cash and balances with central bank	-	76,040	-	76,040
Bank of Botswana certificates	229,954	-	-	229,954
Due from other banks	-	1,470,314	-	1,470,314
Loans and advances to customers	-	4,804,979	-	4,804,979
Investment in equity instruments	4,173	-	-	4,173
Other assets	-	53,952	135,664	189,616

Accounting Policies

1.25 Financial risk management (continued)

	234,127	**6,405,285**	**135,664**	**6,775,076**

30 June, 2021	Designated at fair value through profit/loss	Amortised cost	Non-financial liabilities	Total
Financial liabilities				
Due to other banks	-	171,034	-	171,034
Debt securities in issue	-	328,389	-	328,389
Deposits from customers	-	5,540,336	-	5,540,336
Other borrowings	-	40,973	-	40,973
Other liabilities including tax	-	99,465	-	99,465
Other liabilities - Lease liabilities	-	69,025	-	69,025
	-	**6,249,222**	**-**	**6,249,222**
Credit commitments				
Guarantees	287,873	188,772	-	-
Loan commitments and other related liabilities	135,094	86,292	-	-
	422,967	**275,064**	**-**	**-**

Company

30 June, 2022	Designated at fair value through profit/loss	Amortised cost	Non-financial assets	Total
Financial assets				
Cash and balances with central bank	-	7,926	-	7,926
Investment in equity instruments	211	-	-	211
Other assets	-	2,598	-	2,598
	211	**10,524**	**-**	**10,735**

30 June, 2022	Designated at fair value through profit/loss	Amortised cost	Non-financial liabilities	Total
Financial liabilities				
Debt securities in issue	-	20,000	-	20,000
Other liabilities	-	466	-	466
	-	**20,466**	**-**	**20,466**

30 June, 2021	Designated at fair value through profit/loss	Amortised cost	Non-financial assets	Total
Financial assets				
Cash and balances with central bank	-	7,879	-	7,879
Investment in equity instruments	210	-	-	210

Accounting Policies

1.25 Financial risk management (continued)

Other assets	-	1,848	-	1,848
	210	**9,727**	**-**	**9,937**

30 June, 2021	Designated at fair value through profit/loss	Amortised cost	Non-financial liabilities	Total
Financial liabilities				
Other liabilities	-	603	644	1,247
Credit commitments				
Guarantees	-	-	-	-
Loan commitments and other related liabilities	-	-	-	-
	-	**-**	**-**	**-**

1.25.6 Capital management

The group’s objectives when managing capital, which is a broader concept than the ‘equity’ on statement of financial position, are to:

- comply with the capital requirements set by the regulators of the banking markets the entity operates;
- Safeguard the group’s ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and
- Maintain a strong capital base to support the development of its business.

Bank of Botswana requires each bank to hold the minimum level of the regulatory capital of P5 million, as well as to maintain the following capital adequacy ratios:

- Tier 1 and Tier 2 capital to risk weighted assets at a minimum of 12.5% (minimum was 15% before 1st April 2020), referred to as capital adequacy ratio.
- Tier 2 capital to Tier 1 capital limited at a ratio of 50% in the determination of capital adequacy.

The group's regulatory capital is divided into two tiers:

- Tier 1 capital: stated capital and distributable reserves;
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The group has adopted a standardised approach to BASEL II effective from 1st January 2016, with risk-weighted assets being measured at three different levels: operational risk, market risk and credit risk. The table below summarises the composition of regulatory capital and the ratios of the bank for the years ended 30 June 2022 and 2021. During those two years the bank complied with all of the externally imposed capital requirements to which it is subject to.

Accounting Policies

1.25 Financial risk management (continued)

Tier 1 Capital				
Stated capital			247,307	247,307
Retained earnings			254,344	225,447
Regulatory adjustments			(4,008)	(4,316)
IFRS 9 provision transitional adjustment			(19,970)	(19,970)
Transitional adjustment amount added back to CETI			-	4,992
Total qualified T1 capital			**477,673**	**453,460**
Tier 2 Capital				
Debt securities in issue			216,000	266,000
Unpublished profits			60,519	58,917
Prior year adjustments			-	6,426
Collective impairment allowance			65,429	48,680
Total qualified T2 capital			**341,948**	**380,023**
Total regulated capital			**819,621**	**833,483**
Risk weighted assets				
Operational risk			280,898	251,713
Credit risk			5,116,108	4,667,022
Market risk			13,879	11,425
On - Balance Sheet			5,410,885	4,930,16
Off - Balance Sheet			118,189	46,680
Total risk weighted assets			**5,529,074**	**4,976,840**
Risk weighted assets				
Operational risk	-	-	35,112	31,464
Credit risk	-	-	654,287	588,065
Market risk	-	-	1,735	1,428
Capital adequacy ratio	-	-	14.82 %	16.75 %
Tier 1 Capital adequacy ratio	-	-	8.64 %	8.84 %
Return on assets ratio	-	-	2.35 %	0.72 %
Return on equity ratio	-	-	2.54 %	9.85 %

Notes to the Consolidated And Separate Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

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

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

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

The group has adopted the amendment for the first time in the 2022 consolidated and separate annual financial statements.

The impact of the amendment is not material.

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

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

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

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

The group has adopted the amendment for the first time in the 2022 consolidated and separate annual financial statements.

The impact of the amendment is not material.

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

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

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

The group has adopted the amendment for the first time in the 2022 consolidated and separate annual financial statements.

The impact of the amendment is not material.

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

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

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

The group has adopted the amendment for the first time in the 2022 consolidated and separate annual financial statements.

The impact of the amendment is not material.

Notes to the Consolidated And Separate Annual Financial Statements

2. New Standards and Interpretations (continued)

Interest rate benchmark reform phase 2: Amendment to IFRS 16

The amendment enables an entity to apply a practical expedient to account for a lease modification required by the IBOR reform.

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

The group has adopted the amendment for the first time in the 2022 consolidated and separate annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group’s accounting periods beginning on or after July 1, 2022 or later periods:

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

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

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

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

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

The group expects to adopt the amendment for the first time in the 2024 consolidated and separate annual financial statements.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate annual financial statements.

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

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

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

The group expects to adopt the amendment for the first time in the 2023 consolidated and separate annual financial statements.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate annual financial statements.

Notes to the Consolidated And Separate Annual Financial Statements

2. New Standards and Interpretations (continued)

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

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

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

The group expects to adopt the amendment for the first time in the 2023 consolidated and separate annual financial statements.

It is unlikely that the amendment will have a material impact on the group's consolidated and separate annual financial statements.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

3. Net interest income

Interest and similar income				
Loans and advances	454,171	420,406	-	-
Cash and short-term funds	33,004	27,012	182	52
Bank of Botswana Certificates	8,533	5,330	-	-
	495,708	**452,748**	**182**	**52**
Interest and similar expenses				
Amortised cost				
Demand deposits	(12,053)	(12,857)	-	-
Term and notice deposits	(216,920)	(168,151)	-	-
Cheque deposits	(88)	85	-	-
Debt securities in issue	(14,961)	(16,014)	-	-
Savings deposits	(4,451)	(4,114)	-	-
Deposits from banks and financial institutions	(3,991)	(3,577)	-	-
	(252,464)	**(204,628)**	**-**	**-**
	243,244	**248,120**	**182**	**52**

4. Impairment charges on loans and advances

Increase in stage 3 impairment	29,319	41,043	-	-
Increase in stage 1 and 2 impairments	(6,437)	2,058	-	2,073
Impairment charge	22,882	43,101	-	2,073
Amounts previously written off recovered during the year	(1,798)	(4,469)	-	-
	21,084	**38,632**	**-**	**2,073**

5. Fee and commission income

Income from deposits	34,853	29,949	-	-
Income from loan and advances	3,960	1,994	-	-
Income from electronic channels	22,243	14,064	-	-
Commissions	1,135	488	-	-
	62,191	**46,495**	**-**	**-**

6. Net trading income

Net foreign exchange gains and losses from trading assets	31,657	21,057	-	-

7. Other operating income

Other operating income includes:				
Dividend income	2,477	-	6,239	-
Commission income	1,723	5,364	804	804
Others	94	717	94	-
	4,294	**6,081**	**7,137**	**804**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

8. Fee and commission expense

Commission and profit share expense	11,471	2,260	-	-

9. Operating expenses

Expenses by nature				
Advertising and marketing	2,812	2,620	-	-
Amortisation charge of intangible assets	1,764	4,968	-	-
Auditors remuneration				
- Audit fees	1,795	1,919	(263)	146
- Fees for other services	112	165	-	-
Cash Conveyance Costs	2,648	2,362	-	-
Courier and postage charges	1,016	890	-	-
Depreciation and impairment of property, plant and equipment	11,301	10,002	-	-
Depreciation of Right-of-use assets	13,554	13,047	-	-
Directors emoluments				
- Non-executive directors	3,484	2,800	353	342
Legal fees	866	434	-	-
Insurance	1,904	2,005	-	-
Losses, penalties and fines	430	827	-	-
Office expenses	3,274	3,398	5	-
Short term leases	1,298	1,972	-	-
Finance Charges - Right of use asset	5,632	5,916	-	-
Other expenses	3,563	3,852	-	-
Professional services	1,324	937	11	19
Repairs and maintenance	1,620	1,608	-	-
Staff costs	118,594	104,845	-	-
Motor vehicle expenses	309	-	-	-
Fair value loss on investment	-	1,210	-	-
Stationery and printing	2,970	2,058	-	-
Security	3,029	2,314	-	-
Subscription fees	2,841	3,452	-	-
Technology costs	27,296	26,592	1	5
Telephone and fax	3,722	3,095	-	-
Visa transactional fees	8,266	4,325	-	-
Travel and entertainment	4,173	1,606	-	-
Water, electricity and rates and taxes	2,471	2,127	-	-
	232,068	**211,346**	**107**	**512**

10. Staff costs

Wages and salaries	105,854	95,255	-	-
Share-based payment expense	2,400	1,210	-	-
Staff training	2,072	1,338	-	-
Short term benefit 2	798	-	-	-
Pension costs - defined contribution plan	7,470	7,042	-	-
	118,594	**104,845**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

11. Taxation

Major components of the tax expense

Current				
Local income tax - current period	21,472	19,434	214	-
Current year - WHT on dividends received	643	656	565	-
	22,115	**20,090**	**779**	**-**
Deferred				
Current year	(2,974)	(467)	-	-
Other deferred tax	(2,025)	-	-	-
	(4,999)	**(467)**	**-**	**-**
	17,116	**19,623**	**779**	**-**

Reconciliation of accounting profit and tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	76,763	69,500	7,212	344
Tax at the applicable tax rate of 22% (2021: 22%)	16,888	15,290	1,587	76
Tax effect of adjustments on taxable income				
Income not subject to tax	(794)	(8,379)	-	-
Tax effect of deductible expenses	144	11,749	-	-
WHT on dividends received	643	656	565	-
(Over)/under provision	235	307	(1,373)	(76)
	17,116	**19,623**	**779**	**-**
Effective tax rate	**22.30 %**	**28.23 %**	**10.80 %**	**- %**

12. Cash and balances with the Central Bank

Cash and bank balances	58,078	64,549	7,926	7,879
Mandatory reserve deposits with the Central Bank included in cash and cash equivalents	500	11,491	-	-
	58,578	**76,040**	**7,926**	**7,879**
Split between non-current and current portions				
Current assets	58,578	76,040	7,926	7,879
Non-current assets	-	-	-	-
	58,578	**76,040**	**7,926**	**7,879**

Mandatory reserve deposits are not available for use in the bank's day-to-day operations. Cash and bank balances as well as balances with the Central Bank and mandatory reserve deposits are non-interest-bearing.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

13. Financial assets designated at fair value through profit or loss

Designated at fair value through profit or loss:				
Bank of Botswana Certificates	224,853	229,954	-	-
Investment in equity instruments	5,339	4,173	211	210
	230,192	**233,916**	**211**	**233,916**

Split between non-current and current portions

Current assets	224,853	229,954	-	-
Non-current assets	5,339	4,173	211	210
	230,192	**234,127**	**211**	**210**

The above financial assets are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy.

Bank of Botswana Certificates at fair value through profit or loss are presented within 'Cash and cash equivalents' for the purpose of statement of cash flows (note 34).

Changes in fair values of Bank of Botswana Certificates and investment in equity instrument are recorded in ‘Other operating income in the income statement (note 7).

The fair value of Bank of Botswana Certificates is based on their current bid prices in an active market.

Bank of Botswana Certificates are securities issued by Bank of Botswana for terms between two weeks and three months. These securities are carried at fair value.

14. Due from other banks and other financial institutions

Placement with other banks and financial institutions	1,978,413	1,470,314	-	-

Split between non-current and current portions

Current assets	1,978,413	1,470,314	-	-
Non-current assets	-	-	-	-
	1,978,413	**1,470,314**	**-**	**-**

Placement with other banks are included in cash and cash equivalents for the purpose of cash flow statement.

Notes to the Consolidated And Separate Annual Financial Statements

Figures in Pula Thousands	Group 2022	Group 2021	Company 2022	Company 2021
15. Loans and advances to customers				
Overdrafts	664,687	544,992	-	-
Commercial loans	2,169,651	1,827,128	-	-
Mortgage loans	1,794,073	1,917,869	-	-
Residential mortgage	831,736	843,024	-	-
Commercial mortgage	962,337	1,074,845	-	-
Article finance	360,054	338,172	-	-
Individual loans	462,680	362,876	-	-
Gross loans and advances	5,451,145	4,991,037	-	-
Effective interest rate impact	(16,422)	(18,533)	-	-
Gross loans and advances after effective interest rate	5,434,723	4,972,504	-	-
Less: Impairments				
Stage 1 impairments	(49,451)	(50,427)	-	-
Stage 2 impairments	(9,168)	(15,315)	-	-
Stage 3 impairments	(97,826)	(101,783)	-	-
Net loans and advances after effective interest rate	**5,278,278**	**4,804,979**	**-**	**-**
Value of loans and advances				
Gross loans and advances	5,451,145	4,991,037	-	-
Effective interest rate impact	(16,422)	(18,533)	-	-
	5,434,723	**4,972,504**	**-**	**-**
Value of impairments				
Gross Impairments	(156,445)	(167,525)	-	-
Loans and advances	5,278,278	4,804,979	-	-

The average effective interest rate for the portfolio is 7.20% p.a (2021: 7.20% p.a).

15. Loans and advances to customers (continued)

Movement in impairment on loans and advances to customers is as follows for the group:

30 June, 2022	**Overdrafts P'000**	**Term loans P'000**	**Mortgages P'000**	**Instalment finance P'000**	**Total**
Balance at 1 July 2021	21,251	88,477	38,670	19,117	167,515
Stage 1	7,888	28,216	4,383	9,942	50,429
Stage 2	3,282	9,628	1,092	1,301	15,303
Stage 3	10,081	50,633	33,195	7,874	101,783
Loan impairment - charge for the period	1,244	11,837	6,038	3,773	22,892
Amounts written off during the period as uncollectible	-	(28,610)	(2,954)	(2,398)	(33,962)
Balance at the end of the year	**22,495**	**71,704**	**41,754**	**20,492**	**156,445**
Stage 1	**7,355**	**28,486**	**5,237**	**9,513**	**50,591**
Stage 2	**2,014**	**4,147**	**1,093**	**772**	**8,026**
Stage 3	**13,126**	**39,071**	**35,424**	**10,207**	**97,828**

30 June, 2021	**Overdrafts P'000**	**Term loans P'000**	**Mortgages P'000**	**Instalment finance P'000**	**Total**
Balance at 1 July 2020	11,014	122,009	29,081	17,524	179,628
Stage 1	10,891	34,305	2,526	10,354	58,076
Stage 2	631	4,518	1	434	5,584
Stage 3	(508)	83,186	26,554	6,736	115,968
Loan impairment - charge for the period and other movements	11,223	12,887	13,697	5,309	43,116
Amounts written off during the period as uncollectible	(986)	(46,419)	(4,108)	(3,716)	(55,229)
Balance at the end of the year	**21,251**	**88,477**	**38,670**	**19,117**	**167,515**
Stage 1	**7,888**	**28,216**	**4,383**	**9,942**	**50,429**
Stage 2	**3,282**	**9,628**	**1,092**	**1,301**	**15,303**
Stage 3	**10,081**	**50,633**	**33,195**	**7,874**	**101,783**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

15. Loans and advances to customers (continued)

Movement in impairment for the group is as follows:

Balance at the beginning of the year	167,525	179,628	-	-
Stage 1	50,427	58,076	-	-
Stage 2	15,315	5,584	-	-
Stage 3	101,783	115,968	-	-
Provision/(Recovery) for loan impairment	22,882	43,126	-	-
Stage 3 impairment	29,319	41,043	-	-
Stage 1 and 2 impairment	(6,437)	2,083	-	-
Amounts written-off during the year as uncollectible	(33,962)	(55,229)	-	-
Balance at the end of the year	**156,445**	**167,525**	**-**	**-**
Stage 1	(49,451)	(50,427)	-	-
Stage 2	(9,168)	(15,315)	-	-
Stage 3	(97,826)	(101,783)	-	-

Maturity analysis of loans and advances to customers for the group were as follows:

	2022		2021	
	Amount	**%**	**Amount**	**%**
Repayable within 1 month	748,472	13.73 %	597,483	11.97 %
Repayable after 1 month but within 3 months	4,885	0.09 %	7,598	0.15 %
Repayable after 3 month but within 6 months	6,860	0.13 %	17,626	0.35 %
Repayable after 6 month but within 12 months	120,762	2.20 %	37,670	0.76 %
Repayable after 12 months	4,570,166	83.84 %	4,330,660	86.77 %
	5,451,145	**99.99 %**	**4,991,037**	**100.00 %**

The loans and advances to customers include article finance receivables which may be analysed as follows:

Repayable within 1 year	26,667	27,204	-	-
Repayable after 1 year but within 5 years	306,687	286,458	-	-
Repayable after 5 years	25,052	24,510	-	-
Net investment in instalment finances	**358,406**	**338,172**	**-**	**-**
Gross finance lease investment at statement of financial position date	403,275	375,459	-	-
Less : Future unearned finance income	(44,669)	(37,287)	-	-
Present value of minimum lease payments receivable	**358,606**	**338,172**	**-**	**-**

The group has not pledged any advances to third party.

Under the terms of lease agreements, no contingent rentals are payable. These agreement relate to motor vehicle and equipment.

Notes to the Consolidated And Separate Annual Financial Statements

		Group		Company	
Figures in Pula Thousands		2022	2021	2022	2021

15. Loans and advances to customers (continued)

Split between non-current and current portions

Current assets	5,278,278	4,804,979	-	-
Non-current assets	-	-	-	-
	5,278,278	**4,804,979**	**-**	**-**

16. Other assets

Accounts receivable and prepayments		14,251	13,405	1,336	1,281
Clearing accounts		39,383	40,547	-	-
Inter group company receivables	27	-	-	1,262	567
		53,634	**53,952**	**2,598**	**1,848**

Split between non-current and current portions				
Current assets	53,634	53,952	2,598	1,848
Non-current assets*	-	-	-	-
	53,634	**53,952**	**2,598**	**1,848**

*Non-current assets relate to prepayments that will be absorbed by the bank later than 12 months.

Related party balances are short term in nature and the carrying amounts are deemed to closely approximate their fair value.

17. Investment in subsidiaries

Company

Name of company	Business	Carrying amount 2022	Carrying amount 2021
Bank Gaborone Limited	Banking services	234,343	234,343
CIH Insurance Brokers (Pty) Ltd	Insurance brokerage	6,400	6,400
Capricorn Asset Management (Pty) Ltd	Asset management	2,000	2,000
Peo Finance Proprietary Limited		20,000	-
		262,743	242,743

The carrying amounts of subsidiaries are shown net of impairment losses, if any.

Notes to the Consolidated And Separate Annual Financial Statements

18. Intangible assets

Group	2022			2021		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Intangible asset in development	7,344	-	7,344	2,406	-	2,406
Computer software	42,342	(33,973)	8,369	37,770	(32,210)	5,560
Total	**49,686**	**(33,973)**	**15,713**	**40,176**	**(32,210)**	**7,966**

Reconciliation of intangible assets - Group - 2022

	Opening balance	Additions	Amortisation	Total
Intangible asset in development	2,406	4,938	-	7,344
Computer software	5,560	4,383	(1,574)	8,369
	7,966	**9,321**	**(1,574)**	**15,713**

Reconciliation of intangible assets - Group - 2021

	Opening balance	Additions	Amortisation	Total
Intangible asset in development	667	1,739	-	2,406
Computer software	6,293	4,325	(5,058)	5,560
	6,960	**6,064**	**(5,058)**	**7,966**

Other information

Computer software, includes acquisition and development costs associated with the group and shared by the Bank.

All intangible assets are classified as non-current assets. No assets were encumbered at 30 June 2022 nor 30 June 2021.

19. Property, plant and equipment

Group	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Right-of-use assets	96,045	(41,328)	54,717	88,824	(27,563)	61,261
Plant and machinery	3,375	(2,685)	690	3,121	(2,399)	722
Furniture and fixtures	69,747	(41,257)	28,490	66,856	(34,539)	32,317
Motor vehicles	3,128	(2,046)	1,082	2,705	(1,735)	970
IT equipment	37,365	(27,839)	9,526	31,434	(24,250)	7,184
Capital - Work in progress	7,171	-	7,171	4,883	-	4,883
Total	**216,831**	**(115,155)**	**101,676**	**197,823**	**(90,486)**	**107,337**

Notes to the Consolidated And Separate Annual Financial Statements

19. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2022

	Right-of-use assets	Plant	Furniture and fixtures	Motor vehicles	Computer equipment	Capital work in progress	Total
Opening balance							
Cost	88,824	3,121	66,856	2,705	31,434	4,883	197,823
Accumulated depreciation and impairment	(27,563)	(2,399)	(34,539)	(1,735)	(24,250)	-	(90,486)
Net book value at July 1, 2021	**61,261**	**722**	**32,317**	**970**	**7,184**	**4,883**	**107,337**
Additions	6,829	-	3,207	423	1,254	7,496	19,209
Disposals and scrappings - cost	-	-	(359)	-	(52)	-	(411)
Disposals and scrappings - accumulated depreciation and impairment	-	-	348	-	48	-	396
Transfers	-	254	-	-	4,954	(5,208)	-
Depreciation	(13,373)	(286)	(7,023)	(311)	(3,862)	-	(24,855)
Net book value at June 30, 2022	**54,717**	**690**	**28,490**	**1,082**	**9,526**	**7,171**	**101,676**
Made up as follows:							
Cost	96,045	3,375	69,747	3,128	37,365	7,171	216,831
Accumulated depreciation and impairment	(41,328)	(2,685)	(41,257)	(2,046)	(27,839)	-	(115,155)
	54,717	**690**	**28,490**	**1,082**	**9,526**	**7,171**	**101,676**

Reconciliation of property, plant and equipment - Group - 2021

	Right-of-use assets	Plant	Furniture and fixtures	Motor vehicles	Computer equipment	Capital work in progress	Total
Opening balance							
Cost	81,496	3,022	62,434	2,705	30,421	5,044	185,122
Accumulated depreciation and impairment	(14,712)	(2,279)	(29,858)	(1,405)	(21,371)	-	(69,625)
Net book value at July 1, 2020	**66,784**	**743**	**32,576**	**1,300**	**9,050**	**5,044**	**115,497**
Additions	8,556	198	6,021	-	1,181	-	15,956
Disposals and scrappings - cost	(1,228)	(99)	(1,664)	-	(175)	-	(3,166)
Disposals and scrappings - accumulated depreciation and impairment	196	99	1,629	-	175	-	2,099
Transfers	-	-	161	-	-	(161)	-
Depreciation	(13,047)	(219)	(6,406)	(330)	(3,047)	-	(23,049)
Net book value at June 30, 2021	**61,261**	**722**	**32,317**	**970**	**7,184**	**4,883**	**107,337**
Made up as follows:							
Cost	88,824	3,121	66,856	2,705	31,434	4,883	197,823
Accumulated depreciation and impairment	(27,563)	(2,399)	(34,539)	(1,735)	(24,250)	-	(90,486)
	61,261	**722**	**32,317**	**970**	**7,184**	**4,883**	**107,337**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

20. Deferred tax

Deferred tax asset/(liability)

On accelerated tax depreciation and amortisation payable more than 12 months	(1,480)	(1,480)	-	-
On other temporary differences and bonus recoverable within 12 months	4,792	1,816	-	-
On tax losses available for set off against future income	2,026	-	-	-
Total deferred tax asset/(liability)	**5,338**	**336**	**-**	**-**

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

Deferred tax liability	(1,480)	(1,480)	-	-
Deferred tax asset	6,818	1,816	-	-
Total net deferred tax asset/(liability)	**5,338**	**336**	**-**	**-**

Reconciliation of deferred tax asset / (liability)

At beginning of year	336	(131)	-	-
Increases in tax loss available for set off against future taxable income	2,026	226	-	-
Increases (decrease) in valuation allowance of deferred tax asset	-	172	-	-
Taxable / (deductible) temporary difference movement on tangible fixed assets	826	69	-	-
Taxable / (deductible) temporary difference on bonus	1,111	-	-	-
Taxable / (deductible) temporary difference on right of use assets	1,303	-	-	-
Other	(265)	-	-	-
	5,337	**336**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

21. Goodwill

Movement during the period	**2022**	**2021**
Opening balance	20,025	20,025
Arising from shares purchased	-	-
Impairments	-	-
Net book value	**20,025**	**20,025**

The group annually tests whether goodwill has sufferred any impairment , in accordance with its accounting policy on goodwill. The recoverable amounts of cash generating units have been determined by the directoes based on the forecasted post-tax free cash flows of each cash-generating unit. These calculations require use of estimates, the most significant of which are:

- Loan book growth rate of 5% p.a.
- Cost/income ratio of 45%
- Beta of 1
- Discount rate of 10.6% p.a.

As at the financial year end, the group assessed the recoverable amount of goodwill, based on the discounted cash flows of estimated future earnings and determined that the goodwill was not impaired.

22. Due to other banks

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Borrowings from other banks	462	171,034	-	-

Due to other banks are unsecured with no fixed repayment terms and bears interest at market related interest rates.

Split between non-current and current portions				
Current liabilities	462	171,034	-	-
Non current liabilities	-	-	-	-
	462	**171,034**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

23. Deposits from customers

Current accounts	722,571	631,119	-	-
Savings accounts	194,353	178,006	-	-
Fixed deposits	4,662,513	3,800,880	-	-
Demand deposits	884,008	885,583	-	-
Notice deposits	37,572	44,748	-	-
	6,501,017	**5,540,336**	**-**	**-**

Maturity analysis within the customer current, savings and deposit account portfolio for the group were as follows:

	2022		**2021**	
	Amount	**%**	**Amount**	**%**
Withdrawable on demand	1,787,237	27.49 %	1,709,983	30.86 %
Maturing within 1 month	396,526	6.10 %	279,362	5.04 %
Maturing after 1 month but within 6 months	2,135,513	32.85 %	1,899,581	34.29 %
Maturing after 6 month but within 12 months	1,919,645	29.53 %	1,383,348	24.97 %
Maturing after 12 months	262,096	4.03 %	268,062	4.84 %
	6,501,017	**100.00 %**	**5,540,336**	**100.00 %**

Split between non-current and current portions

Current liabilities	6,501,017	5,540,336	-	-

24. Other Borrowings

Bank One	62,216	40,973	-	-

Other borrowings consist of USD 5,000,000 facility from Bank One Limited. The loan is payable over two years (8 installments), with quarterly interest repayments. Interest on the facility is charged at 3 months LIBOR plus 310 basis points.

The movement for the year is as follows:

Opening	40,973	59,031	-	-
Proceeds	62,189	-	-	-
Interest accrued	27	-	-	-
Repayments	(40,973)	(18,058)	-	-
	62,216	**40,973**	**-**	**-**

Split between non-current and current portions

Current liabilities	62,216	40,973	-	-
Non-current liabilities	-	-	-	-
	62,216	**40,973**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

		Group		Company	
Figures in Pula Thousands		2022	2021	2022	2021

25. Other liabilities

	Note	2022	2021	2022	2021
Accounts payable and other accruals	26	55,476	37,994	372	603
Inter-group balances	27	117,079	958	94	-
Lease liability	17&28	65,750	69,025	-	-
Clearing, settlement and internal accounts		60,304	59,704	-	-
		298,609	**167,681**	**466**	**603**
Split between non-current and current portions					
Current liabilities		298,609	167,681	466	603
Non-current liabilities		-	-	-	-
		298,609	**167,681**	**466**	**603**

26. Accounts payable and other accruals

	2022	2021	2022	2021
Trade payables	19,475	12,085	(45)	10
Bonus and 13th cheque accrual	12,370	10,182	-	-
Leave accrual	-	4,134	-	-
Unclaimed funds	6,764	6,636	-	-
Long term benefits	4,480	3,080	-	-
Accruals	12,387	1,877	417	593
	55,476	**37,994**	**372**	**603**
Split between non-current and current portions				
Current liabilities	55,476	37,994	372	603
Non-current liabilities	-	-	-	-
	55,476	**37,994**	**372**	**603**

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

27. Related party receivables/(payables)

Bank Gaborone Limited	-	-	1,089	386
Bank Windhoek Limited	-	(958)	-	-
Peo Micro (Proprietary) Limited	-	-	173	181
Capricorn Investment Group Limited	(117,079)	-	(94)	-

Related party (payables)	(117,079)	(958)	(94)	-
Related party receivables	-	-	1,262	567
	(117,079)	**(958)**	**1,168**	**567**

The short-term advances to/from related parties are provided during the normal course of business and do not carry any specific terms. These balances are repayable on demand, not secured and do not carry any interest.

Split between non-current and current portions

Current liabilities	(117,079)	(958)	1,168	567
Non-current liabilities	-	-	-	-
	(117,079)	**(958)**	**1,168**	**567**

28. Lease liability

The group predominantly leases buildings to run its operations. The average lease term is 3 years (2021: 3 years).

There are no variable payments mentioned in the lease which are subject to an index and the bank has considered rental escalations and other factors to calculate the lease liability under IFRS 16.

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

Buildings	54,717	61,261	-	-

Additions to right-of-use assets

Buildings	6,829	8,556	-	-

Depreciation recognised on right-of-use assets

Buildings	13,554	13,047	-	-

Other disclosures

Interest expense on lease liabilities	5,632	5,916	-	-
Expenses on short term leases included in operating expenses	1,298	1,972	-	-
Total cash outflow from leases	17,353	15,961	-	-

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

28. Lease liability (continued)

Lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	17,715	15,074	-	-
Two to five years	62,710	63,345	-	-
More than five years	-	18,322	-	-
	80,425	96,741	-	-
Less finance charges component	(14,675)	(27,716)	-	-
Total undiscounted lease liabilities	**65,750**	**69,025**	**-**	**-**
Non-current liabilities	52,762	58,192	-	-
Current liabilities	12,988	10,833	-	-
	65,750	**69,025**	**-**	**-**

Interest rate sensitivities

The following interest rate sensitivity is based on the effect of changes to the discount rate / incremental borrowing rate over a twelve-month period on the interest expense on lease liabilities.

100 basis points increase				
- Increase in interest expense on lease liabilities	46	61	-	-
100 basis points decrease				
- Decrease in interest expense on lease liabilities	(46)	(61)	-	-

29. Debt securities in issue

Held at amortised cost				
Preference shares	20,000	-	20,000	-
Five-year callable bonds	-	50,000	-	-
Debentures	12,387	12,389	-	-
Redeemable preference shares	200,000	200,000	-	-
Floating rate notes	66,000	66,000	-	-
	298,387	**328,389**	**20,000**	**-**
Opening	328,389	316,000	-	-
Issue	20,000	12,389	20,000	-
Redemption	(50,002)	-	-	-
	298,387	**328,389**	**20,000**	**-**

Split between non-current and current portions

Non-current liabilities	298,387	328,389	20,000	-

Five-year callable bonds				
African Alliance Botswana Management Company (Pty) Ltd	39,200	39,200	-	-
BIFM Limited	9,400	9,400	-	-

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021
29. Debt securities in issue (continued)				
Investec Asset Management Botswana (Pty) Ltd	1,200	1,200	-	-
Morula Capital Partners (Pty) Limited	200	200	-	-
	50,000	**50,000**	**-**	**-**
Senior, Unsecured, Non-Convertible and Non-Transferable debentures				
Kgori Capital (Proprietary) Limited	12,387	12,389	-	-
Preference shares (floating rate note)				
Capricorn Group Limited	200,000	200,000	-	-
Subordinated Unsecured Floating Rate Notes				
Hollard Life Insurance	10,000	10,000	-	-
African Alliance Botswana Management Company (Pty) Ltd	31,000	31,000	-	-
Kgori Capital (Proprietary) Limited	25,000	25,000	-	-
	66,000	**66,000**	**-**	**-**

The debt security of P50 000 000 issued bears interest at Bank of Botswana rate plus 1.6% per annum for the first five years, if the bank opts to renew, the interest rate will be stepped up by a margin of 2.1% above the interest rate applicable rate aforementioned, and matures on 31 October 2021. Interest is paid quarterly in arrears. The debt is guaranteed by Capricorn Investment Holdings Limited. As at the end of June 2017, Flemming (Proprietary) Limited held P27,200,000 while African Alliance held P22,800,000 of the bond nominal value.

On 24 June 2020, 1,000 cumulative, redeemable variable rate preference shares with no par value with a total premium of P50,000 per share and a total subscription value of P50,000,000.00, were allotted and issued by the bank with a floating rate based on the Bank of Botswana rate plus (+) 140 bps, nominal annual compounded quarterly rate. The maturity date of the floating rate preference shares is 23 June 2030.

On 16 September 2019, 1,000 cumulative, redeemable variable rate preference shares with no par value with a total premium of P50,000 per share and a total subscription value of P50,000,000.00, were allotted and issued by the bank with a floating rate based on the Bank of Botswana rate plus (+) 160 bps, nominal annual compounded quarterly rate. The maturity date of the floating rate preference shares is 15 September 2029.

On 26 October 2019, 2,000 cumulative, redeemable variable rate preference shares with no par value with a total premium of P50,000 per share and a total subscription value of P100,000,000.00, were allotted and issued by the bank with a floating rate based on the Bank of Botswana rate plus (+) 140 bps, nominal annual compounded quarterly rate. The maturity date of the floating rate preference shares is 25 October 2029.

On the 30th June 2017, the bank issued an unsecured floating rate note at face value of P25,000,000 to Kgori Capital (Pty) Ltd with an interest at Bank of Botswana Bank rate plus 2.25% per annum. The maturity date of this note is on 30th June 2027.

On the 30th June 2018, the bank issued an unsecured floating rate note at face value of P31,000,000 to African Alliance Botswana Management Company (Pty) Ltd with an interest at Bank of Botswana Bank rate plus 2.5% per annum. On the same date the bank issued unsecured floating rate note at face value of P10,000,000 to Hollard Life Insurance with an interest at Bank of Botswana Bank rate plus 2.5% per annum. The maturity date of this note is on 30th June 2028.

On the 24th July 2020, the bank issued 1,206 debentures at par value of P10,000.00 to Kgori Capital (Pty) Ltd with an interest of 6.35% Nominal Annual Compounded Semi Annually (NACs). The maturity date of the senior, unsecured, non convertible and non-transferable debentures is 24th July 2025.

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

30. Post-employment benefits

Medical aid scheme

The bank has no liability in respect of post-retirement medical aid contributions.

Pension schemes

All Botswana citizens full-time permanent employees are members of the Alexander Forbes Retirement Fund, a defined contribution plan, which is governed and registered in Botswana in accordance with the requirements of the Retirement Funds Act.

The bank currently contributes 12% of basic salary to the fund whilst the members contribute 7%. The bank has no further obligation towards the pension plan other than the monthly contributions, should there be inadequate assets to settle its pension liabilities to its members.

31. Stated capital and premium

Authorised				
223,590,956 ordinary shares of no par value	234,771	234,771	234,771	234,771
Reconciliation of number of shares issued:				
Reported as at July 1, 2021	233,750	233,750	233,750	233,750
Issue of shares – ordinary shares	-	-	-	-
	233,750	**233,750**	**233,750**	**233,750**
Issued				
Ordinary and share premium	247,307	247,307	247,307	247,307

Stated capital at year end comprise of 223,586,956 Ordinary Shares with Stated Value of P233,750,000 (2021: P233,750,000) ordinary shares. All issued shares are fully paid up.

32. Contingent assets, liabilities and commitments

Capital commitments:

Authorized but not contracted for:				
Property, plant and equipment	29,776	20,483	-	-
Intangible assets	18,544	73,281	-	-
	48,320	**93,764**	**-**	**-**
Letters of credit	135,094	86,292	-	-
Liabilities under guarantees	287,873	188,772	-	-
	422,967	**275,064**	**-**	**-**

Notes to the Consolidated And Separate Annual Financial Statements

Figures in Pula Thousands		Group 2022	Group 2021	Company 2022	Company 2021

33. Tax (paid) refunded

	Group 2022	Group 2021	Company 2022	Company 2021
Balance at beginning of the year	(809)	490	-	-
Current tax for the year recognised in profit or loss	(17,116)	(19,623)	(779)	-
Tax paid - relating to previous year	-	31	-	-
Balance at end of the year	1,247	809	190	-
Net tax paid during the period	**(16,678)**	**(18,293)**	**(589)**	**-**

34. Cash and cash equivalents

	Note	Group 2022	Group 2021	Company 2022	Company 2021
Cash and balances with Central Banks	12	58,578	76,040	7,926	7,879
Treasury bills and government stocks with a maturity of less than 90 days	13	224,853	229,954	-	-
Due from other banks and other financial institutions*	14	1,650,538	1,212,120	-	-
Due to other banks	22	(462)	(171,034)	-	-
		1,933,507	**1,347,080**	**7,926**	**7,879**

*Refer note 38.

35. Share Appreciation Rights (SARs) and Conditional Share Plan (CSP)

Share Appreciation Rights (SAR)

The holding company, Capricorn Group Limited offers group share appreciation rights (SAR) to executive directors and employees of the bank.

Details of the number of SAR outstanding are as follows:

As at 30 June, 2022	**Opening balance**	**Granted**	**Vested**	**Exchange/Revaluation**	**Forfeitures**	**Closing balance**
Employer company: Bank Gaborone Limited						
Number of shares	128	-	(62)	-	-	66

As at 30 June, 2021	**Opening balance**	**Granted**	**Vested**	**Exchange/Revaluation**	**Forfeitures**	**Closing balance**
Employer company: Bank Gaborone Limited						
Number of shares	169	-	(41)	-	-	128

SARs issued in September 2018 vested in September 2021 and were exercised during the current financial year. SARs have a vesting period of three years from grant date and mature five years after grant date.

The fair value of SAR granted during the year was determined by using the American Call Option valuation model. The significant inputs into the model are summarised in the table below. Refer to note 10 for the total expense recognised in profit or loss for SARs granted to executive directors and employees.

	As at 30 June, 2022		**As at 30 June, 2021**	
	N$	**BWP**	**N$**	**BWP**
Fair value of SAR at grant date (N$)	4.01	3.14	3.28	2.41
Spot price (N$)	13.30	9.57	13.00	9.57
Strike price (N$)	12.86	9.57	13.00	9.57
Risk-free rate	8.70 %	8.70 %	6.80 %	6.80 %
Dividend yield	4.00 %	4.00 %	3.80 %	3.80 %
Volatility	33.00 %	33.00 %	30.00 %	30.00 %
Exercise multiple	2	2	2	2
Membership attrition	5.00 %	5.00 %	5.00 %	5.00 %

35. Share Appreciation Rights (SARs) and Conditional Share Plan (CSP) (continued)

Conditional Share Plan (CSP)

As at 30 June, 2022	**Opening balance**	**Granted**	**Vested**	**Exchange/Revaluation**	**Forfeitures**	**Closing balance**
Employer company: Bank Gaborone Limited						
Number of shares	403	252	(99)	-	(42)	514

As at 30 June, 2021	**Opening balance**	**Granted**	**Vested**	**Exchange/Revaluation**	**Forfeitures**	**Closing balance**
Employer company: Bank Gaborone Limited						
Number of shares	286	199	(67)	-	(15)	403

CSPs issued in September 2018 vested in September 2021. CSPs have a vesting period of three years from grant date.

The fair value of shares granted during the year was determined with reference to the Capricorn Group Limited listed share price at year-end of N$13.00 (2021: N$13) and taking into account a membership attrition of 5% (2021: 5%). Refer to note 10 for the total expense recognised in profit or loss for shares granted to executive directors and employees.

	Group 2022	Group 2021	Company 2022	Company 2021
Conditional share plan				
CSP Pula equivalent charge to profit and loss			2,400	1,210

Notes to the Consolidated And Separate Annual Financial Statements

	Group		Company	
Figures in Pula Thousands	2022	2021	2022	2021

36. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The bank is a subsidiary of Capricorn Investment Holding Botswana, which is controlled by Capricorn Group Limited, a company incorporated in Namibia.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. No impairment has been recognised in respect of loans granted to key management personnel during the year under review (2021: NIL).

During the year the bank transacted with the following related parties:

Entity	Relationship	Type of transaction
Bank Windhoek Limited	Subsidiary of Capricorn Group	Support services & Banking relationship
Peo Micro (Proprietary) Limited	Subsidiary of CIH (Botswana)	Support services and Banking relationship
Capricorn Investment Holdings (Botswana) Limited	Holding company	Support services and Banking relationship
Capricorn Group Limited	Ultimate holding company	Support services and Banking relationship
Capricorn Investment Holdings Limited	Ultimate holding company	Support services and Banking relationship
BG Insurance Agency (Proprietary) Limited	Subsidiary	Dividends
Capricorn Asset Management (Botswana) (Pty) Limited	Subsidiary of CIH (Botswana)	Asset management
CIH Insurance Brokers (Pty) Ltd	Subsidiary of CIH (Botswana)	Insurance services
Paratus Telecommunication (Proprietary) Limited	Associate of Capricorn Group	Telecommunications and loan
Capricorn Capital	Subsidiary of Group	Consultancy

Holding company Capricorn Group Limited

Related party transactions

	Group 2022	Group 2021	Company 2022	Company 2021
Interest paid to (received from) related parties				
Bank Gaborone Limited	-	-	(100)	(51)
Capricorn Group Limited	-	10,779	-	-
Expenses paid/income (received from) to related parties				
Bank Windhoek Limited(Consulting)	15,420	10,404	-	-
Bank Gaborone Limited(Management fees)	-	-	(804)	(804)
Capricorn Group Limited	5,769	3,317	-	-
Paratus Telecomunication (Proprietary)Limited	4,426	4,251	-	-
Expenses paid to related parties as recoveries				
Bank Windhoek Limited	3,090	12,502	-	-
Capricorn Group Limited	203	2,850	-	-
Bank Gaborone Limited	-	-	100	1,188
Receivable /(payable) to related parties				
Bank Gaborone Limited	-	-	995	386
Peo Micro (Proprietary) Limited	-	-	173	181
Capricorn Group Limited	(117,079)	-	(94)	-
Bank Windhoek Limited	-	(958)	-	-

Notes to the Consolidated And Separate Annual Financial Statements

		Group		Company	
Figures in Pula Thousands		2022	2021	2022	2021

36. Related parties (continued)

Loans and advances to related parties					
Paratus Telecommunication(Proprietary)Lmited		2,384	4,549	-	-
Key management personnel*		12,300	11,086	-	-

*Receivable from key management personnel relates to loans and advances to the executive management team.

An amount of P 11,417 has been provided as impairment towards the loan given to Paratus Telecommunication (Proprietary) Limited.

Loans/short term advances to and from related parties are based on normal commercial terms.

Compensation paid to key management personnel					
Salaries and bonuses		18,004	14,289	-	-
Contribution to defined contribution pension schemes		610	578	-	-
Medical contribution		34	90	-	-
Other allowances		831	898	-	-
		19,479	**15,855**	**-**	**-**

Compensation paid to key management comprises remuneration and other employee benefits to the senior management team of the bank, which includes executive director 's emolument.

Directors emoluments					
Refer to note	9	3,484	2,704	353	342
Dividend paid/(received)					
Capricorn Group Limited	29	6,239	-	-	-
Bank Gaborone Limited		-	-	(6,239)	-
Significant Deposits from Related Parties					
Deposits from Bank Windhoek Limited		34,364	34,657	-	-
Deposits from Capricorn Group Limited		73,912	32,891	-	-
Paratus Telecommunications (Pty) Ltd - Botswana		11,025	7,843	-	-
Paratus Telecommunications Ltd - Zambia		121	106	-	-
Paratus Telecommunications Ltd - Mauritius		38,258	24,255	-	-
		157,680	**99,752**	**-**	**-**

The above deposits are based on normal commercial terms.

Investment in subsidiaries					
Peo Micro (Proprietary) Limited		-	-	20,000	-

37. Events after the reporting period

No matters which are material to the financial affairs of the bank have occurred between year-end and the date of approval of the annual financial statements.

Notes to the Consolidated And Separate Annual Financial Statements

38. Prior period error and restatement

Nature of the error

The composition of cash and cash equivalents as reflected in the statement of cash flows was re-evaluated during the current financial year, which upon re-assessment, resulted in certain balances having to be amended through reclassifying these balances into the correct financial statement line items for presentation purposes in the statement of cash flows.

Impact for the reporting period

These reclassification adjustments had no impact on previously reported profits or on the earnings or diluted earnings per share of the group as previously stated. The reclassifications also had no impact on the liquidity of the group as it merely relates to the IAS 7 definition of cash and cash equivalents and its relating impacts on the statement of cash flows.

In compliance with IAS 8, the bank has calculated the impact on the prior year and a reconciliation is provided below.

Reconciliation of changes to cash and cash equivalents as at 30 June 2021

	Note	As reported in prior year AFS	Reclassifications	Restated
Cash and balances with Central Banks		76,040	-	76,040
Treasury bills and government stocks with a maturity of less than 90 days		229,954	-	229,954
Due from other banks and other financial institutions		1,470,314	(258,194)	1,212,120
Due to other banks		(171,034)	-	(171,034)
Total		**1,605,274**	**(258,194)**	**1,347,080**

The balance of cash and cash equivalents at 30 June 2020 impacting on the 'cash at the beginning of the year' disclosed in the statement of cashflows for the year ended 30 June 2021 was similarly reduced by P248,758,000 to P1,054,898,000 (from the P1,303,656,000 as previously reported).

Reconciliation of changes to the statement of cash flows as at 30 June 2021

	Note	As reported in prior year AFS	Restatement	Restated
Interest receipts		452,748	-	452,748
Interest payments		(204,628)	-	(204,628)
Commission, fee receipts and other income		73,633	-	73,633
Commission paid		(2,260)	-	(2,260)
Amount recovered during the year		4,468	-	4,468
Cash payments to employees and suppliers		(176,210)	-	(176,210)
Redemption of placements with banks and financial institutions*		-	1,581,764	1,581,764
Additions to placements with banks and financial institutions*		-	(1,591,200)	(1,591,200)
Changes in operating assets and liabilities:				
Net increase in loans and advances to customers		(297,060)	-	(297,060)
Net (decrease)/increase in other assets		(257,100)	-	(257,100)
Net increase in deposits from customers		520,912	-	520,912
Net (decrease)/increase in other liabilities		160	-	160
Cash (used in) generated from operations		114,663	(9,436)	105,227
Tax paid		(18,293)	-	(18,293)
Net cash from operating activities		**96,370**	**(9,436)**	**86,934**

The restatement has no impact on the cashflows from investing activities and cashflows from financing activities.