

PART A

STATUTORY REPORT ON THE OPERATIONS AND FINANCIAL STATEMENTS OF THE BANK, 2003

BANK OF BOTSWANA

HEADS OF DEPARTMENT
as at December 31, 2003



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Banking Department



R. H. Nlebesi
Administration Department



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Banking Supervision Department



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A. M. Motsomi
Research Department



J. Ghanie
*Information Technology Department
(Acting)*



O. Modisa
Financial Markets Department

STATUTORY REPORT ON THE OPERATIONS OF THE BANK IN 2003

1. AN OVERVIEW OF THE BANK

Objectives of the Bank

- 1.1. The primary objective of the Bank, as stated in the *Mission Statement*, is to promote and maintain monetary stability. The Bank also ensures that the payments system is efficient and that the banking system is sound. These functions of the Bank support the broad national macroeconomic objectives, including the promotion of sustainable economic diversification. The Bank's main responsibilities, its organisational structure and the framework for its activities are described below.

The Bank's primary objectives are to promote monetary stability, and to ensure an efficient payments system and a sound banking sector

Functions of the Bank

- 1.2 As prescribed by the Bank of Botswana Act, 1996, the major responsibilities of the Bank include the conduct of monetary policy; provision of banking services to the Government, banks and selected public sector organisations; regulation and supervision of banks and other financial institutions; issuance of currency; implementation of exchange rate policy; management of foreign exchange reserves; and provision of monetary and financial policy advice to the Government.

Primary responsibilities are prescribed by legislation

- (a) Monetary Policy implementation is directed mainly at achieving the primary responsibility of the Bank, which is promotion and maintenance of monetary stability. This requires the achievement of low and sustainable inflation, which contributes to the promotion and maintenance of domestic and external monetary and financial stability. This objective, together with fiscal, wage, trade and exchange rate policies, fosters macroeconomic stability, which is a crucial precondition for achieving sustained development, high rates of employment and raising standards of living for Botswana.
- (b) Central Banking and Payments System Services are mainly provided for the Government, commercial banks and other selected institutions. The Bank also operates a clearing system for the banking sector.
- (c) Issuance of Currency (banknotes and coin) of high quality is an essential ingredient of an efficient payments system as it fosters confidence in the legal tender which, in turn, facilitates transactions and economic activity in general.
- (d) Supervision of Banks and Other Financial Institutions is conducted in accordance with the Banking Act, 1995 and other relevant statutes. The purpose of prudential regulation and supervision is to ensure the safety, solvency and efficient functioning of the banking system and the overall financial sector.
- (e) Exchange Rate Policy is implemented on behalf of the Government in the overall context of sound macroeconomic management. The objective of the policy is to promote export competitiveness without compromising macroeconomic stability. The Bank buys and sells foreign exchange at rates determined in accordance with the exchange rate policy.

Minister of Finance reports to Parliament on the Bank's operations

The Board has overall responsibility over the Bank's operations

The nine-member Board is required to meet at least once each quarter

The Governor is the Bank's chief executive officer, supported by the Executive Committee

(f) Official Foreign Exchange Reserves are managed by the Bank on behalf of the Government. The Bank ensures their safety and return by diversifying the investments within a framework of acceptable risks.

(g) Economic Analysis and Policy Advice is provided through regular economic and financial reports, published research papers and statistical documents. Some of the publications are distributed to other institutions and the public. The Bank is also represented on a number of Government-led committees and task forces.

Structure of the Bank

- 1.3 The Bank of Botswana falls under the purview of the Minister of Finance and Development Planning, who appoints members of the Board, except the ex-officio Chairman (Governor), who is appointed by His Excellency the President. The Minister reports to Parliament on the Bank's operations and financial performance.

The Board

- 1.4 Under the Bank of Botswana Act, 1996 and the Bank's Bye-Laws, overall responsibility for the operations of the Bank is vested in the Board of the Bank. The Board is responsible for ensuring that the principal objectives of the Bank, as set out in the Act, are achieved. It also ensures that appropriate policies, management and administrative systems as well as financial controls are in place at all times in order for the Bank to achieve its objectives in an efficient and effective manner. Accordingly, the Board has a direct role in the strategic planning of the Bank, and in determining the broad policy framework. In this regard, the Board approves the annual budget, monitors the financial and operational performance, reviews reports of the external auditors and may call for any policy review.

- 1.5 The Board comprises nine members and is chaired by the Governor as required under the Bank of Botswana Act, 1996. As at the end of 2003, eight members were in place and there was one vacancy. The Permanent Secretary of the Ministry of Finance and Development Planning is an ex-officio member; the other members are drawn from the public service (not more than two), the private sector and academia.

- 1.6 The Board is required to meet at least four times a year, although typically it meets more frequently. The Audit Committee of the Board is chaired by a non-executive Board member, and its main responsibility is to ensure that accounting policies, internal controls and financial practices are based on established rules and regulations. The Governor submits a report, after approval by the Board, on the operations and the audited financial statements of the Bank to the Minister of Finance and Development Planning within three months of the end of the Bank's financial year.¹

The Governor

- 1.7 In addition to chairing the Board, the Governor is the chief executive officer of the Bank, and is responsible for the prompt and efficient implementation of the decisions

¹ The Bank's financial year coincides with the calendar year.

or resolutions of the Board. The Governor manages the Bank on a day-to-day basis, and represents the institution in its relations with the Government, domestic financial and other institutions as well as external organisations.

The Executive Committee

- 1.8 The Executive Committee, which is chaired by the Governor, comprises the Deputy Governors and Heads of Department; it may include co-opted senior staff. Its responsibility is to advise the Governor on the day-to-day management of the Bank as well as the development of the Bank's medium and long-term plans.

Departments and Divisions

- 1.9 In order to carry out its functions and supporting activities, the Bank is organised into Departments and Divisions. At the end of 2003, the Bank's seven Departments comprised Administration, Accounting, Banking, Banking Supervision, Financial Markets, Information Technology and Research while the three Divisions were the Board Secretariat, Security and Internal Audit. The Heads of Department report through the Deputy Governors to the Governor, as do the Heads of Security and the Board Secretariat. However, the Internal Audit Division (because of its unique role) reports directly to the Governor.

Strategies

- 1.10 In pursuing its principal objectives of maintaining monetary stability as well as ensuring the soundness and efficiency of the financial system, the Bank has regularly reviewed and adapted its strategies to deal with the changing conditions prevailing in the financial sector. The Bank's activities are mainly in the following areas:

Monetary Operations, Reserve Requirements and the Bank Rate

- 1.11 Monetary stability is mainly reflected in low and stable inflation. Since inflation is fundamentally influenced by monetary and credit factors, the Bank's anti-inflation strategy focuses on the control of banking system credit as an intermediate target. However, controlling inflation in a small open economy, such as Botswana, with trading partners that often experience volatile inflation is a major challenge.
- 1.12 In implementing monetary policy, the Bank uses indirect policy instruments, particularly open market operations and the Bank Rate. The Bank may also use banking regulations and moral suasion to achieve monetary policy objectives. However, the use of Bank of Botswana Certificates (BoBCs), in both the primary and secondary markets, to control the liquidity of the financial system and influence short-term interest rates, plays a prominent role in maintaining monetary stability.
- 1.13 In addition to the Secured Lending Facility (SLF), the Bank also uses Repurchase Agreements (Repos) to manage short-term and overnight liquidity fluctuations in the banking system.
- 1.14 The Bank incorporates data on fiscal and other policies of the Government in the design of a monetary policy framework and its implementation strategy in order to ensure macroeconomic stability. Therefore, whenever necessary, monetary policy

The Bank has seven Departments and three Divisions

Maintaining monetary stability and a sound and efficient financial system are key objectives

may need to be restrictive in order to counteract expansionary fiscal and wage policies that may erode monetary stability and, therefore, the nation's prospects for sustainable economic development. The broad framework of monetary policy is presented to the public in the annual *Monetary Policy Statements*.

Banking Services to the Government and Commercial Banks

- 1.15 The Bank serves as the banker to the Government, commercial banks as well as certain other institutions, and provides a payment, clearing and settlement system for the financial sector. In this regard, the Bank has promoted, coordinated and successfully implemented a programme that enhances the efficiency and security of the payments system. It is also a lender of last resort to the financial institutions under its supervisory purview.

Implementing the Banking Act and Regulations

- 1.16 Through ongoing banking supervision and regulatory activities, the Bank seeks to achieve a sound and stable financial system. Accordingly, the Bank ensures that the mechanisms for sustaining the safety and soundness of licensed financial institutions are appropriate and that the institutions are managed in a prudent and safe manner. To that end, the Bank enforces prudential standards with respect to capital adequacy, liquidity, asset quality and corporate governance of the banks.
- 1.17 In addition to its focus on the safety and soundness of licensed financial institutions, the Bank is responsible for ensuring that banks maintain high professional standards in their operations in order to provide efficient customer service in a transparent manner. The Bank also has a surveillance responsibility with regard to breaches of the Banking Act, 1995, by the public, especially in the form of activities that involve unauthorised deposit taking and use of banking names.
- 1.18 Under the provisions of the Banking Act, the Bank has specific responsibilities relating to money laundering. Accordingly, banks are required to adhere to 'know your customer' provisions when opening accounts, retain appropriate records, report suspicious activities and cooperate fully with law enforcement agencies in an effort to combat financial crimes and, in particular, money laundering.
- 1.19 The Bank is also responsible for the regulation and supervision of the International Financial Services Centre (IFSC) entities as well as the administration of the Collective Investment Undertakings Act, 1999.
- 1.20 The Bank monitors commercial bank compliance with primary reserve requirements and ensures that clearing and settlement activities are conducted safely and efficiently. As the volume and value of financial transactions managed by the financial system increases, and Botswana's linkages with international financial markets expand, the Bank has to guard against systemic risks that may arise. It is for this reason that the Bank continually collaborates with private sector institutions, international organisations and the Government in introducing improvements to the safety and efficiency of the payments system.

Supervision and regulation of financial institutions are necessary for confidence and stability

The Bank has responsibility for anti-money laundering policy and regulation of international financial services

Implementing Exchange Rate Policy

- 1.21 The Bank acts as the Government's agent in implementing the exchange rate policy. Under the Bank of Botswana Act, 1996, the President, on the recommendation of the Minister of Finance and Development Planning, and after consultation with the Bank, sets the framework for the determination of the external value of the Pula. At present, the Pula is pegged to a basket of currencies comprising the South African rand and the Special Drawing Right (SDR - the unit of account of the International Monetary Fund). Based on the basket, the Bank calculates the exchange rate for each business day, and quotes to the banks the buying and selling rates for major international currencies. The Bank monitors the Pula exchange rate developments regularly with a view to advising the Government on maintaining export price competitiveness of domestically produced goods.

Managing Foreign Exchange Reserves

- 1.22 As Botswana's foreign exchange reserves have grown over the years, the Bank has subdivided the reserves into two portfolios to meet different objectives. A large proportion of the reserves is invested in long-term assets (Pula Fund) with a view to maximising long-term return, while the remainder comprises the Liquidity Portfolio, which is invested in money market instruments and short-term bonds.

Foreign exchange reserves are managed to meet specific objectives

Advice on Economic Policy, Provision of Statistics and Public Education

- 1.23 In addition to its responsibilities of formulating and implementing monetary policy, the Bank serves as economic and financial advisor to the Government on a wide range of issues. These include exchange rate policy, financial sector development, industrial development and trade.
- 1.24 The Bank conducts annual briefings on economic trends and publishes macroeconomic statistics and a research bulletin. The Bank has also formulated and is implementing a public education programme on banking and financial matters.

The Bank serves as advisor to Government

Meeting the Needs for Banknotes and Coin

- 1.25 The availability of a safe and convenient currency is essential for an efficient payments system. For this reason, the Bank routinely ensures that there is an adequate supply of high quality notes and coin in circulation by withdrawing soiled and damaged currency and replacing it with new notes and coin. The Bank maintains stringent standards in the design and production of both notes and coin to ensure their acceptance as a medium of exchange and to deter counterfeiting and other forms of debasement.

The Bank is the sole supplier of notes and coin

2. REPORT ON THE BANK'S OPERATIONS

Introduction

- 2.1 This Section of the Annual Report details the Bank's major activities in 2003. The activities cover developments relating to the Bank's progress in implementing its annual work programme.

External Relations

- 2.2 During 2003, the Bank was represented in international and regional seminars, workshops and conferences. These included those organised by the SADC Committee of Central Bank Governors, the Association of African Central Banks, the Bank for International Settlements, the International Monetary Fund (IMF) and the World Bank. The Bank also enjoyed continued assistance from the IMF through long-term advisors, as well as short-term technical assistance missions. The Bank also hosted the annual IMF Article IV Consultation Mission to Botswana. As in the past, the Bank held annual economic briefings for a range of stakeholders, such as senior Government officials, the media, representatives of the private and parastatal sectors, and members of the diplomatic corps.

Management and Administration of the Bank

- 2.3 The Bank's authorised establishment was unchanged at 559 positions, with 515 positions occupied and 44 vacancies by the end of the year. The occupied posts included 16 staff members on long-term training at local, regional and overseas universities.
- 2.4 The Bank organised a Management Retreat which was devoted to the discussion of the climate survey that had been conducted to assess staff perceptions of, among others, staff morale and the Bank's general competitiveness as an employer. The Retreat was a success, giving rise to a number of recommendations on the way forward for discussion by the Executive Committee. The Bank also produced a Management Handbook intended to provide guidance on management issues especially to staff who have been newly appointed into management positions.
- 2.5 The Staff Health Clinic continued to provide primary health care attending an average of 120 staff per month. The Clinic also continued to be instrumental in HIV/AIDS control activities and implementation of the work programme of the HIV/AIDS Coordinating Committee. Through the Peer Educators, a workshop on Men, AIDS and Sex was successfully organised. The medical aid Special Benefit Programme performed well and the reduction in the cost of anti-retroviral drugs appears to be making it financially sustainable. It would also appear that staff are increasingly showing confidence in the programme.
- 2.6 A number of physical works and projects were carried out and some completed during the year. The completed projects were the refurbishment of the fourth floor of Block A, construction of a mezzanine floor in the Banking Hall, refurbishment of the Francistown Branch and technical security upgrade at the Francistown Branch.
- 2.7 Efforts to improve the profile and effectiveness of the public education programme continued during the year. The Bank continues to participate at school career fairs and trade exhibitions, at which the Bank's objectives and mandate are disseminated, and the National Savings Certificates programme is marketed. The Banking Week, whose theme was 'Towards Efficient Banking and Quality Services', was held, and an educational video titled 'Know Your Banknotes' issued as an addition to the Bank's video series.
- 2.8 The Bank produced a number of publications during the year, including the 2002 *Annual Report*, the 2002 *Banking Supervision Report*, the 2003 *Monetary Policy*

Management retreat charts way forward

Anti HIV/AIDS activities make progress

Physical work progress

Public education efforts continue

Publications and website development

Statement (MPS), and the monthly *Botswana Financial Statistics*. One issue of the *Research Bulletin* was published and a second issue was prepared for the printers. The coverage of the Bank's website continued to be enhanced.

- 2.9 Thirty-five internal audit reports were issued and positive responses on implementation of recommendations were received from Departments. A Control Risk Self-Assessment programme has now been implemented in all Departments in the Bank.

Internal audit and risk control

Monetary Policy Implementation

- 2.10 The Bank maintained an inflation objective of 4 to 6 percent for 2003, as stated in the 2003 Monetary Policy Statement. Although inflation in the first half was relatively high, ranging from 10 to 12 percent, it fell sharply in the second half of the year as the impact of VAT fell out of the calculation and was just above 6 percent by the end of the year. Responding to declining inflation and moderation of growth rates for credit and government spending, the Bank eased monetary policy, reducing the Bank Rate by a total of 100 basis points in the last quarter of 2003.
- 2.11 The Monetary Policy committee (MPC) met six times in 2003 to assess economic developments and decide on policy action. In addition, the MPC adopted the 16 percent trimmed mean measure of core inflation to supplement the headline measure published by CSO.
- 2.12 The fixed exchange rate peg was maintained, which contributed to anchoring inflation expectations and stabilising the impact of external inflationary developments on domestic prices.
- 2.13 Efforts to improve the quality and range of data continue and the Bank participated in the IMF's regional project to improve data standards of the framework of the General Data Dissemination System (GDDS). Supported by technical assistance from the IMF, further improvements in monetary and balance of payments statistics are underway, including the compilation of an enhanced monetary survey.

Inflation objective maintained

Measure of core inflation adopted

Reserve Management

- 2.14 The Investment Committee met regularly to review international financial, economic and political developments, and translated these into investment strategy. Portfolios were appropriately adjusted based on the Committee's decisions and yield enhancement opportunities in the international financial markets continued to be explored. The Committee upheld the overall objectives of safety, liquidity and return.

Reserve Management Objectives (Safety, Liquidity and Return) upheld

Domestic Market Operations

- 2.15 Open Market Operations were conducted and Bank of Botswana Certificates used for the implementation of monetary policy and, more generally, for the management of liquidity in the financial system. Short-term rates fell in 2003, reflecting the 100 basis points reduction in the Bank Rate during the second half of 2003 and market expectations of further monetary policy easing. Repurchase agreements and reverse repurchase

Excess liquidity mopped through open market operations

*Government bonds
issued*

agreements continued to be utilised to manage short-term fluctuations in liquidity.

- 2.16 The Bank successfully managed the initial Government bond issue. Overall, the demand for bonds exceeded supply by 70 percent, and Government bond yields fell in line with the falling inflation rate. One commercial bank also issued a bond during the period, benchmarked against the Government bond yield curve.

Banking and Currency Issues

*NCSS legislation
enacted*

- 2.17 Major developments included the enactment of the National Clearance and Settlement System (NCSS) Bill into law, and the drafting of the regulations necessary to give effect to the provisions of the new Act. Related to this, the IMF provided technical assistance to undertake a review of other legislation that may affect the safe and efficient conduct of the National Payments System.

Banking Supervision

*Banks remain well
capitalised and
profitable*

- 2.18 The condition of banks was assessed through regular bilateral and trilateral meetings, on-site examinations, risk profiling and early warning management reports. All banks were well capitalised, profitable, liquid, prudently managed with good asset quality. The 2002 annual statutory report on the state of the banking industry was submitted to the Minister of Finance and Development Planning and subsequently published.

- 2.19 During 2003, Kingdom Bank Africa Limited was licensed to conduct offshore investment banking, and the Bank approved the acquisition of Investec Bank (Botswana) by Stanbic Bank Botswana.

*IFSC activity continues
to develop*

- 2.20 The International Financial Services Centre (IFSC) continued to develop. Two applications were received by the Bank for regulatory approval following conditional IFSC certifications. In addition, the Bank conditionally approved a request by African Banking Corporation Holding Company to expand the licence issued to African Banking Corporation International (ABCI) to include bank holding aspects and to restructure the Group, making ABCI the holding company for all the Group's banking subsidiaries.

- 2.21 The total number of licensed bureaux de change as at December 31, 2003 was 31. One bureau de change voluntarily ceased operations and surrendered its licence to the Bank. Routine inspections revealed that the bureaux de change were generally operating satisfactorily.

Agency Role

*Sovereign credit ratings
remain unchanged*

- 2.22 In the context of the Bank's role as financial advisor to Government, discussions were held during 2003 with two international credit rating agencies (Moody's Investors Service and Standard and Poor's) in the review of Botswana's sovereign credit rating. The credit ratings, first assigned to Botswana in 2001, were reaffirmed. In addition, the Bank assisted the Government with arrangements for the sale of Public Debt Service Fund (PDSF) loans, which was announced in the 2003 Budget Speech. The sale is expected to take place early in 2004.

Information Technology

- 2.23 During the year enhancements were made to existing IT systems including HiPortfolio, SWIFTAlliance Entry, Bankmaster and ACCPAC. A review of the core banking IT system was carried out and recommendations made with regard to procuring a replacement.
- 2.24 A module of the SWIFT system, SWIFT ACCORD, was implemented successfully and users trained on its operations. SWIFT ACCORD should ease information flow and the processing of message reconciliation.
- 2.25 The network domain platform was also upgraded from a Windows NT operating system to a Windows 2003 server operating system domain. The upgrade will further enhance security and performance.
- 2.26 Disaster recovery tests on IT resources and infrastructure were carried out to determine the Bank's readiness to deal with disasters. The tests were generally successful.

IT upgrades and risk assessment

Protective Services

- 2.27 The Technical Security Upgrade project at the Francistown Branch was successfully completed on time and on budget. The fully integrated system was designed internally with the users taking a leading role. The completion of the project will go a long way in improving physical security at the branch.
- 2.28 There continued to be a number of counterfeit cases during the year, especially targeting the high denomination notes. This prompted the Bank to re-visit the various pieces of legislation where counterfeiting is covered, with a view to developing a consolidated statute that will comprehensively deal with counterfeiting and related issues. However, through multi-sectoral public education campaigns, incidents of counterfeits are seemingly on the decline.

Stronger anti-counterfeiting measures proposed

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2003

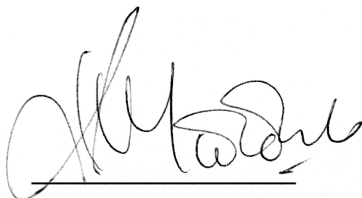
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The Annual Financial Statements set out on pages 29 to 45 were approved by the Board on March 19, 2004 and signed by:



Linah K. Mohohlo
Governor



Nozipho A. Mabe
Director, Accounting Department

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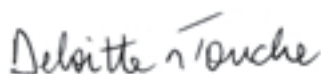
**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE BOARD OF BANK OF BOTSWANA**

We have audited the accompanying financial statements of Bank of Botswana as set out on pages 29 to 45 for the year ended December 31, 2003. These financial statements are the responsibility of the Bank's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (i) the Bank has kept proper books of account with which the financial statements are in agreement; and
- (ii) the financial statements give a true and fair view of the state of the Bank's affairs as of December 31, 2003 and of the result of its operations, its changes in shareholder's funds, and cash flows for the year then ended, in accordance with International Financial Reporting Standards and in the manner required by the Bank of Botswana Act, 1996.



Deloitte & Touche
Certified Public Accountants

GABORONE
March 19, 2004

Aud • Tax • Consulting • Financial Advisory •

A member firm of
Deloitte Touche Tohmatsu

Regional Executive Partners: V Naidoo Chief Executive RMW Dunne Chief Operating Officer
TJ Brown GG Gelinck IRM Law RK Store Chairman of the Board NT Mtoba Deputy Chairman of the Board
Resident Partners: JY Stevens Senior Partner FC Els M Marinelli P Naik DL O'Connor

BALANCE SHEET

December 31, 2003

	Notes	2003 P'000	2002 P'000
ASSETS			
Fixed Assets	1	126 645	126 638
Foreign Exchange Reserves			
Liquidity Portfolio	2.1	3 910 508	4 872 251
Pula Fund	2.2	19 245 850	24 473 529
International Monetary Fund			
Reserve Tranche	3.1	197 373	175 527
Holdings of Special Drawing Rights	3.2	219 210	241 842
Administered Funds	3.4	144 031	163 219
Total Foreign Exchange Reserves		23 716 972	29 926 368
Government of Botswana Bonds	4	111 723	-
Other Assets	5	53 983	55 600
TOTAL ASSETS		24 009 323	30 108 606
LIABILITIES			
Notes and Coin in Circulation	6	817 995	759 075
Bank of Botswana Certificates	7	8 739 346	7 663 457
Deposits	8	1 599 776	1 180 764
Allocation of Special Drawing Rights (IMF)	3.3	28 379	32 146
Liabilities to Government (IMF Reserve Tranche)	9	197 373	175 527
Dividend to Government	10	188 750	257 225
Other Liabilities	11	26 774	25 446
Total Liabilities		11 598 393	10 093 640
SHAREHOLDER'S FUNDS			
Paid-up Capital	12	25 000	25 000
Government Investment Account		9 680 966	15 940 124
Currency Revaluation Reserve		153 138	2 449 842
Market Revaluation Reserve		951 826	-
General Reserve	13	1 600 000	1 600 000
Total Shareholder's Funds		12 410 930	20 014 966
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		24 009 323	30 108 606
FOREIGN EXCHANGE RESERVES IN US DOLLARS ¹		5 338 690	5 473 533
FOREIGN EXCHANGE RESERVES IN SDR ²		3 642 927	4 058 016

Note: Middle rates of exchange at year-end

¹ Pula/United States dollar

0.2251 0.1829

² Pula/SDR

0.1536 0.1356

INCOME STATEMENT
Year ended December 31, 2003

	Notes	2003	2002
		P'000	(Restated) P'000
INCOME			
Interest – Foreign exchange reserves		719 686	1 132 746
Interest – Government of Botswana Bonds		8 626	-
Net market gains on disposal of securities		21 284	-
Dividends		151 715	167 532
Commissions		5 159	19 837
Realised currency revaluation gains	14	-	1 401 832
Unrealised market revaluation gains - Liquidity Portfolio		-	17 487
Unrealised currency revaluation gains - Liquidity Portfolio	14	9 758	-
Other income		5 704	7 231
		921 932	2 746 665
EXPENSES			
Interest	15	1 237 173	794 161
Net market losses on disposal of securities		-	318 118
Administration costs		131 751	141 075
Realised currency revaluation losses	14	1 778 989	-
Depreciation		11 488	11 267
Unrealised market revaluation losses – Liquidity Portfolio		20 459	-
Unrealised currency revaluation losses – Liquidity Portfolio	14	-	889 331
		3 179 860	2 153 952
NET (LOSS)/ INCOME FOR THE YEAR		(2 257 928)	592 713
TRANSFER FROM/(TO) CURRENCY REVALUATION RESERVE	14	1 766 708	(548 294)
NET (LOSS)/INCOME AVAILABLE FOR DISTRIBUTION BEFORE TRANSFER FROM GOVERNMENT INVESTMENT ACCOUNT		(491 220)	44 419
TRANSFERS FROM GOVERNMENT INVESTMENT ACCOUNT		1 246 220	1 287 100
NET INCOME AVAILABLE FOR DISTRIBUTION		755 000	1 331 519
APPROPRIATIONS			
TRANSFER TO MARKET REVALUATION RESERVE		-	(302 619)
DIVIDEND TO GOVERNMENT FROM PULA FUND		(755 000)	(1 028 900)

CASH FLOW STATEMENT

Year ended December 31, 2003

	Notes	2003	2002
		P'000	P'000
OPERATING ACTIVITIES			
Cash generated by operations	17	1 063 542	2 896 802
INVESTING ACTIVITIES			
Net proceeds from disposal of foreign investments		4 210 781	3 612 025
Purchase of Government of Botswana Bonds		(101 903)	–
Proceeds from disposal of fixed assets		215	4
Purchase of fixed assets	1	(11 628)	(8 820)
NET CASH FROM INVESTING ACTIVITIES		4 097 465	3 603 209
FINANCING ACTIVITIES			
Dividend to Government	10	(823 475)	(1 038 175)
Government Withdrawals		(4 396 452)	(5 519 816)
NET CASH USED IN FINANCING ACTIVITIES		(5 219 927)	(6 557 991)
NET INCREASE IN CURRENCY IN CIRCULATION		(58 920)	(57 980)
CURRENCY IN CIRCULATION AT THE BEGINNING OF THE YEAR		(759 075)	(701 095)
CURRENCY IN CIRCULATION AT THE END OF THE YEAR		(817 995)	(759 075)

STATEMENT OF CHANGES IN SHAREHOLDER'S FUNDS

Year ended December 31, 2003

	Paid-up Share Capital	Currency Revaluation Reserve	Market Revaluation Reserve	General Reserve
	P'000	P'000	P'000	P'000
Balance at January 1, 2002	25 000	4 893 980	110 718	1 600 000
Pula Fund unrealised currency losses for the year	–	(6 752 347)	–	–
Unrealised market losses for the year	–	–	(1 478 100)	–
Transfers from Government Investment Account:				
Unrealised market gains for the year	–	–	1 064 763	–
Unrealised currency losses for the year	–	3 759 915	–	–
Government withdrawals	–	–	–	–
Net (losses)/gains not recognised in the Income Statement for the year	–	(2 992 432)	(413 337)	–
Net Income as previously stated	–	–	–	–
Net realised currency revaluation gains	–	–	–	–
Net Income for the year (restated)	–	–	–	–
Transfer to Currency Revaluation Reserve (restated)	–	548 294	–	–
Dividend to Government from Pula Fund	–	–	–	–
Transfers to/(from) the Income Statement for the year:				
Deficit of Government Pula Fund income over Pula Fund Dividend	–	–	–	–
To fund deficit on Market Revaluation Reserve	–	–	302 619	–
To cover residual deficit	–	–	–	–
Balance at December 31, 2002 (Restated)	25 000	2 449 842	–	1 600 000
Pula Fund unrealised currency losses for the year	–	(1 767 738)	–	–
Unrealised market gains for the year	–	–	1 573 082	–
Transfers to/(from) Government Investment Account:				
Unrealised market gains for the year	–	–	(621 256)	–
Unrealised currency losses for the year	–	1 237 742	–	–
Government withdrawals	–	–	–	–
Net (losses)/gains not recognised in the Income Statement for the year	–	(529 996)	951 826	–
Net loss for the year	–	–	–	–
Transfer from Currency Revaluation Reserve	–	(1 766 708)	–	–
Dividend to Government from Pula Fund	–	–	–	–
Transfers to/(from) the Income Statement for the year:				
Deficit of Government Pula Fund Income over Pula Fund Dividend	–	–	–	–
To cover residual deficit	–	–	–	–
Balance at December 31, 2003	25 000	153 138	951 826	1 600 000

1. The Government Investment Account represents the Government's share of the Pula Fund and the Liquidity Portfolio, which was established on January 1, 1997.
2. The Dividend of P755 000 000 paid to the Government during the year was made partly from net income retained in the Government Investment Account at the end of 2002 (P310 570 378) and the balance of P444 429 622 was made from the Government's capital investment in the Pula Fund.

Government Investment Account	Accumulated Profit	Total	
P'000	P'000	P'000	
27 571 718	–	34 201 416	Balance at January 1, 2002
–	–	(6 752 347)	Pula Fund unrealised currency losses for the year
–	–	(1 478 100)	Unrealised market losses for the year
(1 064 763)	–	–	Transfers from Government Investment Account:
(3 759 915)	–	–	Unrealised market gains for the year
(5 519 816)	–	(5 519 816)	Unrealised currency losses for the year
			Government withdrawals
(10 344 494)	–	(13 750 263)	Net (losses)/gains not recognised in the Income Statement for the year
–	44 419	44 419	Net Income as previously stated
–	548 294	548 294	Net realised currency revaluation gains
–	592 713	592 713	Net Income for the year (restated)
–	(548 294)	–	Transfer to Currency Revaluation Reserve (restated)
–	(1 028 900)	(1 028 900)	Dividend to Government from Pula Fund
			Transfers to/(from) the Income Statement for the year:
(564 981)	564 981	–	Deficit of Government Pula Fund income over Pula Fund Dividend
–	(302 619)	–	To fund deficit on Market Revaluation Reserve
(722 119)	722 119	–	To cover residual deficit
15 940 124	–	20 014 966	Balance at December 31, 2002 (Restated)
–	–	(1 767 738)	Pula Fund unrealised currency losses for the year
–	–	1 573 082	Unrealised market gains for the year
621 256	–	–	Transfers to/(from) Government Investment Account:
(1 237 742)	–	–	Unrealised market gains for the year
(4 396 452)	–	(4 396 452)	Unrealised currency losses for the year
			Government withdrawals
(5 012 938)	–	(4 591 108)	Net (losses)/gains not recognised in the Income Statement for the year
–	(2 257 928)	(2 257 928)	Net loss for the year
–	1 766 708	–	Transfer from Currency Revaluation Reserve
–	(755 000)	(755 000)	Dividend to Government from Pula Fund
			Transfers to/(from) the Income Statement for the year:
(494 888)	494 888	–	Deficit of Government Pula Fund Income over Pula Fund Dividend
(751 332)	751 332	–	To cover residual deficit
9 680 966	–	12 410 930	Balance at December 31, 2003

ACCOUNTING POLICIES

December 31, 2003

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are prepared on the historical cost basis as modified to include the revaluation of investments in domestic and foreign assets, liabilities, and the result of the activities of the Pula Fund. The financial statements comply with International Financial Reporting Standards.

ADOPTION OF INTERNATIONAL ACCOUNTING STANDARD (IAS NO. 21)

The Bank has complied with the International Accounting Standard No. 21, "The Effects of Changes in Foreign Exchange Rates" for the first time this year. Consequent to this change in accounting policy, the comparative figures have been restated where necessary.

The effect of complying with IAS No. 21 was as follows:

	<u>2002</u>
	<u>P'000</u>
Net income for the year as previously stated	44 419
Prior year adjustment: Net realised currency revaluation gains	<u>548 294</u>
Net income for the year as restated	592 713
Transfer to currency revaluation reserve:	
As previously stated	–
Prior year adjustment	<u>(548 294)</u>
Net income available for distribution	<u><u>44 419</u></u>

FINANCIAL INSTRUMENTS

General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude fixed assets, and notes and coin in circulation.

Short-term Investments (Liquidity Portfolio)

The Bank has designated the Liquidity Portfolio as a fund in which money market instruments and bonds are invested to facilitate payments for regular transactions.

Securities invested in this portfolio are initially recognised at cost and are subsequently remeasured at market value. All related realised and unrealised gains and losses are taken to the income statement.

All purchases and sales of investment securities in the portfolio are recognised at trade date, which is the date the Bank commits to purchase or sell the investments. All other purchases and sales are recognised as derivative forward transactions until settlement.

Long-term Investments (Pula Fund)

This is a long-term fund intended to maximise returns and is invested in foreign financial instruments with a long-term duration. These investments, which may be sold in response to needs for liquidity, changes in interest

ACCOUNTING POLICIES (continued)

rates, exchange rates, etc. are classified as available-for-sale. These securities are initially recognised at cost (which includes transaction costs) and are subsequently remeasured at market value.

Unrealised gains and losses arising from changes in the market value of the instruments classified as available-for-sale are recognised in the Currency Revaluation Reserve or the Market Revaluation Reserve as may be appropriate. When these instruments are disposed of or impaired, the related accumulated market value adjustments are included in the income statement as gains and losses from investment securities.

All purchases and sales of investment securities in the fund are recognised at trade date, which is the date that the Bank commits to purchase or sell the investments. All other purchases and sales are recognised as derivative forward transactions until settlement.

Derivative Instruments

Derivative financial instruments are recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at market value. The treatment of fair value movement in derivative instruments depends on whether they are designated as part of the Pula Fund or the Liquidity Portfolio.

FOREIGN CURRENCY ACTIVITIES

Transactions denominated in foreign currencies are translated to Pula using the middle rate of exchange at the transaction date.

All monetary assets and liabilities denominated in foreign currencies are translated to Pula using the middle rate of exchange at the close of the financial year. All exchange gains/losses realised on disposal of instruments and unrealised exchange gains/losses on the short-term investments are taken to the income statement. However, all those gains and losses relating to disposals whose proceeds are reinvested in foreign assets and unrealised gains/losses on short-term investments are appropriated to the Currency Revaluation Reserve.

BANK OF BOTSWANA CERTIFICATES

As one of its tools for maintaining monetary stability in the economy, the Bank of Botswana issues its own paper, Bank of Botswana Certificates (BoBCs), to absorb excess liquidity in the market and thereby to influence the rate of monetary growth, and also interest rates. BoBCs are issued at a discount to counterparties.

The Bank's liability in respect of BoBCs is stated at market value with movements in matured and unmatured discount recognised in the income statement.

GOVERNMENT OF BOTSWANA BONDS

The Bank acquired Government of Botswana Bonds for purposes of facilitating orderly trading in the local bond market. The bonds, which may be sold in response to needs to intervene in the market, are classified as available-for-sale securities.

The bonds are initially recognised at cost and are subsequently remeasured at market value, based on quoted bid prices. All unrealised gains/losses arising from changes in the fair value are recognised in the Market Revaluation Reserve. When these instruments are disposed of or impaired, the related accumulated market value adjustments are included in the income statement as gains and losses from Government of Botswana Bonds.

ACCOUNTING POLICIES (continued)

All regular purchases and sales of bonds are recognised at trade date, which is the date that the Bank commits itself to purchase or sell the bonds.

ASSETS, LIABILITIES AND PROVISIONS RECOGNITION**Assets**

Assets are recognised when the Bank obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the Bank.

Contingent Assets

The Bank discloses a contingent asset arising from past events where it is highly likely that economic benefits will flow from it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events outside the control of the Bank.

Liabilities and Provisions

The Bank recognises liabilities (including provisions) when:

- (i) it has a present legal obligation resulting from past events;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation; and
- (iii) a reliable estimate of the amount of the obligation can be made.

Derecognition of Assets and Liabilities

The Bank derecognises a financial asset when it loses control over the contractual rights that comprise the asset and transfers substantially all the risks and benefits associated with the asset. This arises when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is legally discharged.

INCOME AND EXPENSE RECOGNITION

Interest income and expense and dividend income are recognised in the income statement on an accrual basis.

OFFSETTING FINANCIAL INSTRUMENTS

The Bank offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- (i) there is a legally enforceable right to set off;
- (ii) there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- (iii) the maturity date for the financial asset and liability is the same; and
- (iv) the financial asset and liability is denominated in the same currency.

ACCOUNTING POLICIES (continued)

In view of the fact that the Bank values its foreign exchange investments on a portfolio basis, assets and liabilities within each portfolio have been set off.

GENERAL RESERVE

Under Section 7(1) of the Bank of Botswana Act, 1996, the Bank of Botswana is required to establish and maintain a General Reserve sufficient to ensure the sustainability of future operations of the Bank. The Bank may transfer to the General Reserve funds from other reserves, which it maintains, for the purposes of maintaining the required level of the General Reserve.

CURRENCY REVALUATION RESERVE

Any changes in the valuation, in terms of Pula, of the Bank's assets and liabilities in holdings of Special Drawing Rights and foreign currencies as a result of any change in the values of exchange rates of Special Drawing Rights or foreign currencies are transferred to the Currency Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

MARKET REVALUATION RESERVE

Any changes in the value of the Bank's long-term investments held in foreign currencies as a result of any change in the market values of such investments are transferred to the Market Revaluation Reserve.

The proportion directly attributable to the Government Investment Account is transferred to such investment account.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less related accumulated depreciation.

No depreciation is provided on land. All other fixed assets are depreciated on a straight line basis at the following annual rates:

	Percent
Buildings	2.50
Furniture, fixtures and equipment	20.00
Computer hardware	33.33
Computer software	100.00
Motor vehicles – Commercial	25.00
– Bullion Truck	5.00

RETIREMENT BENEFITS

Pension benefits are provided for employees through the Bank of Botswana Defined Contribution Staff Pension Fund which is governed in terms of the Pension and Provident Funds Act (Chapter 27:03). Contributions are at the rate of 21.5 percent of pensionable emoluments of which pensionable employees of the Bank pay 4 percent. Other than the contributions made, the Bank has no further commitments or obligations to this Fund.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

December 31, 2003

1. FIXED ASSETS	Free- hold Land	Lease- hold Land	Buildings	Capital Work in Progress	Other Assets	Total
	P'000	P'000	P'000	P'000	P'000	P'000
Cost or Valuation						
Balance at the beginning of the year	607	3 486	127 798	412	57 546	189 849
Adjustments	–	–	(98)	2	13	(83)
Additions	–	–	–	8 262	3 366	11 628
Disposals	–	–	–	–	(1 525)	(1 525)
Transfers	–	–	1 856	(7 329)	5 473	–
Balance at the end of the year	607	3 486	129 556	1 347	64 873	199 869
Accumulated Depreciation						
Balance at the beginning of the year	–	–	24 575	–	38 636	63 211
Adjustments	–	–	–	–	98	98
Charge for the year	–	–	3 214	–	8 177	11 391
Disposals	–	–	–	–	(1 476)	(1 476)
Balance at the end of the year	–	–	27 789	–	45 435	73 224
Net book value at December 31, 2003	607	3 486	101 767	1 347	19 438	126 645
Net book value at December 31, 2002	607	3 486	103 223	412	18 910	126 638

2. FOREIGN EXCHANGE RESERVES

2.1 Liquidity Portfolio

	2003 P'000	2002 P'000
Bonds	1 166 785	1 783 324
Amounts due from Pula Fund	782 254	1 049 975
Net Payables	(720)	(4 848)
Cash and Cash Equivalents	1 962 189	2 043 800
	<u>3 910 508</u>	<u>4 872 251</u>

2.2 Pula Fund

Equities	8 724 373	7 990 002
Bonds	10 008 682	16 237 283
Amounts due to Liquidity Portfolio	(782 254)	(1 049 975)
Derivative Offsets	(367 484)	(431 519)
Net Payables	(42 466)	(21 570)
Cash and Cash Equivalents	1 704 999	1 749 308
	<u>19 245 850</u>	<u>24 473 529</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003	2002 (Restated)
	P'000	P'000
Pula Fund Balance Sheet		
<i>Capital Employed</i>		
Government	9 506 781	15 553 489
Bank of Botswana	9 739 069	8 920 040
	<u>19 245 850</u>	<u>24 473 529</u>
<i>Employment of Capital</i>		
Investments	<u>19 245 850</u>	<u>24 473 529</u>
Investments expressed in US dollars ('000)	<u>4 332 241</u>	<u>4 476 208</u>
Investments expressed in SDR ('000)	<u>2 956 163</u>	<u>3 318 610</u>
Pula Fund Income Statement		
<i>Income</i>		
Interest and dividends	685 904	1 066 331
Realised currency revaluation gains	–	1 288 622
Sundry income	49	88
	<u>685 953</u>	<u>2 355 041</u>
<i>Expenses</i>		
Realised currency revaluation losses	(1 177 036)	–
Net realised market losses	(11 878)	(332 091)
Administration charges	(53 668)	(61 196)
	<u>(1 242 582)</u>	<u>(393 287)</u>
Net (Loss)/Income for the year	(556 629)	1 961 754
Transfer from/(to) Currency Revaluation Reserve	<u>1 177 036</u>	<u>(1 288 622)</u>
<i>Net income before transfer from Government Investment Account</i>	620 407	673 132
Transfer from Government Investment Account	494 888	564 981
Net income available for distribution	<u>1 115 295</u>	<u>1 238 113</u>
Appropriations		
Dividend to Government	<u>(755 000)</u>	<u>(1 028 900)</u>
Bank of Botswana's share of net income	<u>360 295</u>	<u>209 213</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003 P'000	2002 P'000
3. INTERNATIONAL MONETARY FUND (IMF)		
3.1 Reserve Tranche		
This asset represents the difference between Botswana's Quota in the IMF and IMF Holdings of Pula. Botswana's Quota is its membership subscription, of which at least 25 percent was paid for in foreign currencies and the balance in Pula. The holdings of Pula by the IMF, which initially were equal to 75 percent of the quota, have changed from time to time as a result of the use of Pula by the IMF in its lendings to member countries.		
Quota (SDR 63 000 000)	410 156	464 602
Less IMF Holdings of Pula	(212 783)	(289 075)
Reserve Position in IMF	<u>197 373</u>	<u>175 527</u>
The IMF Holdings of Pula are represented by a Non-Interest Bearing Note of P165 324 035 (2002 – P165 324 035) issued by the Government of Botswana in favour of the IMF, maintenance of value currency adjustments and the amount in current account held at the Bank (included in other deposits in Note 8).		
3.2 Holdings of Special Drawing Rights	<u>219 210</u>	<u>241 842</u>
The balance on the account represents the value of Special Drawing Rights allocated and purchased less utilisation to date.		
3.3 Allocation of Special Drawing Rights	<u>28 379</u>	<u>32 146</u>
This is the liability of the Bank to the IMF in respect of the allocation of SDRs to Botswana.		
3.4 Administered Funds		
(i) Poverty Reduction Growth Facility (PRGF) Trust	45 275	51 359
The amount represents the equivalent of SDR 6 893 680 (and interest accrued thereon) lent on July 1, 1994 to the Poverty Reduction Growth Facility (formerly Enhanced Structural Adjustment Facility Trust), a fund administered in trust by the IMF.		
(ii) Poverty Reduction Growth Facility/Heavily Indebted Poor Countries (PRGF/HIPC) Trust	98 756	111 860
The amount represents SDR 15 065 760 (and interest accrued thereon) lent on August 31, 2002, to the Poverty Reduction Growth Facility/Heavily Indebted Poor Countries Trust Fund, a fund administered in trust by the IMF.		
	<u>144 031</u>	<u>163 219</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003	2002
	P'000	P'000
4. GOVERNMENT OF BOTSWANA BONDS		
(i) Purchased on May 26, 2003, maturing on June 1, 2005, bearing interest at the rate of 10.75 percent, receivable semi-annually in arrears:		
Market value	20 125	-
Interest accrued	179	-
	20 304	-
(ii) Purchased on 31 March 2003, maturing on 1 March 2008, bearing interest at the rate of 10.25 percent, receivable semi-annually in arrears:		
Market value	88 471	-
Interest accrued	2 948	-
	91 419	-
	111 723	-
5. OTHER ASSETS		
Staff Loans and Advances	30 022	28 338
Uncleared Effects	16 496	24 385
Prepayments	2 244	834
Other	5 221	2 043
	53 983	55 600
6. NOTES AND COIN IN CIRCULATION		
Notes	766 382	710 738
Coin	51 613	48 337
	817 995	759 075
Notes and coin in circulation held by the Bank as cash in hand at the end of the financial year have been netted off against the liability for notes and coin in circulation to reflect the net liability to the public.		
7. BANK OF BOTSWANA CERTIFICATES		
Face Value	8 870 460	7 782 650
Unmatured Discount	(131 114)	(119 193)
Market Value	8 739 346	7 663 457

Bank of Botswana Certificates are issued at various short-term maturity dates and discount rates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003	2002
	P'000	P'000
8. DEPOSITS		
Government	848 503	604 226
Bankers	520 347	290 603
Other	230 926	285 935
	<u>1 599 776</u>	<u>1 180 764</u>

These represent current accounts lodged by Government, commercial banks, parastatal bodies and others, which are payable on demand and are interest free.

The Government balance includes P2 139 258 (2002 – P1 848 932) in respect of the Letlole National Savings Certificate Scheme, which was launched by the Bank on behalf of the Government in 1999 as a means of encouraging savings.

This is analysed as follows:

Issues of National Savings Certificates	4 769	3 763
Redemptions	(2 623)	(1 884)
Net issues	2 146	1 879
Amounts awaiting collection from agents	(7)	(31)
Amount due to Government on behalf of the Scheme	<u>2 139</u>	<u>1 848</u>

9. LIABILITIES TO GOVERNMENT (IMF RESERVE TRANCHE)

	<u>197 373</u>	<u>175 527</u>
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This balance represents the Bank's liability to the Government in respect of the Reserve Tranche position in the IMF (Note 3.1)

10. DIVIDEND TO GOVERNMENT

Balance due at the beginning of the year	257 225	266 500
Dividend to Government from Pula Fund	755 000	1 028 900
Paid during the year	(823 475)	(1 038 175)
Balance due at the end of the year	<u>188 750</u>	<u>257 225</u>

The final instalment of the pre-set dividend of P188 750 000 unpaid at December 31, 2003 was provided for in accordance with Section 6 of the Bank of Botswana Act, 1996, which requires that all profits of the Bank be distributed to the shareholder, the Government.

11. OTHER LIABILITIES

Accounts payable	1 875	3 688
Other creditors and accruals	24 899	21 758
	<u>26 774</u>	<u>25 446</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003 P'000	2002 (Restated) P'000
12. CAPITAL		
Authorised and paid-up capital	25 000	25 000
The paid-up capital is the amount subscribed by the Government in accordance with Section 5 of the Bank of Botswana Act, 1996.		
13. GENERAL RESERVE	1 600 000	1 600 000
In the opinion of the Board, the General Reserve, taken together with other reserves which the Bank maintains, is sufficient to ensure the sustainability of future operations of the Bank.		
14. CURRENCY REVALUATION (LOSSES)/GAINS TAKEN TO INCOME STATEMENT		
Total realised (losses)/gains	(1 778 989)	1 401 832
Unrealised gains/(losses) – Liquidity Portfolio	9 758	(889 331)
Total taken to income statement	(1 769 231)	512 501
Appropriated to Currency Revaluation Reserve:		
Realised and reinvested in foreign assets	1 776 466	(1 437 625)
Unrealised – Liquidity Portfolio	(9 758)	889 331
	1 766 708	(548 294)
Net charged to income statement	(2 523)	(35 793)
15. INTEREST EXPENSE		
Bank of Botswana Certificates (BoBCs)	1 182 199	748 683
Debswana Tax Holding Account	39 161	27 646
Reverse Repurchase Agreements (BoBCs related)	15 624	17 662
National Savings Certificates	189	170
	1 237 173	794 161
16. CASH FLOW STATEMENT		

This has been prepared under International Accounting Standard No. 7 – Cash Flow Statements (Revised 1992). The definition of cash in the Standard is not wholly appropriate to the Bank. Due to its role in the creation and withdrawal of currency in circulation, the Bank has no cash balances on its balance sheet (also see Note 6). However, it has the ability to create cash when needed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2003	2002
	P'000	P'000
17. CASH GENERATED BY OPERATIONS		
Net (Loss)/Income for the year	(2 257 928)	592 713
Adjustments for:		
Unrealised exchange losses/(gains)	1 766 708	(548 294)
Depreciation of fixed assets	11 391	11 312
Loss on disposal of fixed assets	15	179
Operating cash flows before movements in working capital	(479 814)	55 910
Increase in Deposits – banks and other	174 735	124 365
Increase in Deposits - Government	244 277	295 331
Increase in Bank of Botswana Certificates	1 075 889	2 515 753
Decrease/(Increase) in other assets	1 720	(26 226)
Increase/(Decrease) in other liabilities	46 735	(68 331)
Cash generated by operations	<u>1 063 542</u>	<u>2 896 802</u>
18. CAPITAL COMMITMENTS		
Approved and contracted for	1 609	8 891
Approved but not contracted for	38 631	9 475
	<u>40 240</u>	<u>18 366</u>

These capital commitments will be funded from internal resources.

19. GOVERNMENT OF BOTSWANA BOND AGENCY

During the year, the Bank was appointed agent of the Government for the issuance and management of the Government Bonds in accordance with Sections 45 and 46 of the Bank of Botswana Act, 1996. Three bonds were issued as detailed below.

GOVERNMENT OF BOTSWANA BONDS ISSUED DURING THE YEAR ENDED DECEMBER 2003 (P'000)

Bond Detail	BW 001	BW 002	BW 003	Total
Date of Issue	May 26, 2003	March 31 and December 1, 2003	May 6 and November 3, 2003	
Date of Maturity	June 1, 2005	March 1, 2008	October 31, 2015	
Interest Rate (per annum)	10.75 percent	10.25 percent	10.25 percent	
Nominal Value	750 000	850 000	900 000	2 500 000
Net Discount	(30 401)	(21 029)	(32 571)	(84 001)
Net Proceeds	719 599	828 971	867 429	2 415 999
Interest Paid	40 313	25 625	25 625	91 563
Interest Accrued	6 719	29 042	15 375	51 136

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Net proceeds realised from the issue of the bonds were invested in the Government Investment Account.

Interest is payable on all bonds on a semi-annual basis in arrears. During the year, the total interest payments made of P91 563 000 were funded from the Government's current account maintained with the Bank.

20. COMPARATIVES

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year, as a result of the changes in accounting policy.

21. RISK MANAGEMENT POLICIES IN RESPECT OF FINANCIAL INSTRUMENTS

The risk management policies of the Bank regarding financial instruments are dealt with in regular reviews of the Bank's reserve management policies. The main risk areas are market, currency, credit and interest rates. The Bank invests in investment grade currencies (AA/Aa2) and above. Interest rate risk is managed by using modified duration, while credit risk is controlled by dealing with the best quality institutions or counterparties, as determined by international rating agencies.

22. RELATED PARTY TRANSACTIONS

The Bank provides several services to its shareholder, the Government, and to other Government owned institutions. The main services during the year to December 31, 2003 were:

- (i) provision of banking services, including holding of the principal accounts of the Government;
- (ii) management of the notes and coin issue, including printing and minting of notes and coin, respectively; and
- (iii) being the Government's agent in issuing of bonds.

The aggregate balances in Government and other public sector accounts are disclosed in Notes 8 to 10.

No charges are made to the Government for provision of these services, except for commissions charged on domestic foreign exchange transactions, which are included in "Commissions" in the income statement.

The Bank has also earned interest on its holding of the Government of Botswana bonds which is included in the income statement. Unrealised market value movements in the bonds have been included in the Market Revaluation Reserve.

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