



BANKING SUPERVISION

ANNUAL REPORT | 2024



MISSION STATEMENT

The principal objective of the Bank of Botswana (Bank) is to promote and maintain monetary stability, an efficient payments mechanism, liquidity, solvency and proper functioning of a sound monetary, credit and financial system in Botswana.

In pursuit of a key aspect of this objective, the Bank established the Prudential Authority and Payments Oversight Department with a mandate to promote and maintain an efficient, a safe, stable, sound and competitive banking system. In its supervisory role, the Bank is guided by the Bank of Botswana Act (Cap. 55:01) as amended (Bank of Botswana Act), Banking Act (Cap. 46:04) (Banking Act), Banking Regulations of 1995, Bureau de Change Regulations of 2004, National Clearance and Settlement Systems Act (Cap 46:06); National Clearance and Settlement System Regulations, 2005; Electronic Payment Services Regulations, 2019; the National Payments System Oversight Policy and relevant directives, policies and guidelines issued pursuant to the Banking Act, all of which govern the establishment and conduct of financial institutions within the Bank's regulatory and supervisory purview.

The Bank also seeks to promote market integrity, competition, fair-trading practices and a high standard of governance through consultation and open communication with market players. Further, the Bank is committed to maintaining a high standard of professional conduct in line with international regulatory and accounting standards for effective banking supervision.

To achieve these goals, the Bank

- (a) sets transparent criteria, issues guidelines, and stipulates other requirements for market entry in the Licensing Policy;
- (b) establishes and updates, on a regular basis, prudential policies and standards;
- (c) monitors solvency, liquidity, large exposures, insider loans, prudent provisioning and risk management strategies, as well as the adequacy of risk management and governance structures for the safe and sound operation of banks;
- (d) establishes effective systems for off-site surveillance and on-site examination, including reporting, accounting, auditing and disclosure standards;
- (e) ensures timely enforcement of supervisory actions and compliance with banking and other related laws governing operations of banks in Botswana;
- (f) maintains general market surveillance, monitors and investigates unlicensed or illegal deposit-taking activities and practices to protect the public and integrity of the banking system;
- (g) provides modern payments infrastructure that meets current and future requirements of a growing economy; and
- (h) promotes public confidence in the payments system and instruments.

BANKING SUPERVISION ANNUAL REPORT 2024

BANK OF BOTSWANA

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BANK OF BOTSWANA: BANKING SUPERVISION

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LIST OF ABBREVIATIONS

Absa	Absa Bank Botswana Limited
Access Bank	Access Bank Botswana Limited
AML/CFT/CPF	Anti-Money Laundering and Combating the Financing of Terrorism and Combating Proliferation Financing
ATM	Automated Teller Machine
BACH	Botswana Automated Clearing House
Banking Act	Banking Act (Cap. 46:04)
Bank Gaborone	Bank Gaborone Limited
Baroda	Bank of Baroda (Botswana) Limited
BBS Bank	BBS Bank Limited
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BISS	Botswana Interbank Settlement System
BoBA	Bank of Botswana Act (Cap. 55:01)
BoBCs	Bank of Botswana Certificates
BSB	Botswana Savings Bank
BTCL Smega	Botswana Telecommunications Corporation Limited Smega Mobile Money Services
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CAR	Capital Adequacy Ratio
CB	Central Bank
CDD	Customer Due Diligence
CET1	Common Equity Tier 1
CPMI	Committee on Payments and Market Infrastructures
Credbase	Credbase (Pty) Ltd
CSDB	Central Security Depository Company of Botswana
DFS	Digital Financial Services
DTA	Deferred Tax Assets
DTI	Deposit-taking Institutions
EDD	Enhanced Due Diligence
EFT	Electronic Funds Transfer
EPS	Electronic Payment Service
FATF	Financial Action Task Force
FCB	First Capital Bank Limited
FIA	Financial Intelligence Agency
FI Act	Financial Intelligence Act, 2022
Fintech	Financial Technology
FNBB	First National Bank of Botswana Limited
FSAP	Financial Sector Assessment Programme
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRRBB	Interest Rate Risk in the Banking Book

LIST OF ABBREVIATIONS (CONTINUED)

Kwanokeng	Kwanokeng Bureau de Change
LAR	Liquid Asset Ratio
MDI	Microfinance Deposit-taking Institutions
Micro-Finance	Micro-Finance Credit Bureau (Pty) Ltd
ML/TF/PF	Money Laundering, Terrorist Financing and Proliferation Financing
MoPR	Monetary Policy Rate
Mukuru	Mukuru Bureau de Change
MVTS	Money or Value Transfer Service
NDB	National Development Bank
NIM	Net Interest Margin
NPLs	Non-performing Loans
NPS	National Payments System
NPTF	National Payments Task Force
OKP Botswana	OKP Botswana (Pty)
OSS	Off-site Surveillance
PA	Prudential Authority
PFMIs	Principles for Financial Market Infrastructures
PIPs	Politically Influential Persons
PoS	Point of Sale
RAS	Risk Assessment Systems
RBS	Risk-based Supervision
RoAA	Return on Average Assets
RoE	Return on Equity
RWA	Risk-weighted Asset(s)
SA	Standardised Approach
SADC	Southern African Development Community
SADC-RTGS	Southern African Development Community Real-Time Gross Settlement
SARB	South African Reserve Bank
SIPS	Systemically Important Payment Systems
SMM	Standardised Measurement Method
Stanbic	Stanbic Bank Botswana Limited
Stanchart	Standard Chartered Bank Botswana Limited
TransUnion	TransUnion (Proprietary) Limited
UBOs	Ultimate Beneficial Owners
USD	United States dollar
ZAR	South African rand

FOREWORD

This Banking Supervision Annual Report presents information on the structure, performance and general state of the banking industry, overview of the national payments system and developments concerning banking regulation and supervision in Botswana throughout 2024. Section 28 of the Banking Act (Cap. 46:04) obligates the Bank of Botswana (Bank) to submit to the Minister of Finance, by 30 June each year, a report on the business affairs of all banks, and of all persons or institutions whose affairs were examined by the Bank and all other pertinent matters, which the Bank dealt with in 2024. The Bank has consistently complied with this statutory requirement.

In 2024, the global economic performance was lacklustre, reflecting the lagged effects of restrictive monetary policies implemented in 2023, increasing geoeconomic fragmentation, extreme weather conditions and low productivity. Consequently, economic growth was subdued and uneven across countries and regions of the world. Global gross domestic product (GDP) is estimated to have expanded by 3.3 percent in 2024 and is forecast to grow by 2.8 percent in 2025. The ongoing trade wars engendered by the United States of America's trade policies is likely to constrain the global economic activity and lower prospects for the world GDP growth. In Botswana, real GDP declined by 3 percent in 2024, compared to a growth of 3.2 percent in 2023. Real GDP for 2025 is projected to contract by 0.4 percent. The decline in GDP growth reflects the continued weak performance of the diamond market, subdued global growth and the potential adverse effects of the US-led tariffs war.

On the regulatory developments, the Bank received one application for a banking licence. The assessment of the application was ongoing as at the end of 2024. Therefore, there was no new banking licence issued in 2024. Consequently, the number of licensed banks in Botswana remained at nine. In 2024, the Bank issued a bureau de change licence to two entities, whereas five bureaux de change voluntarily surrendered licences; as a result, the number of operating bureaux de change fell from 52 in 2023 to 49 in 2024. Moreover, the number of operating electronic payments service providers and money or value-transfer-services providers decreased from 25 in 2023 to 23 in 2024.

In the payments realm, the Bank continued to ensure that payment systems were operated in line with relevant legislation, international best practices and standards. In support of the Southern African Development Committee (SADC) regional payments integration initiatives, the Bank continues to facilitate the participation of Botswana banks in the regional payments infrastructure, the SADC-Real Time Gross Settlement (SADC-RTGS) system. As at the end of 2024, four commercial banks in Botswana were participants in the SADC-RTGS.

Consistent with established practice, statutory annual meetings were held to discuss matters of mutual interest between the Bank and supervised institutions. Further, the Bank participated in supervisory college meetings hosted by banks with an international presence and have subsidiaries in Botswana. The meetings provide a regular forum for collaboration, coordination and exchange of information among supervisory authorities for internationally operating banking groups, to facilitate effective consolidated supervision.

In 2024, banks were generally compliant with regulatory and prudential requirements; in cases of non-compliance, appropriate supervisory action, including remedial measures, was taken in accordance with applicable laws and regulations. Overall, the banking system remained safe, sound, profitable, liquid and adequately capitalised.

I take this opportunity to thank all stakeholders who, throughout the year, supported the Bank's efforts at promoting financial stability through effective banking supervision.



Cornelius K Dekop
GOVERNOR

INTRODUCTION

In pursuit of its mission of contributing to the sound economic and financial well-being of the country, empowered by the Bank of Botswana Act, Banking Act (Cap. 46:04) (Banking Act) and the Bank of Botswana (Bureaux de Change) Regulations, the Bank of Botswana (Bank) regulates and supervises banks, bureaux de change and one deposit-taking microfinance institution. Further, the Bank's mandate has expanded to include the regulation and supervision of credit information bureaus, through the Credit Information Act, 2021, and payment systems in accordance with the National Clearance and Settlement Systems Act (Cap. 46:06).

The number of commercial banks and statutory banks operating in Botswana was unchanged as at 31 December 2024, at nine (9) and two (2), respectively, from that in 2023. On the other hand, the number of operating bureaux de change fell from 52 to 49, and that of electronic payment services, and money or value-transfer-service providers to 23 from 25 in the previous year.

The banking industry employed 5 293 persons during the review period, an increase of 3.9 percent from 5 094 in 2023. The increase in the level of staff, which was spread across eight banks, reflected expansion of business activities by some banks. Banks continue to leverage technological advances and customer preference for digital banking by designing digitally enabled financial-product offerings and increasing digitisation of operational processes, a development that has the potential to drive the financial inclusion agenda.

Commercial banks remained resilient and continued to fulfil their intermediation role despite the slowdown in economic activity and liquidity challenges, especially in the final quarter of 2024, which were largely due to a downturn in the diamond market. Total assets of commercial banks amounted to P144 billion as at 31 December 2024, an increase of 7.7 percent from the P133.6 billion reported in the previous year, reflecting growth in gross loans and advances from P81.8 billion to P87.1 billion in the same period. Customer deposits, which continued to be the main source of funding for asset growth, accounted for 75 percent of the banks' liabilities; the deposits rose by 3 percent from P104.1 billion in 2023 to P107.3 billion in 2024. The financial intermediation ratio increased from 78.6 percent in 2023 to 81.2 percent in 2024, reflective of growing intermediation by banks. As at the end of 2024, total assets for statutory banks amounted to P6.7 billion, an increase of 44.6 percent from P4.6 billion in 2023. The increase in the total assets reflects a growth of 65.6 percent in the loan book of the two statutory banks from P3.5 billion in 2023 to P5.8 billion in 2024.

Despite growth in the statement of financial position of banks, their contribution to economic growth, as measured by the ratio of private credit to GDP remains low. The combination of digital transformation and product innovation by banks, evolving consumer preferences, enhanced efforts by government at expanding financial inclusion, improved consumer awareness of financial services and products through financial literacy campaigns offers prospects for further financial development.

The banking industry continued to be adequately capitalised and complied with minimum prudential standards for regulatory capital requirements. Unimpaired capital for commercial banks increased by 6.8 percent from P17.1 billion in 2023 to P18.3 billion in 2024. For statutory banks, unimpaired capital rose by 19.4 percent from P1.1 billion in 2023 to P1.4 billion in 2024. All banks reported capital adequacy and common equity Tier 1 capital ratios above the respective prudential minimum limits of 12.5 percent and 4.5 percent.

INTRODUCTION (CONTINUED)

With respect to asset quality of commercial banks, total past due loans (loans in payment arrears) decreased by 1.8 percent from P4.23 billion in 2023 to P4.16 billion in 2024, which resulted in the fall in specific provisions from P1.51 billion in 2023 to P1.48 billion in 2024. Consequently, the ratio of NPLs to gross loans and advances declined from 3.7 percent in 2023 to 3.4 percent in 2024 and of net NPLs (net of specific provisions) to unimpaired capital from 8.7 percent to 8.1 percent, indicating improved asset quality and the ability of banks to absorb losses from NPLs. Further, the ratio of large exposures to unimpaired capital for commercial banks declined from 151.8 percent in 2023 to 138.9 percent in 2024, the ratio was substantially below the 800 percent prudential limit. Meanwhile, aggregate NPLs for statutory banks decreased by 5.6 percent from P349.8 million in 2023 to P330.1 million in 2024. Consequently, the ratio of NPLs to gross loans and advances for statutory banks decreased from 10 percent in 2023 to 5.7 percent in 2024.

The composite credit risk for commercial banks was assessed to be moderate in the review period. The inherent credit risk, however, is likely to increase over the next 12 months, given the relatively high proportion (64 percent) of household loans to total loans and advances, and the vulnerability of the industry to the business cycle. Moreover, the possible increase in international commodity prices, persistent supply and logistical constraints, and the reversal of global economic integration and any upward adjustment in administered prices, among others, could erode income and impair customers' capacity to service loans, resulting in deteriorating credit conditions over the next 12 months.

Statutory liquid assets of commercial banks decreased by 7.4 percent from P20.8 billion in 2023 to P19.2 billion in 2024 in an environment of liquidity challenges faced by the industry in the last quarter of 2024. The reduction in liquidity was reflected in the decline in both balances due from Bank of Botswana and Bank of Botswana Certificates (BoBCs). As a result, the liquid assets to total deposits ratio for commercial banks fell from 20 percent in 2023 to 17.9 percent in 2024, which was, however, above the 10 percent minimum statutory requirement. For statutory banks, liquid assets decreased by 22.4 percent from P1.1 billion in 2023 to P867.6 million in 2024. The liquidity position of the two banks was satisfactory as at 31 December 2024.

Financial market infrastructures (FMIs) operating in Botswana were assessed to be stable and robust, thus supporting and preserving domestic financial stability. The FMIs, BISS, BACH and CSDB continued to deliver secure and reliable clearing and settlement services. The volume of transactions settled through BISS increased by 14.8 percent from 194 726 in 2023 to 223 520 in 2024, while the value increased by 38.6 percent from P1.13 trillion to P1.57 trillion in the same period. Similarly, the volume of EFT transactions processed through the BACH system increased by 10.1 percent from 11.3 million in 2023 to 12.5 million transactions in 2024, while the associated value grew by 10.9 percent, from P300.9 billion in 2023 to P333.6 billion in 2024. The Bank continues to modernise the payments system, as evidenced by, among others, cessation of the cheque, initiatives to promote digital payments, and the launching of a project to develop a national retail payments switch aimed at enhancing interoperability in pursuit of the mandate to ensure efficient and effective functioning of NPS.

In execution of its regulatory and supervisory mandate of promoting safety and soundness of the banking system, the Bank continued to enhance the operational resilience and compliance measures of banks, focusing on requiring compliance with good corporate-governance practices and business conduct, as well as alignment of strategies of banks with the risk appetite. The Bank conducted off-site monitoring and on-site examination of banks using a risk-based supervision approach and an off-site surveillance system. In addition to prudential supervision, the Bank monitored the business conduct of banks with a view to ensuring that customers were equally and professionally treated, and to promoting market integrity, and that banks complied with laws and

INTRODUCTION (CONTINUED)

regulations, including those relating to anti-money laundering and combating the financing of terrorism and proliferation financing (AML/CFT/CPF).

In accordance with Section 24 of the Banking Act, the Bank conducted prudential, consumer compliance and AML/CFT/CPF on-site examination in 2024 at several banks. The Bank also held prudential bilateral and statutory trilateral meetings in 2024.

The results of the prudential and consumer-compliance on-site examination revealed deficiencies in management of interest rate, operational and cybersecurity risks. The concerned banks were directed to redress the deficiencies. In 2024, the Bank continued to monitor supervised institutions for compliance with the AML/CFT/CPF obligations as prescribed in the Financial Intelligence Act, 2022 (FI Act). Supervision was conducted through both on-site examination and off-site monitoring. During 2024, the Bank conducted AML/CFT/CPF on-site examination of three banks, three providers of electronic payment system and money or value-transfer service (MVTSE/EPSE) and two bureaux de change. Generally, the institutions inspected in 2024 were found to have satisfactory AML/CFT/CPF obligations. Where supervisory concerns were noted, the affected institutions were directed to address them and, in some cases, monetary fines were imposed for non-compliance.

On the standards of business conduct, banks were found to have complied with the minimum public disclosure and statutory requirements on bank charges by publishing monthly indicative deposit rates on their websites as well as in at least two newspapers widely circulating in Botswana. Consistent with expectation, large-value and longer-maturity deposits were remunerated at commensurately higher interest rates, reflecting maturity premium, among others.

This Banking Supervision Annual Report is divided into six thematic chapters: Chapter 1 outlines the structure of Botswana's financial system and presents selected indicators; Chapter 2 focusses on assessment of financial performance of the banking industry in 2024; Chapter 3 discusses the national payments system; Chapter 4 reports on licensing and consumer protection; Chapter 5 highlights other supervisory activities; and Chapter 6 presents highlights of on-site examination and off-site surveillance. There are technical notes in appendixes relating to the framework for banking supervision in Botswana, schedule of institutions regulated and supervised by the Bank, glossary of banking supervision terminology in the report, as well as tabular and graphical representation of prudential and other statistical information on the banking industry.

CHAPTER 1

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS

THE BANKING INDUSTRY STRUCTURE, EMPLOYMENT AND FINANCIAL SERVICES

- 1.1 As at 31 December 2024, the Botswana banking industry comprised nine commercial banks and two statutory banks; eight of the nine commercial banks are subsidiaries of foreign banks, and one is a local bank. The number of operating bureaux de change was 49, a decrease from 52 in 2023. The reduction in the number of the entities reflected the net effect of the closure of five bureaux de change, which voluntarily surrendered their licences, and the coming into operation of two new others. Further, in fulfilment of the requirements of Section 6(1) of the Credit Information Act, 2021, three credit bureaus: TransUnion (Proprietary) Limited (TransUnion), Micro-Finance Credit Bureau (Pty) Ltd (Micro-Finance) and Credbase (Pty) Ltd (Credbase), which had been in operation, were each issued with a credit bureau licence to regularise their operations.

Banking Industry Branch Network and Other Delivery Channels

- 1.2 During 2024, the number of bank branches remained unchanged across all but one bank, which opened one branch and merged three, resulting in the overall number of branches decreasing to 162 from 163 in 2023. In an effort to reach out to more customers, especially where banks do not have physical representation, some banks continued to install automated teller machines (ATMs). Thus, the resultant number of ATMs increased by 13 from 636 to 649 between 2023 and 2024.
- 1.3 The increase in the number of ATMs is a welcome development because they generally provide convenience for customers, allowing access by customers to their accounts wherever they are, anytime. ATMs also facilitate cardless transactions for both bank and non-bank account holders. Further, ATM transactions are easily accessible and relatively cheap compared with in-branch transactions.
- 1.4 Distribution of the bank-branch network across the country was almost unchanged between the end of 2023 and of 2024, with an increase of one branch in the Gaborone District and a decrease of two in the Francistown District. The Gaborone District continues to lead concentration of branches, with 51, reflective of higher economic activity and increased demand for financial services, followed by the Francistown District with 12. Meanwhile, the bank-branch network for the rest of other districts was unchanged (Appendix 2).

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Table 1.1: Branches and ATMs: 2022–2024

		Branches and Sub-branches			ATMs		
		2022*	2023*	2024	2022	2023	2024
Large Banks	Absa	36	36	35	114	114	127
	Stanchart	15	14	14	74	71	66
	FNBB	27	27	27	243	251	257
	Stanbic	13	13	13	80	79	78
	Sub-total	91	90	89	511	515	528
Small Banks	Access Bank	21	21	21	58	59	58
	Baroda	4	4	4	7	7	7
	Bank Gaborone	12	12	12	21	23	23
	FCB	11	11	11	6	5	5
	BBS Bank	-	10	10	-	10	11
	Sub-total	47	58	58	92	104	104
Total for Commercial Banks		147	148	147	603	619	632
Statutory Banks	BBS Bank	10	-	-	9	-	-
	BSB	11	11	11	17	17	17
	NDB	4	4	4	-	-	-
Total for Statutory Banks		25	15	15	26	17	17
Overall total		164	163	162	629	636	649

*2022 and 2023 figures were updated.

Source: Commercial and Statutory Banks (Statutory Returns submitted to the Bank).

- 1.5 The number of point-of-sale (PoS) terminals increased by 10.3 percent from 25 015 in 2023 to 27 586 in 2024. The increase was partly a result of an addition of 478 PoS terminals by FCB. The continued increase of PoS terminals over the years promotes a more digital and financially inclusive economy and also indicates increasing use of electronic card payments by the public. PoS terminals do not only provide a payment method but are also used for cash-back transactions, allowing customers to have access to cash as required. As at the end of 2024, FNBB owned a substantial share of the number of those terminals, accounting for more than half the number (54.5 percent), while the rest were distributed among Absa, Stanbic, Bank Gaborone, Access Bank and FCB (Table 1.2).

Table 1.2: Point-of-Sale Terminals and Ownership: 2022–2024

Banks	Point of Sale		
	2022	2023	2024
FNBB	12 163	13 428	14 767
Absa	5 484	5 694	6 291
Stanbic	2 705	3 208	3 155
Bank Gaborone	1 004	1 333	1 166
Access Bank	884	1 352	1 729
FCB	0	0	478
Total	22 240	25 015	27 586

Source: Commercial Banks (Statutory Returns submitted to the Bank).

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Financial Access Indicators

- 1.6 Accessible, affordable and high-quality banking services ensure that unbanked and underbanked populace participate in the formal financial system. Access to banking services, one of the aspects of financial inclusion, as measured by the ratio of the number of depositors to adult¹ population decreased slightly from 87.9 percent in 2023 to 86 percent in 2024, which could be due to use by customers of alternative financial services. The number of depositors grew by 1.9 percent from 1.52 million in 2023 to 1.55 million in 2024, while that of the adult population increased by 4.1 percent from 1.7 million to 1.8 million in the same period.
- 1.7 Similar to the previous year, there was one ATM per 1 000 square kilometres, whereas the number of ATMs per 10 000 adults slightly decreased from 3.7 to 3.6, reflecting marginally reduced access to financial services or products through ATMs. The reduction in ATM penetration could also reflect a shift in consumer behaviour towards digital financial services. There was one branch per 10 000 adults and less than one branch per 1 000 square kilometres in 2024, a statistical indication of the sparse geographic population distribution in the country.

Banking Industry Employment Trends: 2023–2024

- 1.8 Table 1.3 shows employment levels for 2023 and 2024. The number of people employed in the banking industry rose by 3.9 percent from 5 094 in 2023 to 5 293 in 2024. The employment level, however, was low relative to the total estimated employment in the economy, in quarter one of 2024, which was 754 146², possibly reflecting the small size of the banking industry relative to gross domestic product (GDP). The increase in employment was spread across eight banks and reflects expansion of business. Conversely, three banks reduced staff, mainly owing to increased automation and use of digital channels. Meanwhile, the percentage of expatriates in the banking industry remained at 0.8 percent between 2023 and 2024, with the absolute number falling from 41 to 40 in the same period.
- 1.9 Overall, employees of large banks increased by 4.2 percent from 3 410 in 2023 to 3 553 in 2024, while at small banks the number grew by 2.1 percent from 1 267 to 1 293 in the same period. Further, the number of workers at statutory banks rose by 7.2 percent from 417 in 2023 to 447 in 2024.

¹ An adult refers to a person aged 15 and above. Projections for population were obtained from the Statistics Botswana Population Projections for Botswana 2011–2026 Report; medium scenario projections were used.

² Source: Quarterly Multi-Topic Survey: Labour Force Module Quarter 1, 2024, Statistics Botswana.

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Table 1.3: Level of Employment by Domestic Banks: 2023–2024

		2023			2024		
		Citizens	Expatriates	Total	Citizens	Expatriates	Total
Large Banks	Absa	1 036	5	1 041	904	5	909
	Stanchart	417	5	422	393	8	401
	FNBB	1 409	4	1 413	1 619	2	1 621
	Stanbic	532	2	534	620	2	622
	Sub-total	3 394	16	3 410	3 536	17	3 553
Small Banks	Access Bank	463	5	468	401	2	403
	Baroda	46	14	60	49	14	63
	Bank Gaborone	309	1	310	328	1	329
	FCB	225	4	229	241	5	246
	BBS Bank	199	1	200	251	1	252
	Sub-total	1 242	25	1 267	1 270	23	1 293
Total for Commercial Banks		4 636	41	4 677	4 806	40	4 846
Statutory Banks	BBS Bank	217	-	217	232	-	232
	NDB	200	-	200	215	-	215
Total for Statutory Banks		417	-	417	447	-	447
Overall Total		5 053	41	5 094	5 253	40	5 293

Source: Commercial and Statutory Banks (Statutory Returns submitted to the Bank).

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

New Banking Industry Products and Services

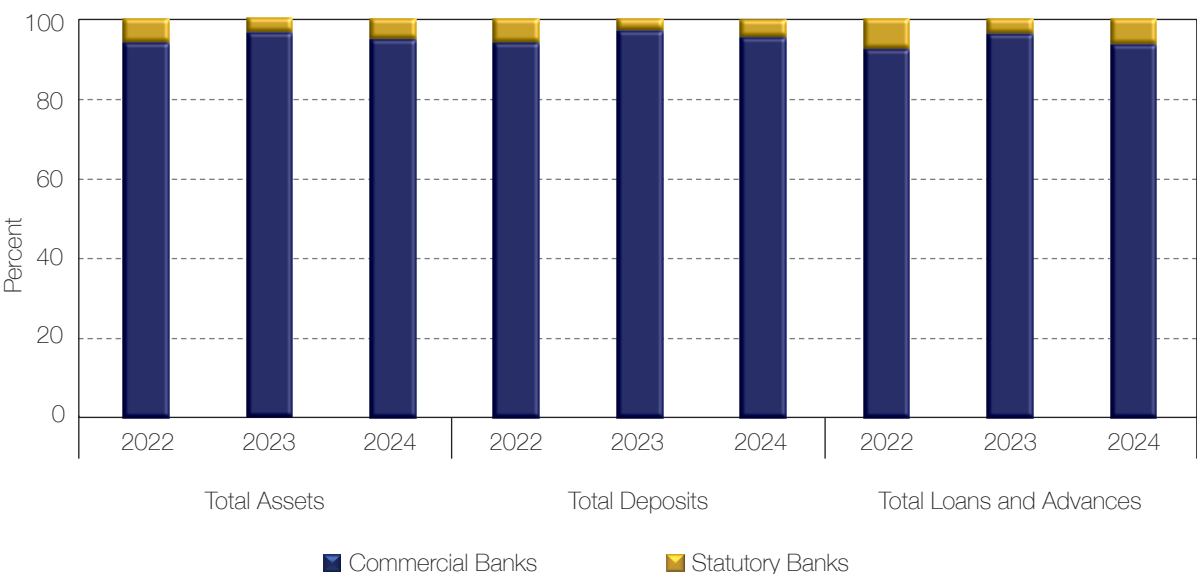
- 1.10 Disclosure of essential information about a product is pivotal to consumer awareness and protection, as it enables customers to make informed decisions and choices from the range of products and services offered in the market. Such disclosure is aligned with one of the four dimensions of financial consumer protection (disclosure and transparency) by the World Bank, 2017, which emphasises the need for financial-services providers to furnish consumers with the necessary information to understand the characteristics, benefits, risks and terms of financial products and services. To satisfy the evolving consumer preferences and to harness technological advances in areas of potential business growth, banks continued to diversify, develop and enhance their products and services.
- 1.11 In 2024, the Bank evaluated 28 products and services from different banks, one product having been brought forward from the previous year, while 27 were received in 2024. Twenty-seven products and services were approved and one product was undergoing assessment. These products and services covered a wide range, such as enhancement and digitisation of traditional banking services to improve efficiency, personalised banking experiences and increased accessibility and convenience.

BANKING INDUSTRY COMPETITION AND CONCENTRATION

Market Share

- 1.12 Commercial banks continued to dominate the banking industry in total assets, deposits, and loans and advances, with respective market shares of 95.5 percent for assets, 95.9 percent for deposits and 93.8 percent for loans and advances. (Chart 1.1). Meanwhile, the market share for statutory banks by value of assets, deposits, and loans and advances increased from 3.4 percent to 4.5 percent, 2.5 percent to 4.1 percent, and 4.1 percent to 6.2 percent, respectively, in the same period.

Chart 1.1: Market Share: Total Assets, Total Deposits, and Total Loans and Advances of the Banking Industry: 2022–2024 (Percent)



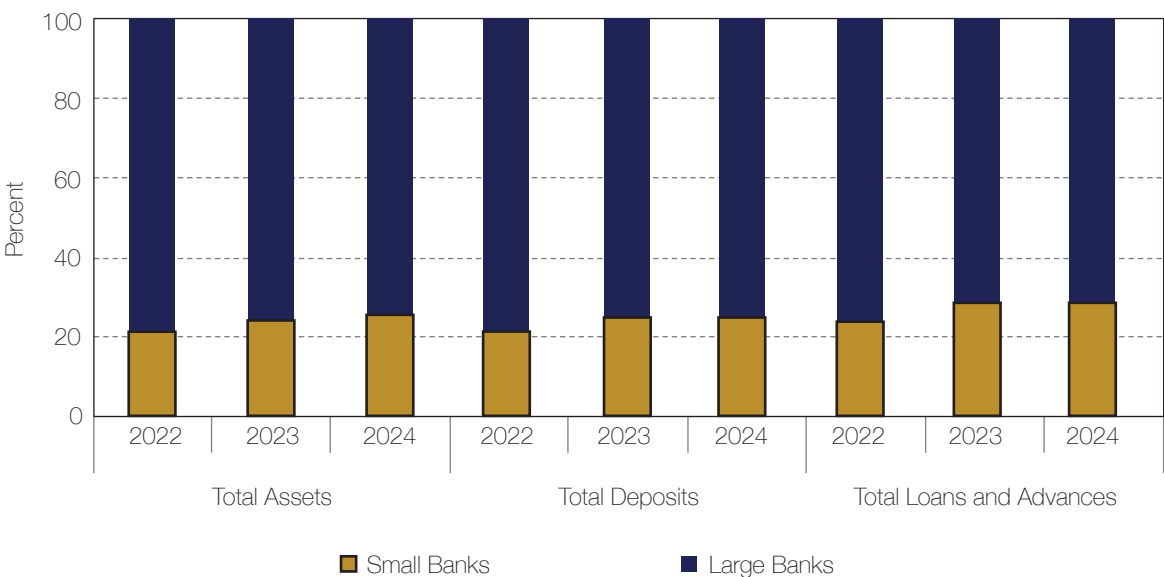
Source: Commercial and Statutory Banks (Statutory Returns submitted to the Bank).

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

1.13 The structure of commercial banks remained the same as in 2023 because the four large banks³ continued to dominate the banking industry and accounted in aggregate for 74.1 percent, 73.9 percent and 71.3 percent of total assets, deposits, and loans and advances, respectively, in 2024 (Chart 1.2). Small banks marginally gained market share with respect to total assets, deposits, and loans and advances in 2024.

Chart 1.2: Market Share: Total Assets, Total Deposits, and Total Loans and Advances of Commercial Banks: 2022–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Market Competition Indicators

The Herfindahl-Hirschman Index

1.14 The Herfindahl-Hirschman Index⁴ (HHI), a measure of market concentration, fell from 0.16028 in 2023 to 0.15739 in 2024. The index remained lower than 0.1800, indicating a moderately concentrated market and therefore moderate competition, which provides an opportunity for banks to compete through price, quality, and innovation to the benefit of consumers.

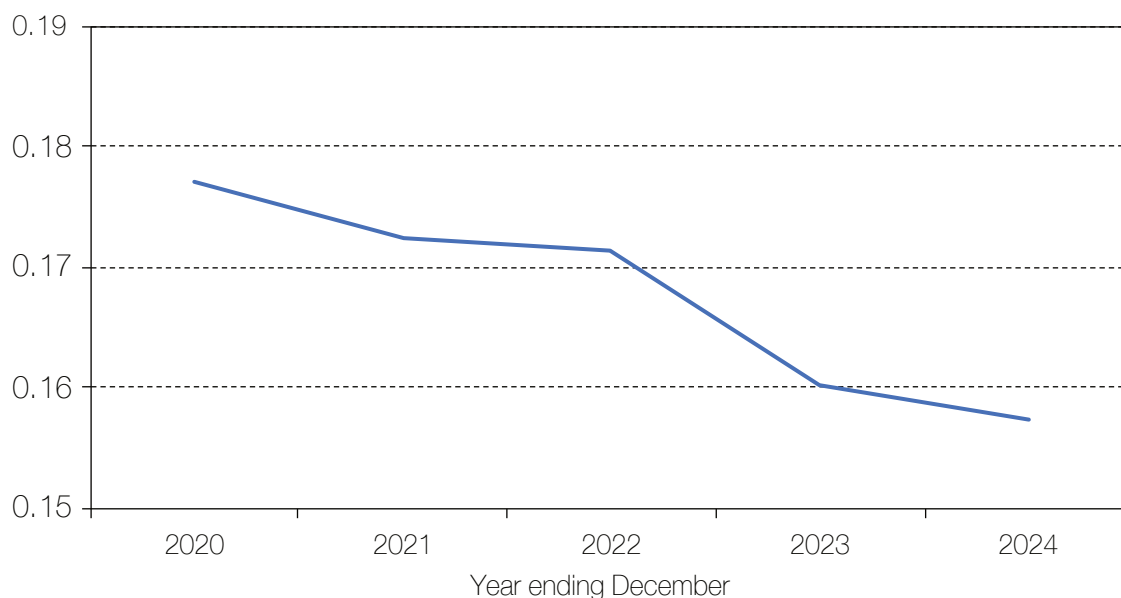
³ A large bank refers to a bank with total assets amounting to at least 10 percent of commercial banks consolidated assets as at 31 December 2024.

⁴ The HHI (calculated as the sum of squares of market shares of commercial banks) threshold indicators for the level of concentration in an industry are as follows: below 0.01, the market is highly competitive; values below 0.1 indicate an unconcentrated market; values between 0.1 and 0.18 indicate a moderately concentrated market; for a monopolistic market, the HHI=1.

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Chart 1.3: Herfindahl-Hirschman Index (HHI): 2020–2024



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Net Interest Margin

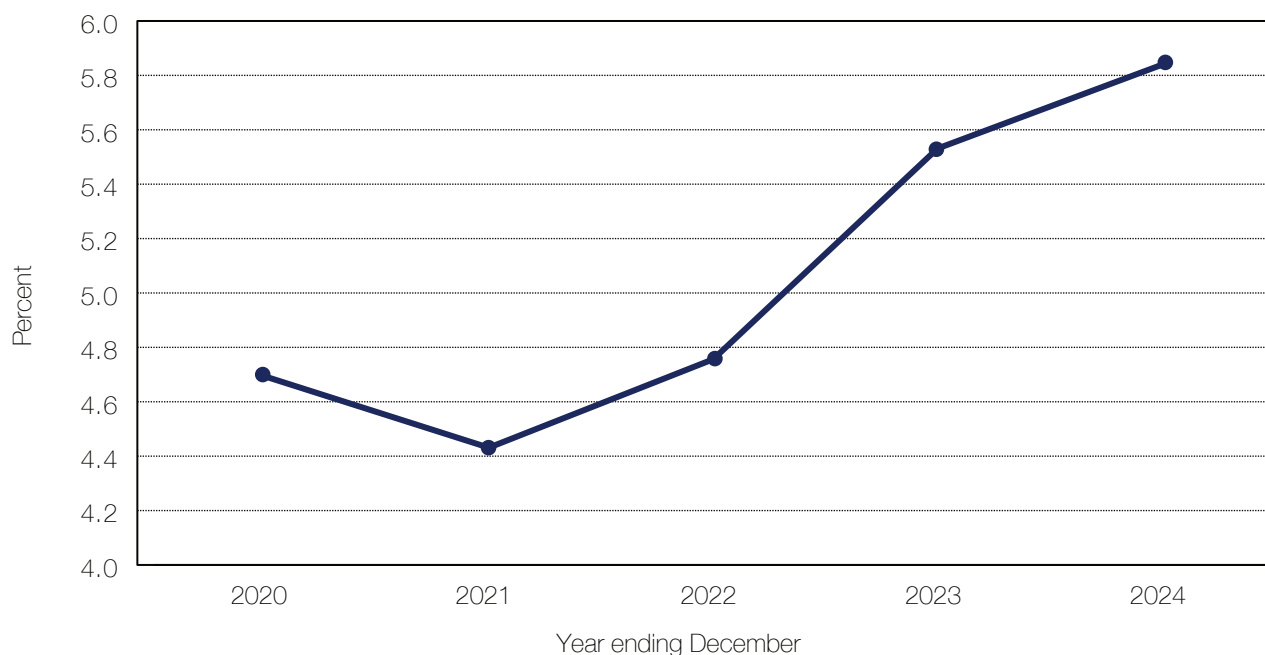
- 1.15 The net interest margin⁵ (NIM) for commercial banks increased by 0.3 percentage points from 5.5 percent in 2023 to 5.8 percent in 2024, indicating a slight improvement in profitability in the year, and moderate competition.

⁵ Net interest margin is a measure of the difference between interest received and interest paid, adjusted for the total amount of interest-generating assets held by a bank. It is noted that, in addition to competitive forces, the NIM can be driven by operating costs, loan quality and the macroeconomic environment, including interest rates and demand (although aspects of these may be indirect facets of market competition).

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Chart 1.4: Commercial Banks Trend of Net Interest Margin: 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

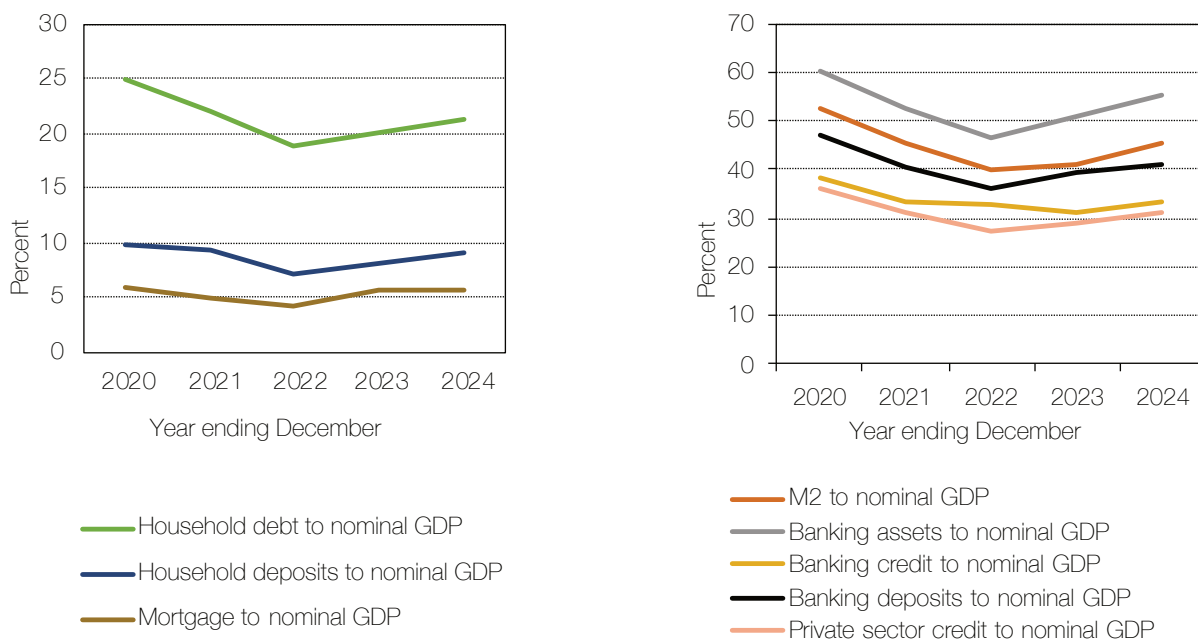
BANKING INDUSTRY SIZE AND DEPTH

- 1.16 Financial deepening refers to the process of expanding provision of financial services to the population, thus making services affordable and accessible. One of the measures of financial depth is the ratio of financial assets to a country's nominal GDP. Consistent with this broad definition, the International Monetary Fund (IMF) defines a financial development index—a measure of the development of financial institutions and financial markets—as the increasing provision of financial services, characterised by depth of a financial system, ease of access to financial services by the unbanked and underbanked population, and efficiency of financial services providers. Thus, financial depth enhances welfare of the people and overall economic performance.
- 1.17 Chart 1.5 shows ratios commonly used to measure financial depth and development. Overall, financial development, including depth, improved between 2023 and 2024, which is reflective of increased capacity of financial institutions to mobilise savings to finance investment and enhance product offerings through technological advances, thus contributing to economic growth. There is, however, potential for further deepening of the financial sector through strategic refocus or refinement by financial institutions. An additional pathway for financial development is a deliberate concerted effort at developing financial infrastructure, fostering and promoting growth of the capital market to diversify financial investment and expand financial inclusion.

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Chart 1.5: Financial Deepening Indicators: 2020-2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank) and Statistics Botswana.

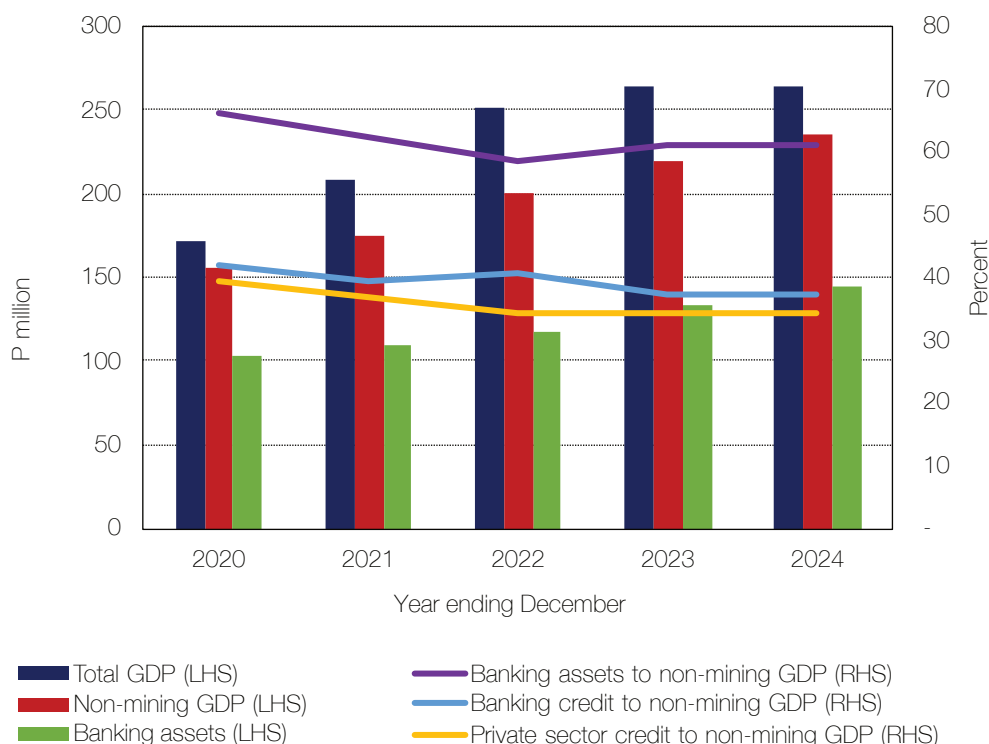
- 1.18 Financial depth, as estimated by the ratio of private sector credit to nominal GDP⁶, increased from 28.6 percent in 2023 to 30.8 percent in 2024. Meanwhile, private sector credit as a proportion of non-mining nominal GDP, remained at 34.4 percent in the same period.
- 1.19 Commercial banks credit as a percentage of nominal GDP increased from 31 percent in 2023 to 33.1 percent in 2024. The ratio of banking assets to nominal GDP increased from 50.7 percent in 2023 to 54.7 percent in 2024 (Chart 1.5), while the size of banking assets relative to non-mining nominal GDP rose from 60.8 percent in 2023 to 61.1 percent in 2024 (Chart 1.6). The increase in the ratios shows that commercial banks continue to support economic growth through effective financial intermediation and provision of other services.

⁶ Private sector credit, as defined by the World Bank, excludes credit issued to government, government agencies and public enterprises, while banking industry credit is credit to all sectors of the economy.

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

Chart 1.6: Financial Sector Size and Depth Indicators: 2020–2024



Source: Commercial Banks (Statutory Returns submitted to the Bank) and Statistics Botswana.

- 1.20 The M2⁷ to nominal GDP ratio, which estimates the degree of monetisation of an economy, increased from 40.8 percent in 2023 to 43.8 percent in 2024, indicating an increased financial support to the economy through resources mobilised by the banking system.
- 1.21 The level of household debt⁸ relative to nominal GDP increased from 20.2 percent in 2023 to 21.2 percent in 2024. On the other hand, commercial bank mortgage as a percentage of nominal GDP rose slightly from 5.6 percent in 2023 to 5.7 percent in the same period. When including statutory banks, the proportion of mortgage to GDP remained at 5.9 percent in 2023 and 2024. The amount of housing finance relative to the size of the economy continues to be significantly low despite the lower interest rates on mortgages. The ratio of household deposits to nominal GDP increased from 8.2 percent in 2023 to 9.2 percent in 2024 and has remained low over the years. A financial sector development strategy being drafted, once implemented, is expected to inform the design of a financial sector infrastructure necessary to give impetus to financial market development and support economic growth.

⁷ M2 (P115.4 billion) comprises all liabilities of financial corporations included in a country's definition of broad money. In the case of Botswana, M2 comprises currency outside depository corporations, transferable deposits (demand deposits) and other deposits included in broad money (time and fixed deposits).

⁸ Household debt increased by 4.7 percent compared with 0.2 percent decrease in nominal GDP.

CHAPTER 1:

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS (CONTINUED)

- 1.22 The value of pension-fund assets as a proportion of nominal GDP increased from 51.2 percent in 2023 to 57.9 percent in 2024, reflecting a 12.7 percent increase in pension fund assets relative to a 0.2 percent decrease in nominal GDP. Total household savings, including pension funds, amounted to P176.6 billion in 2024 compared with the household borrowing of P55.8 billion in 2024, indicating, overall, that the household sector was a net saver.¹⁰
- 1.23 The value of transactions executed through electronic funds transfers (EFTs) increased by 10.9 percent from P300.9 billion in 2023 to P333.5 billion in 2024, while EFTs as a proportion of nominal GDP rose from 114.1 percent in 2023 to 126.8 percent in 2024. The growth in EFT transactions is indicative of increasing use of electronic payments for economic transactions, along with cessation of the cheque as a payment instrument in Botswana.

⁹ Household deposits increased by 12.8 percent compared with a 0.2 percent decrease in nominal GDP.

¹⁰ The data used was obtained from pension funds and commercial banks. Because of data limitations, the analysis does not include other financial institutions, such as micro-lenders and insurance companies.

BOX 1: LEGISLATIVE REFORM, REGULATION AND OVERSIGHT OF DEPOSIT-TAKING INSTITUTIONS AND OTHER ENTITIES ENGAGED IN BANKING ACTIVITIES IN BOTSWANA

On 24 May 2023, the National Assembly enacted the Banking Act, 2023—a legislative reform designed to strengthen the legal framework governing the licensing, regulation, and oversight of banks, deposit-taking institutions, and other entities engaged in banking business activities across the country. This comprehensive law will, on commencement, repeal the Banking Act (Cap. 46:04), ensuring that the regulatory landscape remains responsive to the changes in the domestic financial sector while aligning with developments in the international banking system and global best practices.

Microfinance Deposit-taking Institutions

The explicit inclusion of deposit-taking institutions in the Banking Act legally expands the mandate of Bank of Botswana (Bank) to provide regulatory oversight of microfinance deposit-taking institutions (MDIs). Previously, the sole MDI in the country operated under a certificate of exemption issued by the Bank owing to the absence of a legislation empowering the Bank to grant the entity an operating licence. With the commencement of the Banking Act, that MDI will be required to shift to a formal licensing regime under the Bank's regulatory authority. This requirement will extend to any other institution seeking to operate as an MDI. The Bank will also prescribe minimum prudential requirements relating to capital, liquidity, governance and risk management practices of MDIs. By enforcing a structured licensing and supervisory framework, the Banking Act seeks to enhance transparency, stability, and consumer protection within the microfinance sector.

Savings and Credit Cooperative Societies in Botswana

Section 3(2) of the Banking Act, previously section 53(2) under the Banking Act (Cap. 46:04), requires the Bank to provide prudential supervision to savings and credit cooperatives societies (SACCOS). At present, SACCOS are registered and regulated by the Ministry of Trade and Entrepreneurship through the Department for Co-operative Development. There is, however, no dedicated prudential supervision function to ensure their financial stability and compliance with sound banking practices. Thus, the Bank will have authority to oversee SACCOS, apply prudential standards, conduct regulatory examination, and implement safeguards to ensure their safety and soundness. Meanwhile, the Department for Co-operative Development will continue to register SACCOS and ensure they are managed effectively and properly.

The Bank is developing a supervisory framework for SACCOS in collaboration with the Department for Co-operatives Development, Botswana Cooperative Association (BOCA) and Botswana Savings and Credit Cooperative Association (BOSCCA). This work is coordinated through the SACCOS Working Group supported by the SACCOS Leading Committee comprising representatives of the Bank, Department for Co-operatives Development and Ministry of Finance, along with BOCA and BOSCCA. Stakeholder involvement aims to ensure that the framework meets the needs of this segment of the financial sector.

The Banking Act marks a significant step towards strengthening the governance, financial health, and risk management of MDIs and SACCOS. By aligning these institutions with broader banking sector regulations, the Banking Act enhances depositor confidence, stability and consumer protection within the financial ecosystem. The Bank recognises the unique nature and special role of SACCOS in the financial system. Thus, the principle of proportionality will be applied in their prudential supervision.

CHAPTER 2

PERFORMANCE OF THE BANKING INDUSTRY

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY

COMMERCIAL BANKS

Statement of Financial Position (Balance Sheet)

Assets

- 2.1 Total assets of commercial banks increased by 7.7 percent from P133.6 billion in 2023 to P144 billion in December 2024, a lower rate of growth compared with the 14.2 percent in 2023. The slower increase in total assets was largely attributable to a moderate expansion of 6.5 percent (2023: 11.7 percent) in gross loans and advances from P81.8 billion to P87.1 billion in the same period. Within the commercial banks' asset portfolio, net loans and advances had the largest share, at 59 percent, followed by placements with other banks and credit institutions, at 19 percent, investment and trading securities, at 16 percent, cash and balances with the central bank and other assets, at 3 percent each. Net loans and advances grew by 6.8 percent from P78.9 billion in 2023 to P84.3 billion in 2024, balances due to other banks and credit institutions increased by 30 percent from P20.9 billion to P27.2 billion, investment and trading securities grew by 15 percent from P20.2 billion to P23.2 billion, while cash and balances with the central bank declined by 45 percent from P8.6 billion to P4.7 billion in the same period.

Liabilities

- 2.2 Customer deposits and shareholder funds continue to be the major sources of funding for asset growth. Customer deposits constituted 75 percent of liabilities, whereas shareholder funds were 10 percent of the total liabilities in 2024. Other components of the liabilities structure of commercial banks were debt securities and other borrowings, and balances due to other banks and credit institutions at 5 percent each; central bank accounts and other liabilities contributed 3 percent and 2 percent, respectively, to total liabilities in the same period.
- 2.3 Charts 2.1 and 2.2 show the composition of assets and liabilities for 2023 and 2024. The balance sheet of commercial banks was virtually unchanged, with minor variations between the two periods.

CHAPTER 2:

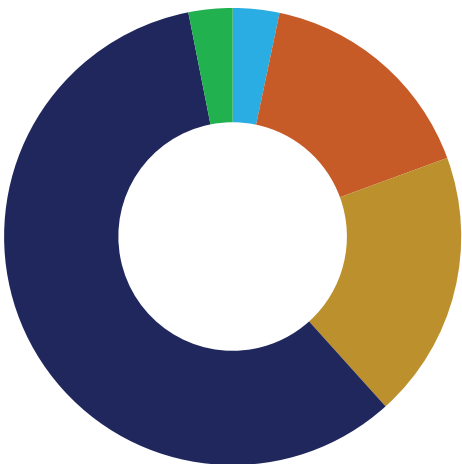
PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.1: Commercial Banks: Composition of Assets: 2023 and 2024 (Percent)



31 December 2023

Cash and balances with the central bank	6
Investment and trading securities	15
Placements with other banks and credit institutions	16
Net loans and advances	59
Other assets	4



31 December 2024

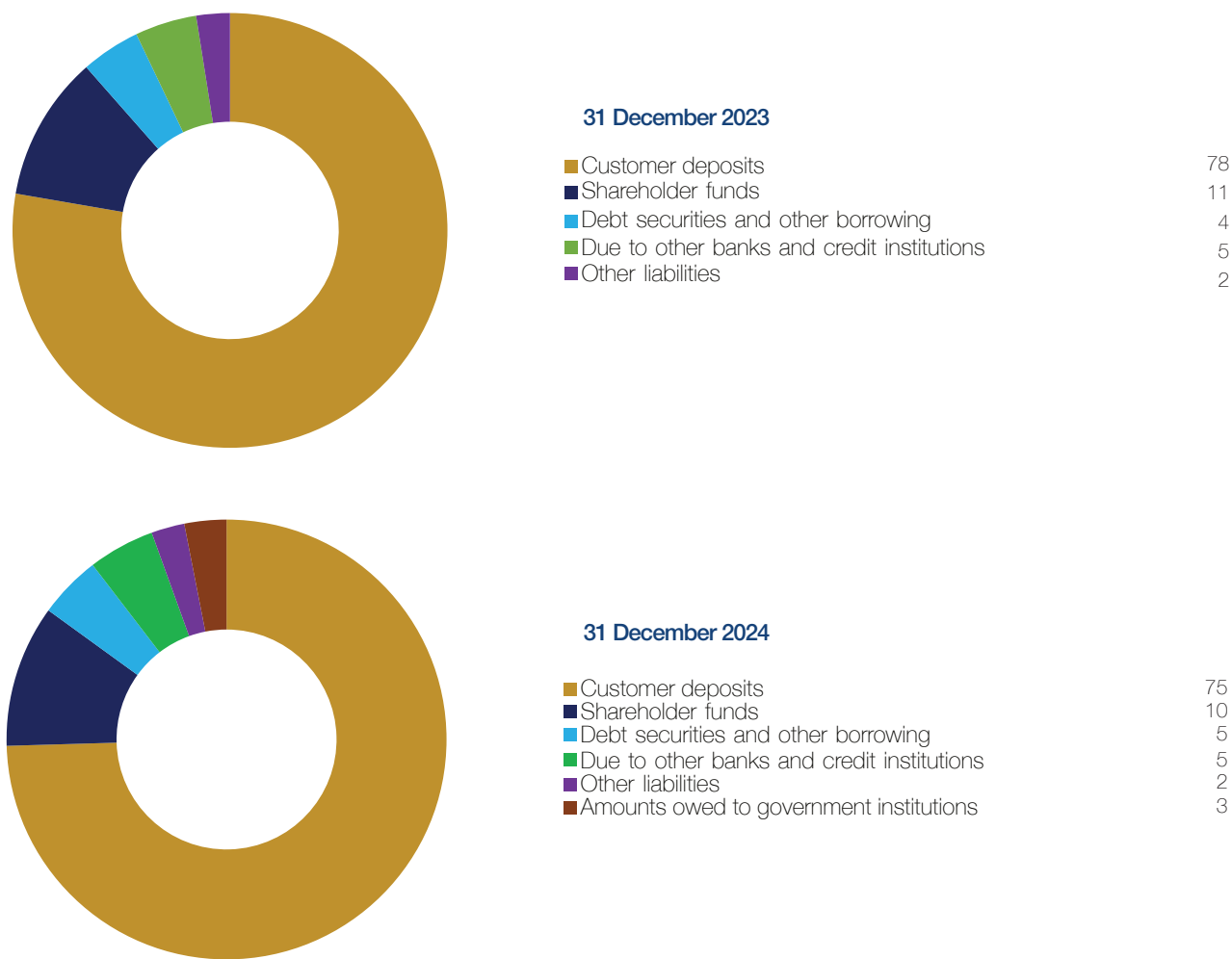
Cash and balances with the central bank	3
Investment and trading securities	16
Placements with other banks and credit institutions	19
Net loans and advances	59
Other assets	3

Source: Commercial Banks (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.2: Commercial Banks: Composition of Liabilities: 2023 and 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.4 Chart 2.3 shows the level of assets, loans and advances, and deposits, while Chart 2.4 shows growth rates of total assets, loans and advances, and deposits, for the period 2020–2024. Total assets, loans and advances, and deposits increased at a lower rate in 2024 than in 2023.

CHAPTER 2:

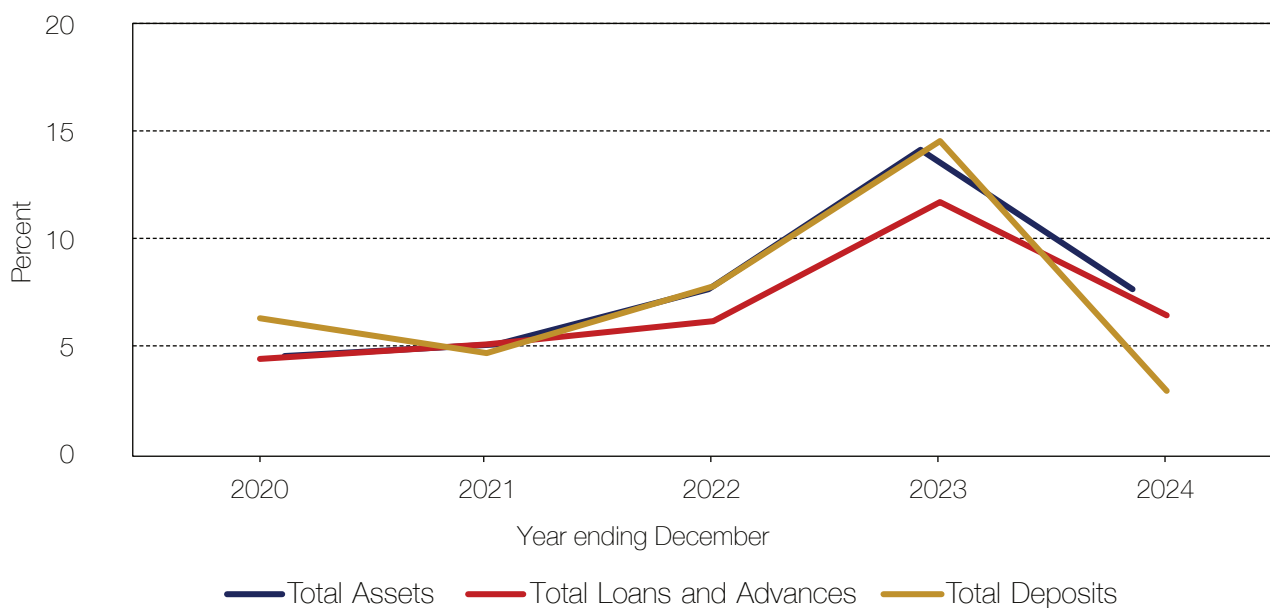
PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.3: Commercial Banks: Total Assets, Total Loans and Advances, and Total Deposits: 2020–2024 (P billion)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Chart 2.4: Commercial Banks: Annual Growth Rates of Total Assets, Total Loans and Advances, and Total Deposits: 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Riskiness of On-balance Sheet Assets

- 2.5 Banks are in the business of trading risk, hence the requirement for them to hold sufficient regulatory capital to absorb unexpected losses. The losses may arise from, among others, loan defaults (credit risk); failed internal processes, systems and people (operational risk); and loss in investments due to unfavourable movement in prices (market risk). The level of capital should be commensurate with the level of risk assumed.
- 2.6 In determining credit risk, related assets risk weights are assigned to different categories of a bank's assets to reflect the risk profile of the assets and determine the level of capital required to absorb losses that may arise from these assets. The risk weights as determined by the regulator, range from zero percent (low-risk asset) to 1250 percent (high-risk asset). Assets with higher risk weights require higher capital.
- 2.7 Table 2.1 compares the riskiness of on-balance-sheet assets of commercial banks as at 31 December 2023 and at 31 December 2024. Assets risk weighted at 20 percent, 35 percent, 50 percent, 75 percent, and 150 percent increased, while assets with risk weights of zero, 100 percent and 250 percent decreased. No bank held assets risk-weighted at 1250 percent (Appendix 6). On-balance-sheet assets with risk weights of 75 percent (retail portfolio) constituted the highest share of risk-weighted assets, at 30.7 percent, in 2024, a rise from 28.2 percent in 2023, reflecting that retail loans dominated the balance sheet of commercial banks.
- 2.8 Overall, 26.1 percent of on-balance-sheet asset items were above the 75 percent risk-weight category in 2024 compared with 28.4 percent in 2023, indicating a decline in the riskiness of commercial bank assets. Nonetheless, 54.1 percent of on-balance-sheet asset items were in the 75 percent and 100 percent risk-weight categories, signalling the higher share of riskier assets in the loan portfolio of commercial banks.

Table 2.1: Riskiness of Commercial Banks' Portfolios of On-balance Sheet Assets in 2023 and 2024

Risk weights (Percent)	On-balance sheet assets (P million)	Shares of on-balance sheet asset items in total on-balance sheet assets (percent)	On-balance sheet assets (P million)	Shares of on-balance sheet assets items in total on-balance sheet assets (percent)
	December 2023		December 2024	
0	28 075	20.6	27 018	18.5
20	17 964	13.2	21 974	15.0
35	11 411	8.4	11 447	7.8
50	1 825	1.3	2 687	1.8
75	38 416	28.2	44 952	30.7
100	35 326	25.9	34 143	23.4
150	3 068	2.3	3 873	2.6
250	207	0.2	115	0.1
1250	0	0	0	0
Total	136 292	100.0	146 209	100.0

Source: Commercial Banks (Statutory Returns submitted to the Bank).

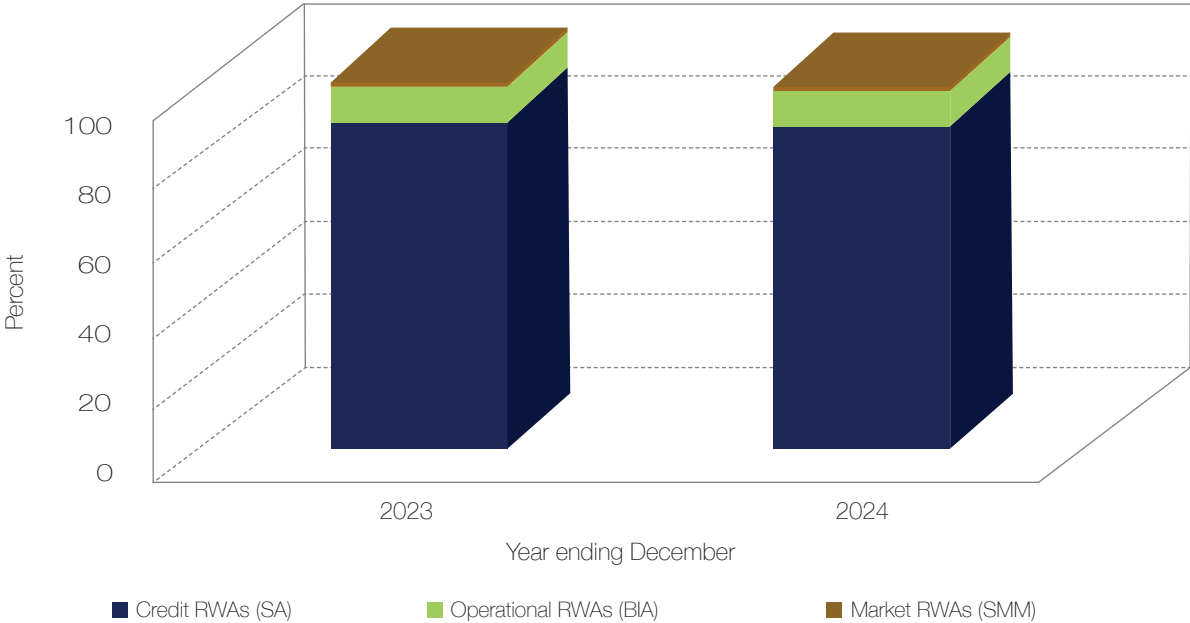
CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Risk Assessment

- 2.9 Botswana has adopted the Basel II standardised approach (SA) for credit risk, standardised measurement method (SMM) for market risk and a choice between the basic indicator approach (BIA) and standardised approach for operational risk. The use of advanced approaches for capital-adequacy measurement in line with Basel III has been deferred.
- 2.10 Chart 2.5 illustrates risk-weighted assets (RWAs) of commercial banks by risk weight in 2023 and in 2024 as calculated under Pillar 1 of the Basel II Capital Directive. RWAs rose by 10.1 percent from P87 billion in 2023 to P95.9 billion in 2024, mainly reflecting the increase in loans and advances. Proportions of RWAs of commercial banks were constant between 2023 and 2024. Credit RWAs constituted the highest RWAs of commercial banks, at 89 percent, followed by operational RWAs, at 10 percent, with market RWAs accounting for one percent. Credit RWAs contributed the largest share in total RWAs because a bulk of commercial banks' loan book was unsecured personal loans.

Chart 2.5: Composition of Risk-weighted Assets: 2023 and 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Credit Risk

Regulatory Capital Requirements on Credit Risk

- 2.11 Credit RWAs increased by 9.6 percent from P77.6 billion in 2023 to P85.1 billion in 2024. The rise in credit risk weighted assets was associated with the 6.5 percent growth in the loan book in the same period. The higher increase in credit RWAs is a reflection of respective growth rates of 13.6 percent and 4.6 percent in private business and household sector credit, which have high risk weights of 100 percent and 75 percent.

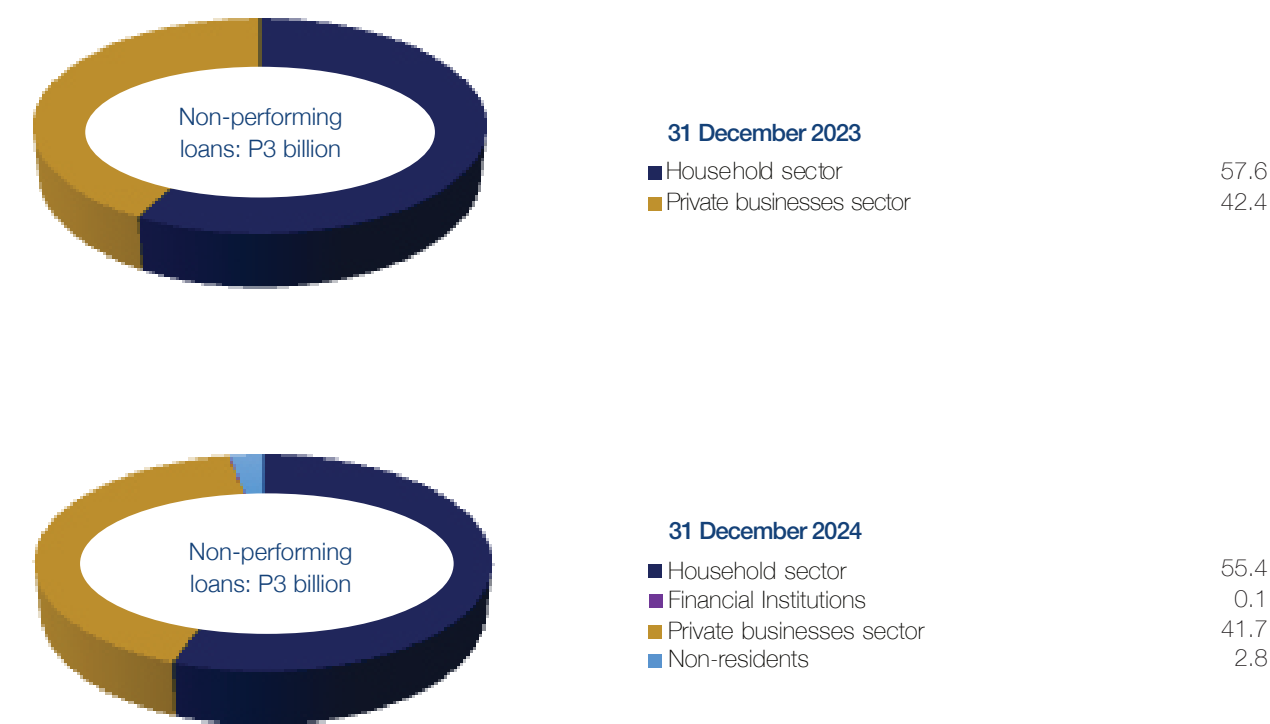
Asset Quality: Levels and Trends

- 2.12 Gross loans and advances of commercial banks grew by 6.5 percent from P81.8 billion in December 2023 to P87.1 billion in 2024. The growth in loans and advances was across all banks except two.
- 2.13 Total past-due loans (loans in payment arrears) marginally decreased by 1.8 percent from P4.23 billion in 2023 to P4.16 billion in 2024. Non-performing loans (NPLs) (impaired loans) remained the same, at P3 billion, in the same period.
- 2.14 As at 31 December 2024, commercial banks loans and advances classified as pass, special mention, sub-standard, doubtful and loss loans (see Appendix 5 for definition) constituted 92.7 percent, 3.7 percent, 0.8 percent, 0.8 percent and 2.2 percent of total loans and advances, respectively, compared with 90.2 percent, 5.7 percent, 0.9 percent, 0.9 percent and 2.2 percent of total loans and advances, respectively, as at 31 December 2023. There was an improvement in credit-risk profile of the banks as evidenced by the proportion of loans in pass category, which increased from 90.2 percent to 92.7 percent of the commercial banks loan book in the same period.
- 2.15 Households, private businesses, non-residents and financial institutions accounted for 55.4 percent, 41.7 percent, 2.8 percent and 0.1 percent, respectively, of NPLs for commercial banks in 2024. Reflecting the concentration of banks' loan book in households, the household NPLs were larger than for other sectors. Public non-financial institutions and non-profit institutions serving households had no NPLs in 2024. Chart 2.6 compares the sectoral distribution of NPLs in 2023 and 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.6: Sectoral Distribution of Non-performing Loans and Advances: 2023 and 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.16

Table 2.2 presents the private-business sectoral distribution of NPLs as at 31 December 2024. The business services continued to have the highest proportion of NPLs, at 27.3 percent, followed by trade, restaurants and bars, and tourism and hotels at 23.9 percent, and 9.2 percent, respectively. The level of NPLs from trade, restaurants and bars, and business services sub-sectors grew by 41 percent and 29.3 percent, respectively, during the review period.
- 2.17

Table 2.3 shows levels of loans and advances, NPLs and specific provisions as well as the proportion of NPLs to gross loans and advances, and specific provisions to NPLs.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.2: Distribution of Private Business Sector Non-performing Loans and Advances: 2020–2024 (Percent)

Private Business	2020	2021	2022	2023	2024
Agriculture, forestry and fishing	7.2	7.4	5.4	6.7	6.0
Mining and quarrying	5.6	2.9	3.8	0.8	1.2
Manufacturing	14.3	9.6	9.3	6.3	7.5
Construction	13.2	7.9	5.4	6.1	8.7
Commercial real estate	12.6	12.0	19.0	10.3	6.4
Electricity	0.8	0.6	0.8	0.8	0.7
Water	0.0	0.0	0.0	0.0	0.0
Telecommunications	0.1	0.1	0.3	0.3	0.2
Tourism and hotels	2.8	12.4	16.9	11.4	9.2
Transport	5.1	4.3	4.0	7.2	5.1
Trade, restaurants and bars	17.9	14.4	10.0	16.7	23.9
Business services	16.0	23.4	19.9	20.8	27.3
Other community, social and personal services	4.3	4.8	5.3	12.5	3.7
Total	100	100	100	100	100

Source: Commercial Banks (Statutory Returns submitted to the Bank).

Table 2.3: Levels and Proportions of Gross Loans and Advances, Non-performing Loans and Advances and Specific Provisions: 2020–2024

	2020	2021	2022	2023	2024
Pula million					
Gross loans and advances	65 554	68 920	73 195	81 797	82 127
Non-performing loans (NPLs)	2 824	2 922	2 746	3 001	3 001
Specific provisions	1 713	1 654	1 437	1 510	1 479
Percent					
NPLs to gross loans and advances	4.3	4.2	3.8	3.7	3.4
Specific provisions to NPLs	60.7	56.6	52.3	50.3	49.3

Source: Commercial Banks (Statutory Returns submitted to the Bank).

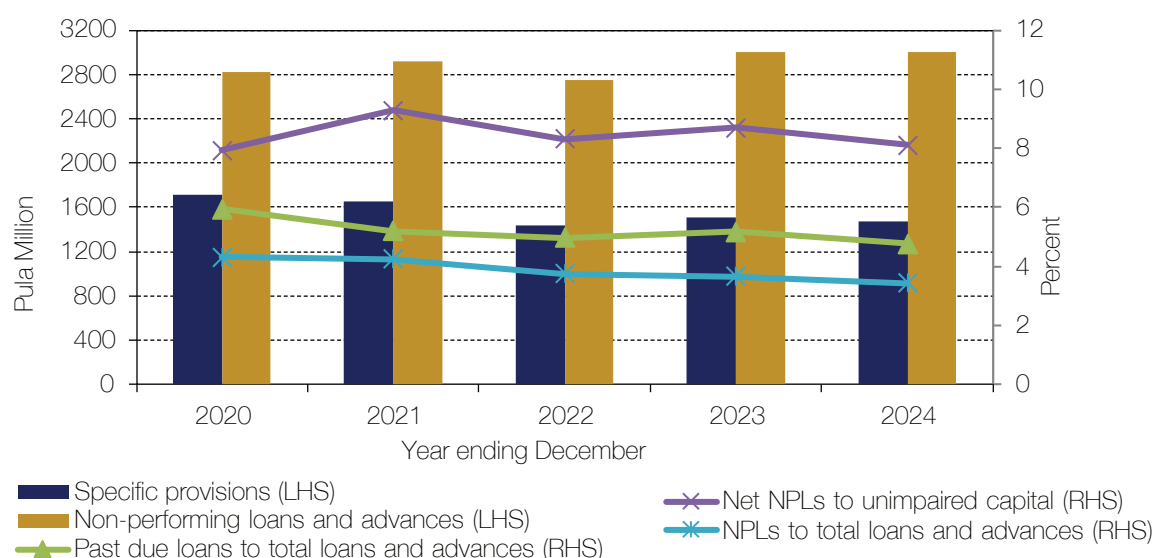
2.18 Specific provisions for commercial banks slightly declined by 2.1 percent from P1.51 billion in 2023 to P1.48 billion in 2024. The ratio of net NPLs (net of specific provisions) to unimpaired capital declined from 8.7 percent in 2023 to 8.1 percent in 2024, indicative of improvement in the capacity of banks' capital to withstand losses from NPLs. Overall, the quality of commercial bank' assets slightly improved between 2023 and 2024, with the ratio of NPLs to gross loans and advances declining from 3.7 percent in 2023 to 3.4 percent in 2024. At the individual bank level, the ratio ranged between 1.3 percent and 5.8 percent.

2.19 Chart 2.7 shows trends in the commercial bank asset-quality indicators for the period 2020–2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.7: Commercial Banks: Asset Quality Indicators: 2020–2024



Source: Commercial Banks (Statutory Returns submitted to the Bank).

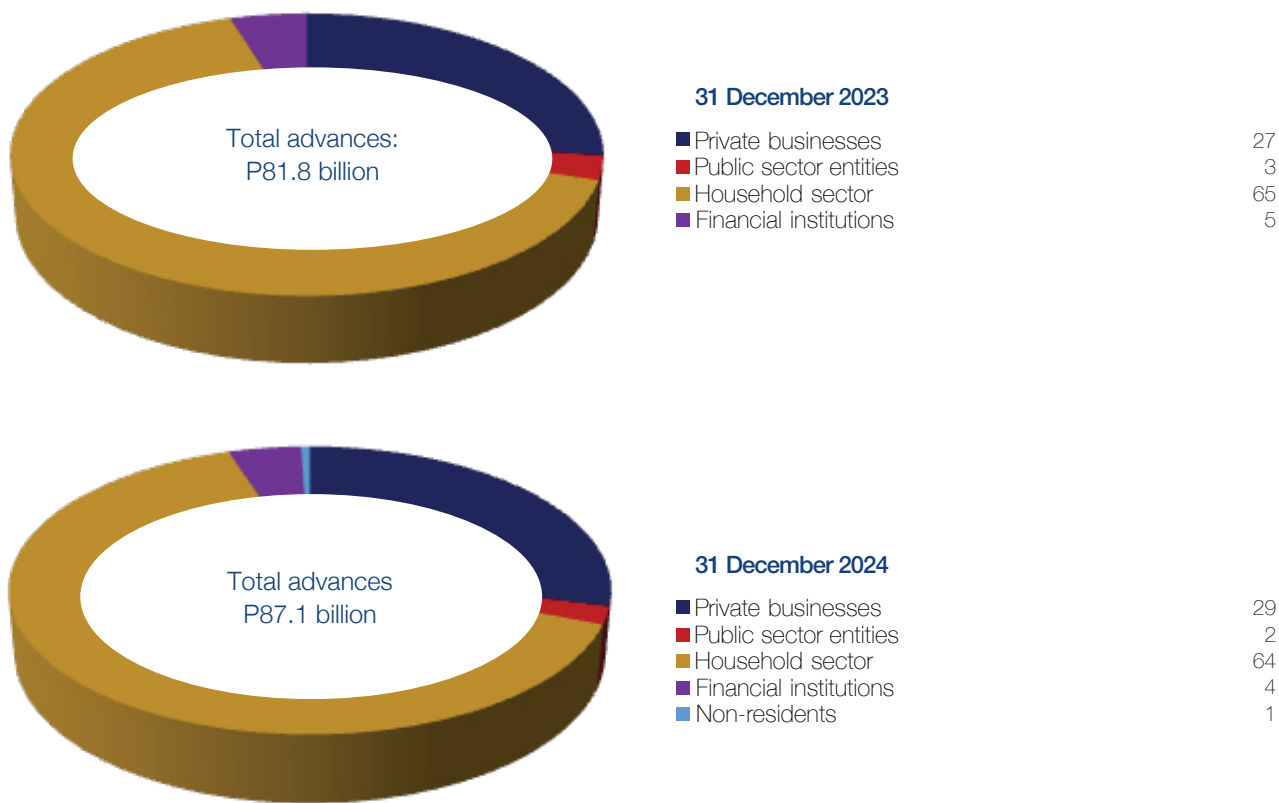
Credit Concentration Risk and Sectoral Distribution of Commercial Bank Loans and Advances

- 2.20 Loans and advances to households increased by 4.6 percent from P53.3 billion in December 2023 to P55.8 billion in December 2024 and constituted 64 percent of gross loans and advances. The shares for private businesses and non-residents increased from 27.2 percent and 0.2 percent in 2023 to 29 percent and 0.6 percent in 2024, respectively, while those of all other sectors declined slightly between 2023 and 2024. Chart 2.8 compares the sectoral distribution of loans and advances between 2023 and 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.8: Sectoral Distribution of Loans and Advances: 2023 and 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Large Exposures

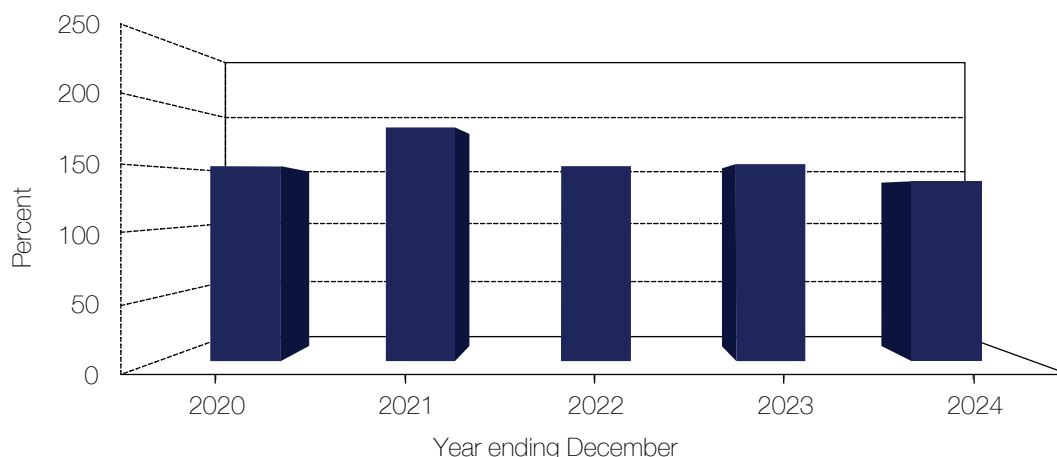
2.21 Large exposures¹¹ of commercial banks were constant, at P26 billion, between 2023 and 2024. The ratio of large exposures to unimpaired capital fell from 151.8 percent in 2023 to 138.9 percent in 2024 and remained below the 800 percent prudential limit for banks in Botswana (Chart 2.9), indicative of the containment of potential systemic risk emanating from concentration of lending to a few large borrowers by commercial banks. The decrease in the ratio resulted from an increase of 9.5 percent in unimpaired capital in the review period. The ratio nevertheless varied considerably across banks, ranging from zero to 514.9 percent.

¹¹ An exposure, direct or indirect, of a bank to any person or group of interrelated persons that equals or exceeds 10 percent of the unimpaired capital of the bank.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.9: Commercial Banks: Large Exposures to Unimpaired Capital Ratio: 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Loans to Directors and Related Parties

- 2.22 To mitigate potential abuse and conflict of interest that could arise from transactions between a bank and its related parties¹² (companies and individuals), banks are required to issue credit to related parties on an arm's length basis, and the exposures are monitored to ensure that there is no abuse by related parties. Related-party exposures declined to P733.8 million in 2024 from P1.2 billion in 2023, consequently the ratio of loans to related parties to unimpaired capital declined from 7.1 percent to 3.9 percent in the same period. At this level, insider loans are considered an insignificant source of credit risk to commercial banks.

Foreign Currency Denominated Loans and Liabilities

- 2.23 Loans denominated in foreign currency fell by 7.7 percent from P3.9 billion in 2023 to P3.6 billion in 2024, which could be attributed to the reduction in economic activity that was experienced during the review period.
- 2.24 On the other hand, foreign currency-denominated deposits increased by 24.5 percent from P18.8 billion in 2023 to P23.4 billion in 2024. The ratio of foreign currency-denominated loans to foreign currency-denominated deposits fell from 20.9 percent to 15.5 percent in the same period; the ratio ranged across banks, from 0.2 percent to 41 percent. Foreign currency-denominated deposits continued to be more than foreign currency-denominated loans, an indication that foreign-currency funding for commercial banks was readily available, which also provides a hedging mechanism, as foreign currency-denominated deposits are also used to hedge against exchange-rate risk.

¹² Related parties include all of the following: significant shareholder; member of a board of directors or audit committee; principal officer and senior management officials; guarantor of a trust; a person who maintains a trust on behalf of an institution or its affiliate; any person who is related to such significant shareholder, member of a board of directors or audit committee, principal officer or family member or business interest; subsidiary of a bank; company or undertaking in which at least a 5 percent interest is held by a bank; parent company of a bank; company that is under common control with a bank; and a company that holds at least a 5 percent interest of another company in which a bank holds at least a 5 percent interest.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

The Structure of Private Business Loans and Advances

- 2.25 Table 2.4 shows the sectoral distribution of private business loans and advances for the period 2020–2024. The market share of mining and quarrying, manufacturing, construction, electricity, telecommunications, transport, and other loans increased, whereas that of commercial real estate, tourism and hotels; and business services; decreased in the review period. Meanwhile, the market share of agriculture, forestry and fishing, and trade, restaurant and bars remained constant between 2023 and 2024.

Table 2.4: Sectoral Distribution of Private Business Loans: 2020–2024 (Percent)

Private business sector loans	2020	2021	2022	2023	2024
Agriculture, forestry and fishing	7	7	8	8	8
Mining and quarrying	3	2	2	2	3
Manufacturing	9	8	8	6	7
Construction	5	5	5	4	5
Commercial real estate	24	25	26	27	23
Electricity	-	-	1	1	2
Telecommunications	1	1	1	1	2
Tourism and hotels	6	6	4	5	2
Transport	2	2	2	3	5
Trade, restaurants and bars	22	21	20	20	20
Business services	16	19	18	17	16
Other	5	4	7	5	6

Source: Commercial Banks (Statutory Returns submitted to the Bank).

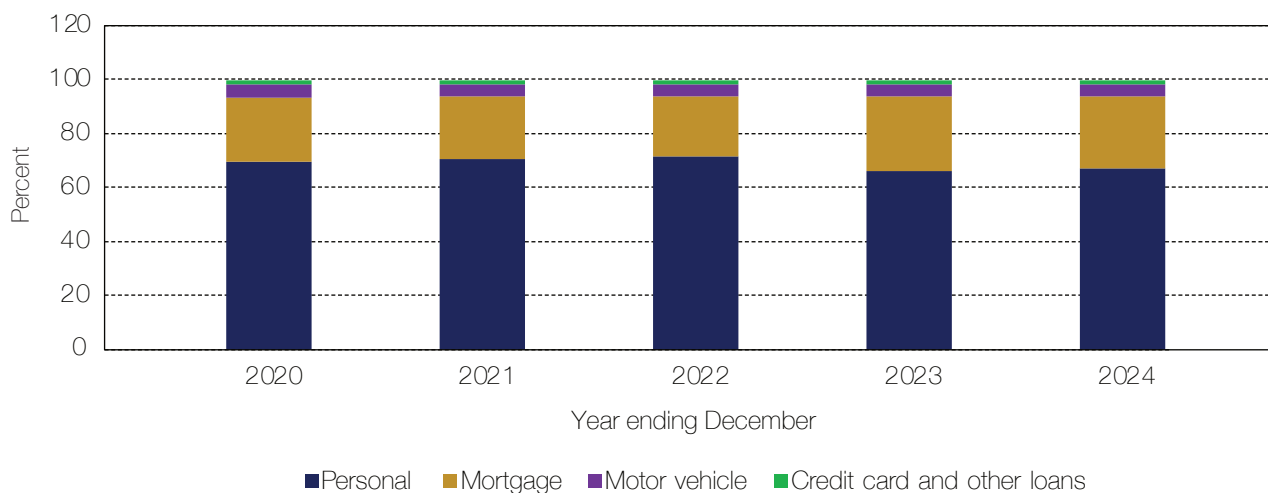
Composition of Household Loans and Advances

- 2.26 Loans and advances to the household sector increased by 4.6 percent from P53.3 billion in 2023 to P55.8 billion in 2024. By purpose, the loans comprised personal (67 percent), mortgage (27 percent), motor vehicle (4 percent), credit card, and other loans (2 percent) (Chart 2.10). Motor vehicle, personal and mortgage increased by 8.6 percent, 6.1 percent and one percent, respectively, in 2024. Seven banks' loans and advances were concentrated in the retail loan book; the proportions of household credit to total loans and advances ranged from 12.7 percent to 94.8 percent for those banks.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.10: The Distribution of Household Loans and Advances by Purpose: 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.27 On the basis of the above, the composite credit risk for commercial banks was assessed to be moderate, while the inherent credit risk is likely to increase over the next 12 months, given that household loans constituted the highest share, at 64 percent of commercial banks loan book, and the sector is vulnerable to economic shocks. Further, the possible increase in international commodity prices, persistent supply and logistical constraints, the reversal of global economic integration, any upward adjustment in administered prices and the announced increase in income tax will erode disposable income and most likely reduce customers' capacity to service loans, resulting in deteriorating credit conditions over the next 12 months.

Market Risk

Regulatory Capital Requirements on Market Risk

- 2.28 Market RWAs rose by 15 percent from P677 million in 2023 to P778.4 million in 2024 (Table 2.5). Regulatory capital requirement for market risk commensurately increased from P101 million in 2023 to P116.2 million in 2024. Within the market-risk capital, interest-rate risk accounted for P20.8 million, or 17.9 percent, and foreign-exchange exposure contributed P95.3 million, or 82.1 percent (Chart 2.11). The share of risk-weighted assets attributable to market risk was, however, low at 0.8 percent of RWAs.

CHAPTER 2:

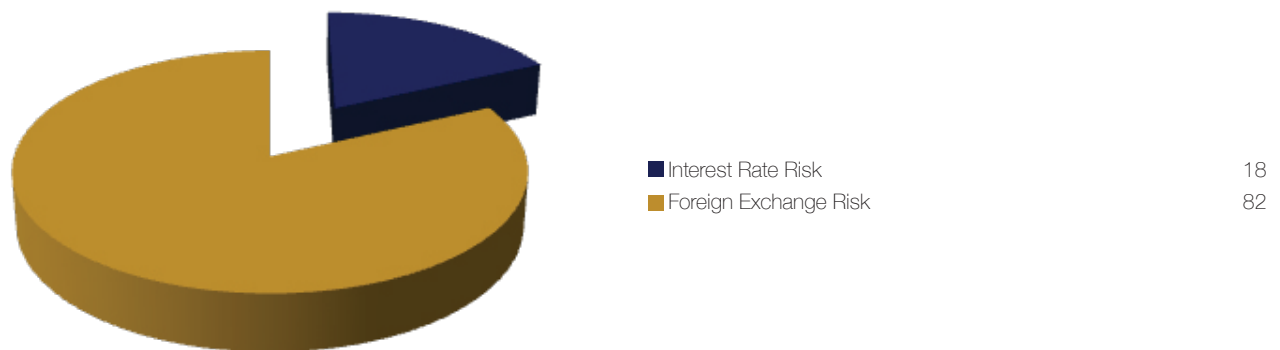
PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.5: Regulatory Capital Requirements for Market Risk (P million) and Proportions (Percent)

	2023		2024	
	P million	Percent	P million	Percent
Interest rate risk	15	14.8	20.8	17.9
Foreign exchange risk	86	85.2	95.3	82.1
Total Pillar 1 market risk capital requirements	101		116.2	
Market risk-weighted assets	677		778.4	

Source: Commercial Banks (Statutory Returns submitted to the Bank).

Chart 2.11: Composition of Market Risk Regulatory Capital: 31 December 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Foreign Currency Risk

- 2.29 All banks complied with the Foreign Currency Exposure Directive No. BoBA 1/99, by maintaining the foreign-currency exposure to unimpaired capital ratios within the required 15 percent, 5 percent and 30 percent limits for major, minor and overall foreign-currency exposures, respectively. The overall foreign-currency exposure to total unimpaired capital ratio for commercial banks increased to 8.5 percent in 2024 from 7.6 percent in 2023.
- 2.30 For commercial banks, nostro balances (due from foreign banks) increased from P18.7 billion in 2023 to P22.8 billion, or 15.9 percent of total banking assets. Vostro balances (due to foreign banks) fell from P4.8 billion in 2023 to P2.9 billion in 2024 or 2 percent of the consolidated banking liabilities. The net exposure of balances held outside Botswana was 13.9 percent of banking assets. While these accounts are crucial in facilitating international trade, banks are required to maintain robust risk-management systems to mitigate risks, such as market, liquidity, credit and country risk.

Interest Rate Risk

- 2.31 For all maturity-gap groups (except the assets and liabilities of maturities 1–3 months), the gap between interest rate-sensitive assets and interest rate-sensitive liabilities for commercial banks was positive, implying that a bank's revenue would increase in response to a rise in interest rates (Table 2.6). The assets and liabilities maturing within 1–3 months had a negative gap of P3 billion. With a negative gap, a decrease in interest rates will result in repricing of liabilities (deposits) by banks at a lower rate, thus increasing profit for commercial banks, while an increase in interest rates will result in repricing of liabilities at a higher rate, with an opposite effect on earnings. Conversely, for interest rate-sensitive advances and other assets, a fall in interest rates will lower a bank's earnings, whereas an increase in interest rates will raise earnings and, indirectly, economic capital.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.6: Interest Rate Risk Exposure: December 2024 (P million)

Maturity	Total variable rate assets	Total variable rate liabilities	Variable gap
Up to 1 month	57 300	38 035	19
1–3 months	2 060	5 107	(3 047)
Over 3–6 months	2 647	2 272	375
Over 6–12 months	6 247	2 935	3 312
Over 12 months –3 years	3 011	12	2 999
Over 3–5 years	4 378	175	4 203
Over 5–10 years	6 935	1 186	5 749
More than 10 years	2 479	93	2 386
Total	85 058	49 815	35 243

Note: Parentheses denote negative figures.

Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.32 Overall, market risk for commercial banks was considered low and is expected to be stable in the next 12 months.

Operational Risk

Regulatory Capital Requirements for Operational Risk

2.33 Operational RWAs rose by 14.4 percent from P8.7 billion in 2023 to P10 billion in 2024; corresponding with the increase in operational RWAs, operational capital charge increased from P1.3 billion to P1.5 billion in the same period (Table 2.7).

Table 2.7: Regulatory Capital Requirements for Operational Risk (P million)

	2023	2024
Operational risk capital charge: BIA	1 304	1 470
Operational risk-weighted assets	8 736	9 996

Source: Commercial Banks (Statutory Returns submitted to the Bank).

Operational Risk Exposure

2.34 The inherent operational risk was high and is expected to remain high, with an increasing trend due to cybersecurity threats and the reliance of commercial banks on services provided by third parties. Internal control weaknesses, such as use of outdated systems, manual intervention or inadequate fraud detection mechanisms could expose banks to financial losses.

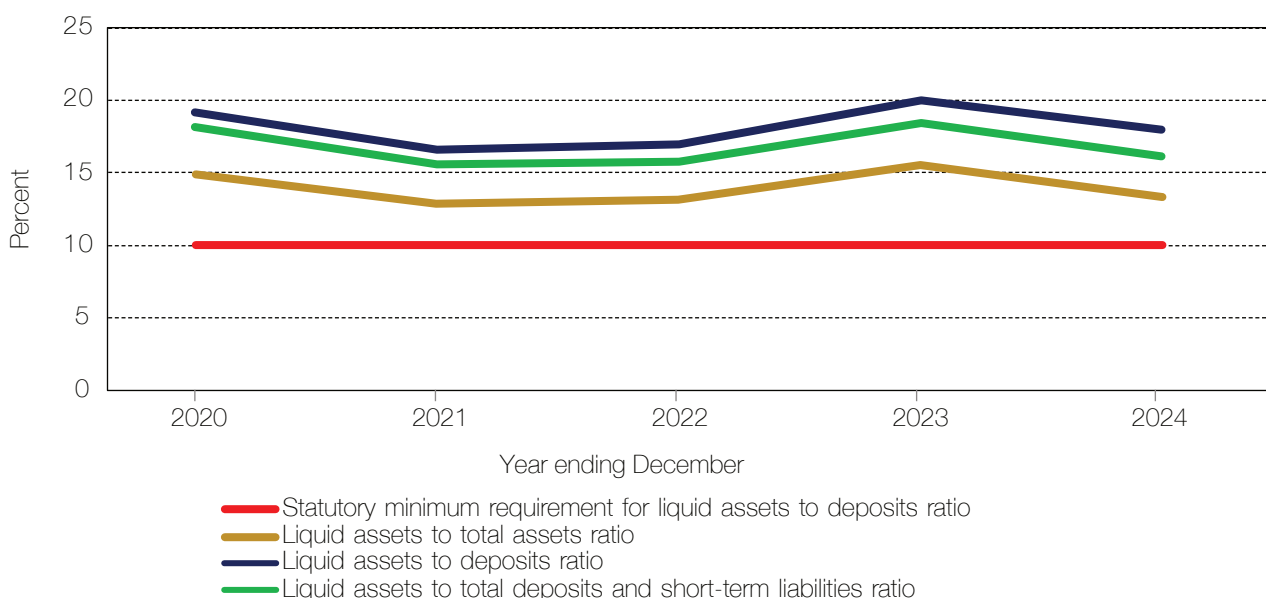
Liquidity and Funding Risk

2.35 Statutory liquid assets for commercial banks fell by 7.4 percent from P20.8 billion in 2023 to P19.2 billion in 2024, as banks decreased their holdings of balances due from Bank of Botswana and Bank of Botswana Certificates (BoBCs) owing to lower liquidity in the banking system. The liquid assets to deposit ratio (LAR) decreased from 20 percent in 2023 to 17.9 percent in 2024 and remained above the 10 percent statutory minimum. Among individual banks, the ratio ranged between 11.5 percent and 32.7 percent.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.12: Commercial Banks: Liquidity Ratios: 2020-2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.36 Within liquid assets, BoBC holdings decreased by 82.4 percent from P5.1 billion in 2023 to P894.7 million in 2024 as a result of lower liquidity in the market, especially in the last quarter of 2024. Balances due from Bank of Botswana also fell by 43.4 percent from P4.4 billion in 2023 to P2.5 billion in 2024; the decline was due to the reduction in the reserve requirement from 2.5 percent to zero in December 2024. Meanwhile in 2024, banks increased their respective balances due from domestic banks and treasury bills holdings by 122.2 percent and 29.8 percent. Liquid assets for banks were mainly made up of treasury bills (42.1 percent), balances due from domestic banks (20.7 percent), balances due from Bank of Botswana (13 percent), notes and coin in circulation (11.6 percent) and BoBCs (7.5 percent).
- 2.37 Inherent liquidity risk for commercial banks was high, with an increasing trend over the next 12 months. Banks have been facing persistent liquidity challenges since the last quarter of 2024. Corporate deposits, which are volatile and expensive, form a significant proportion of the deposit base of several banks. Given the general decline in liquidity, deposit interest rates for banks are expected to rise owing to intensity of competition for deposits, among banks. The reduction in government spending associated with low proceeds from diamond sales and prevailing economic conditions will continue to negatively affect market liquidity.

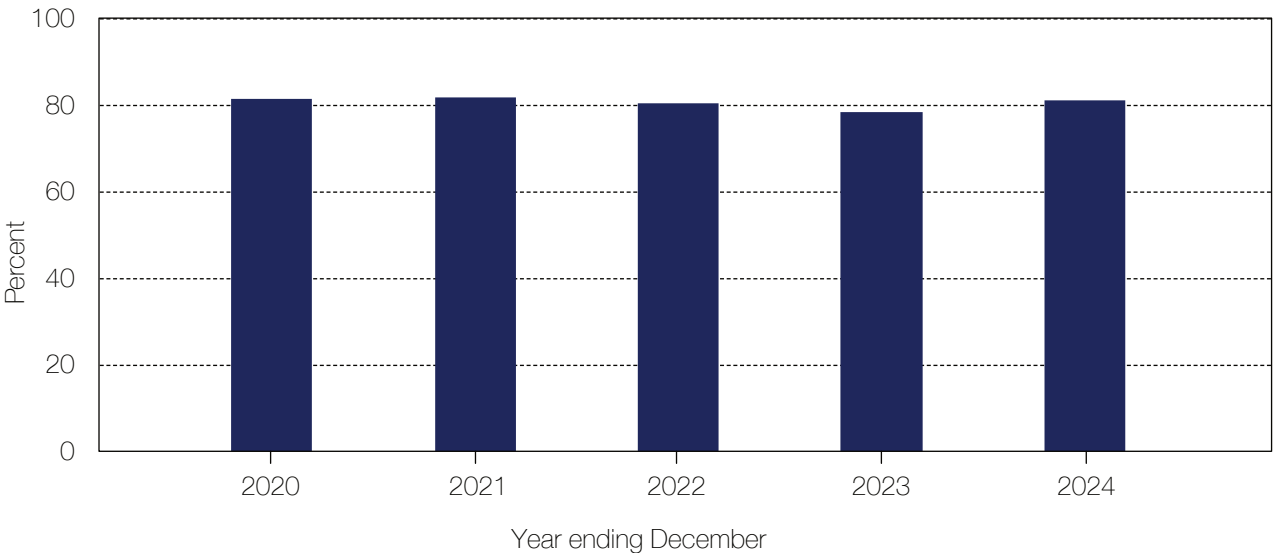
Financial Intermediation

- 2.38 The financial intermediation ratio of commercial banks (loans and advances to deposits) increased from 78.6 percent in 2023 to 81.2 percent in 2024 (Chart 2.13), indicative of continued financial intermediation by banks. Across banks, the ratio ranged between 60.6 percent and 105.8 percent.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.13: Commercial Banks: Loans and Advances to Deposits Ratio (Financial Intermediation): 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Liabilities and Funding Structure

2.39 Of the sources of funding for commercial banks (customer deposits, share capital, debt securities and other borrowings, and balances due to other banks), customer deposits remained the main source in 2024 (Table 2.8). Customer deposits rose by 3 percent from P104.1 billion in 2023 to P107.3 billion in 2024 and constituted 74.5 percent of total liabilities. Shareholder funds, which accounted for 10.4 percent of liabilities, increased by 6.8 percent from P14.1 billion to P15 billion, while balances due to other banks grew by 14.3 percent from P6.2 billion to P7 billion in the same period. Debt securities and other borrowings increased by 12.6 percent from P5.9 billion in 2023 to P6.6 billion in 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.8: Sources of Funding for Commercial Banks: 2020–2024.

	2020	2021	2022	2023	2024
Deposits (P million)	80 540	84 364	90 927	104 127	107 239
Annual growth rate (percent)	6.4	4.7	7.8	14.5	3.0
Share in total funding	78.0	77.7	77.7	77.9	74.5
Shareholder funds	11 299	10 756	12 587	14 074	15 034
Annual growth rate (percent)	3.6	(4.8)	17.0	11.8	6.8
Share in total funding	11.0	9.9	11.4	10.5	10.4
Debt securities and other borrowings (P million)	5 594	6 162	5 481	5 886	6 625
Annual growth rate (percent)	17.5	10.2	(11.1)	7.4	12.6
Share in total funding	5.4	5.7	4.7	4.4	4.6
Due to other banks (P million)	3 022	3 999	5 221	6 151	7 030
Annual growth rate (percent)	(33.3)	32.3	30.6	17.8	14.3
Share in total funding	2.9	3.7	4.5	4.6	4.9
Other liabilities (P million)	2 804	3 310	2 733	3 355	7 535
Annual growth rate (percent)	(0.2)	20	(17.5)	22.7	124.6
Share in total funding	2.7	3	3.5	2.5	5.2
Total Funding (P million)	103 260	108 591	116 949	133 593	143 955

Note: Parentheses denote negative figures.

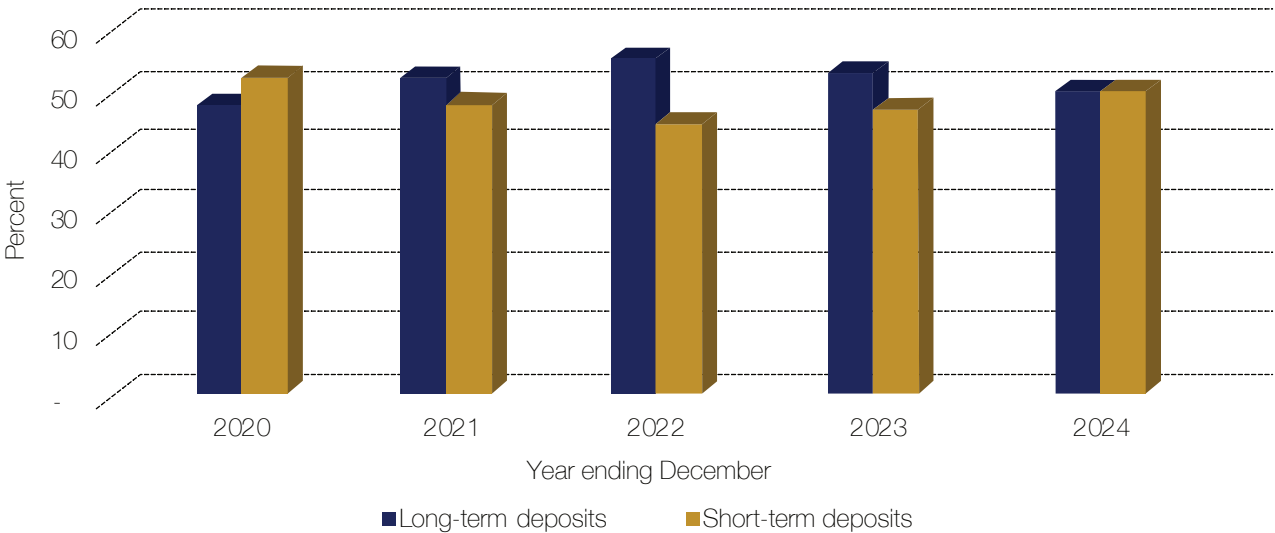
Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.40 Deposits by maturity for 2020–24 are shown in Chart 2.14. Relative shares of deposits by maturity changed between 2023 and 2024; both long-term (time and savings) and short-term deposits (call and current) accounted for 50 percent of total deposits in 2024 compared with 53 percent and 47 percent, respectively, in 2023. Liquidity challenges experienced by banks in the final quarter of 2024 and the adverse macroeconomic environment in 2024 could have resulted in uncertainty among depositors, thus causing customers to shift deposits from long-term to short-term deposit accounts where funds are easily accessible.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.14: Commercial Banks: Deposits Type by Maturity: 2020–2024 (Percent)



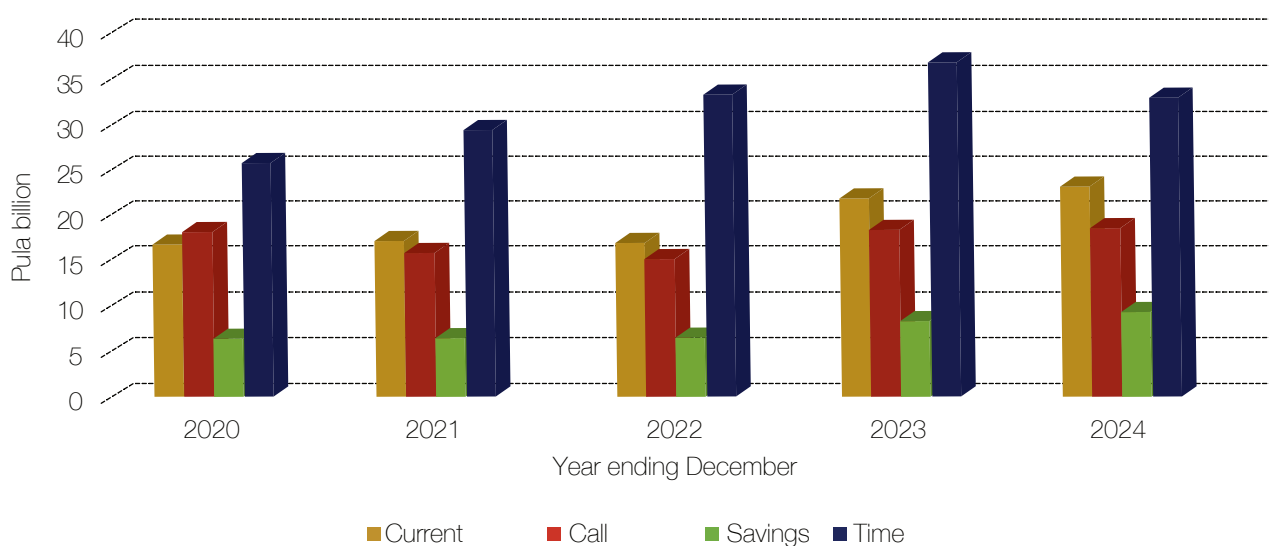
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.41 An analysis of the pula-denominated deposits by type (Chart 2.15) indicates that savings, current and call deposits grew by 12.6 percent, 6.2 percent and 1.1 percent, respectively, in 2024. On the other hand, time deposits decreased by 10.3 percent in the same period from P36.9 billion to P33.1 billion; time deposits accounted for the largest proportion of total deposits (39.4 percent), followed by current deposits (27.6 percent), call deposits (21.9 percent) and savings deposits (11.1 percent).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.15: Commercial Banks: Share of Pula-denominated Deposits by Type: 2020–2024 (P billion)



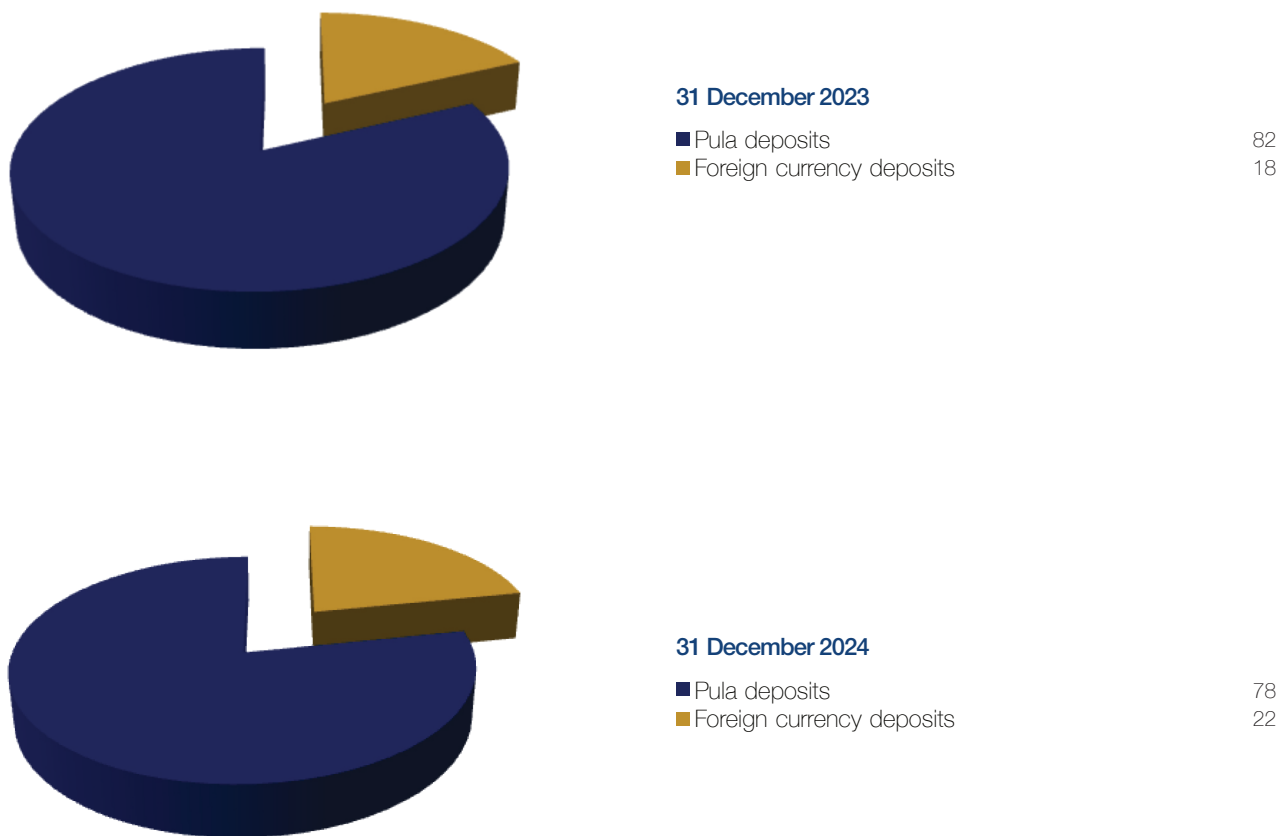
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.42 Chart 2.16 shows that foreign currency-denominated deposits increased by 24.5 percent from P18.8 billion in 2023 to P23.4 billion in 2024. Thus, the share of foreign currency-denominated deposits in total deposits grew from 18 percent in 2023 to 22 percent in 2024. It is noted that the bulk of foreign currency-denominated deposits are trade-related, used to hedge against currency risks, especially for high-importing customers.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.16: Commercial Banks: Share of Foreign Currency and Pula-denominated Deposits to Total Deposits: 2023 and 2024 (Percent)



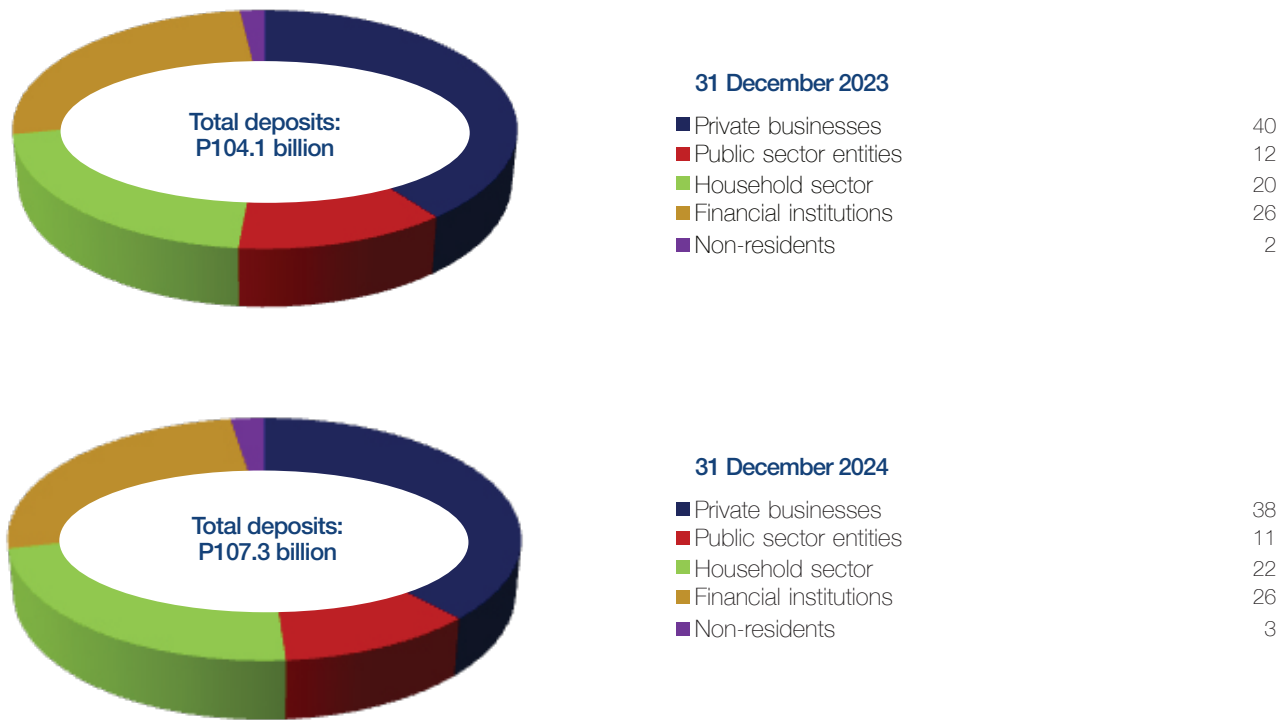
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.43 Chart 2.17 on sectoral deposits shows that the share of private businesses and public sector (government and parastatals) deposits in total deposits fell from 40 percent and 12 percent in 2023 to 38 percent and 11 percent in 2024, respectively. The respective shares of household and non-resident deposits increased from 20 percent to 22 percent and 2 percent to 3 percent in the same period. Meanwhile, the share of financial institutions was constant at 26 percent between 2023 and 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.17: Commercial Banks: Sectoral Distribution of Deposits: 2023 and 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Capital Adequacy (Solvency): Level, Quality and Trend

- 2.44

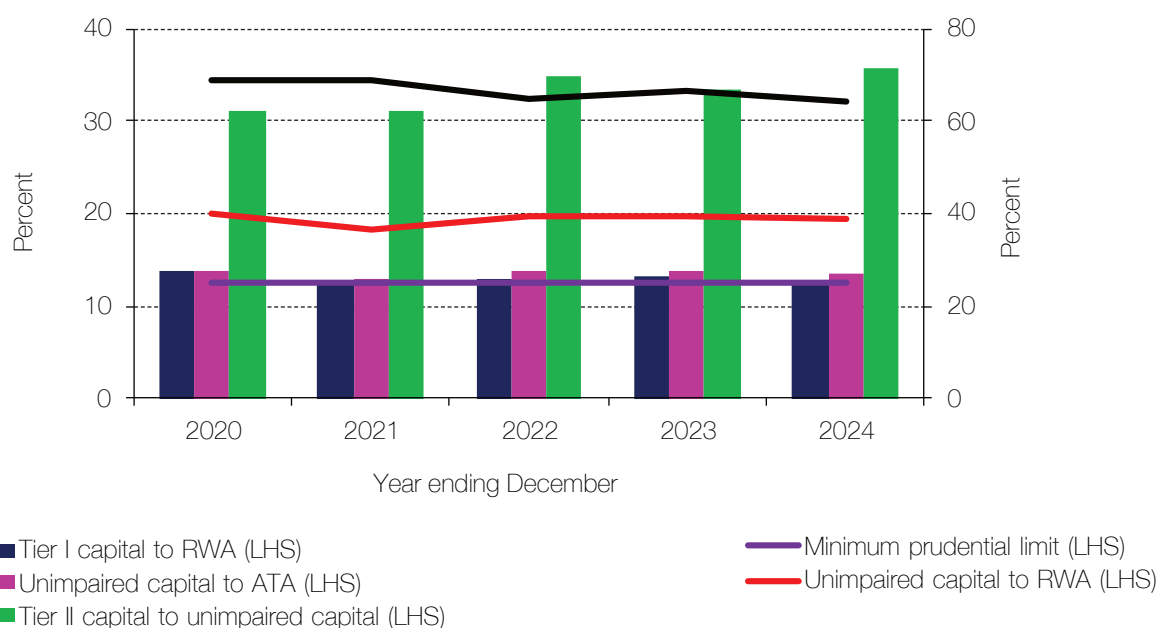
Commercial banks continued to satisfy solvency requirements, supported by strong regulatory capital position as at 31 December 2024. Banks reported capital adequacy and common equity Tier 1 capital ratios higher than the prudential minimum of 12.5 percent and 4.5 percent, respectively. Total RWAs for banks increased by 10.1 percent from P87 billion in 2023 to P95.9 billion in 2024. The banks' capital adequacy ratio (CAR) decreased slightly from 19.7 percent in 2023 to 19.1 percent in 2024. The trend in commercial banks' capital adequacy ratios indicates the banks' loss-absorbency capacity and ability to support business expansion. Chart 2.18 shows CAR over a five-year period (2020–24). Unimpaired capital for the banks grew by 6.8 percent from P17.1 billion in 2023 to P18.3 billion in 2024. All banks reported growth in unimpaired capital except three banks.
- 2.45

Tier 1 capital constituted the larger proportion, 65.8 percent, of unimpaired capital, thus providing commercial banks with a strong and high-quality capital base. Tier 1 capital amounted to P12 billion in 2024, an increase of 5.5 percent from P11.4 billion in 2023. The bulk of Tier 1 capital was retained earnings, at 80.3 percent, reflective of the capacity of banks to generate capital internally, followed by common/ordinary shares at 15.5 percent. As a proportion of average total assets, unimpaired capital decreased slightly from 13.7 percent in 2023 to 13.2 percent in 2024. The ratio of common equity Tier 1 capital to risk-weighted assets decreased from 12.7 percent in 2023 to 12.1 percent in 2024 but remained above the 4.5 percent prudential minimum.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.18: Commercial Banks: Capital Ratios: 2020–2024



Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.46 Tier 2 capital of commercial banks grew by 9.5 percent, from P5.7 billion in 2023 to P6.3 billion in 2024 and comprised unpublished current year profits (44.9 percent), subordinated term debt (37.1 percent), general loan reserves (16.4 percent) and a Tier 2 instrument, which has five years remaining to maturity and thus discounted by 20 percent every year to reflect the reduction in its capacity to absorb losses (1.6 percent). The ratio of Tier 2 capital to unimpaired capital rose from 33.4 percent in 2023 to 34.2 percent in 2024.

Commercial Banks' Statement of Comprehensive Income and Expenses

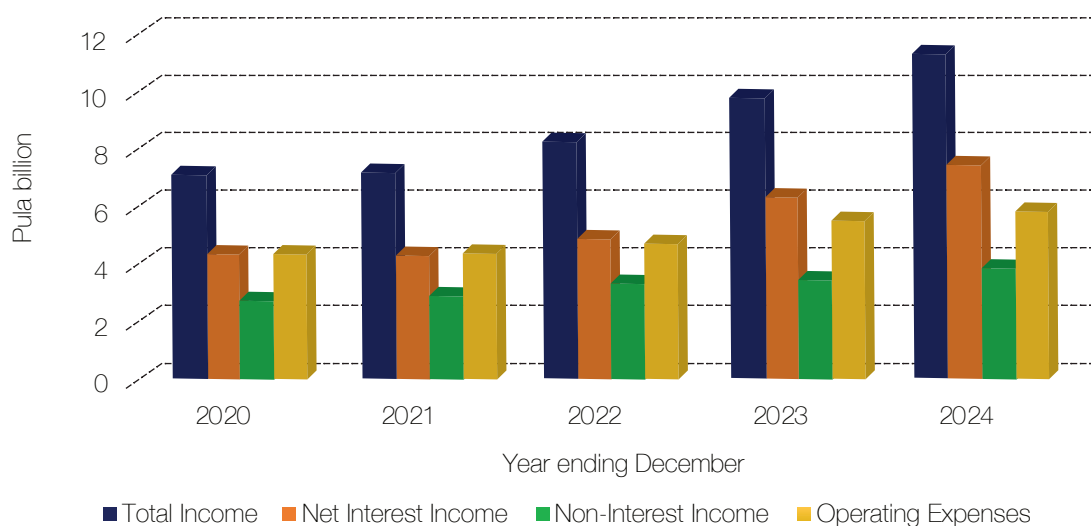
Income

- 2.47 Commercial bank's total income (net interest and non-interest income) increased by 15.7 percent from P9.8 billion in the 12 months to December 2023 to P11.4 billion in the corresponding period in 2024 (Chart 2.19). The increase in total income was attributable to a 17.5 percent growth in net interest income from P6.4 billion to P7.5 billion. The growth in net interest income reflects a 6.5 percent increase in the loan book of commercial banks in 2024. Consequently, the proportion of net interest income to total income increased from 64.7 percent in 2023 to 65.7 percent in 2024. Similarly, non-interest income increased by 12.4 percent from P3.5 billion in the 12 months to December 2023 to P3.9 billion in the corresponding period in 2024. Non-interest income to total income ratio fell from 35.3 percent in the 12 months to December 2023 to 34.3 percent in the similar period of 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.19: Commercial Banks: Composition of Income and Expenses: 2020 – 2024 (P billion)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Expenses

- 2.48 Total expenses for commercial banks marginally increased by 1.7 percent from P9.1 billion in the 12 months to December 2023 to P9.2 billion in the corresponding period in 2024. Operating expenses constituted 63.5 percent of the total expenses, while the share of interest expense was 36.5 percent. Interest expense decreased by 4.9 percent from P3.6 billion in the 12 months to December 2023 to P3.4 billion in the corresponding period in 2024, consistent with the slower increase in interest-bearing deposits of 0.4 percent in 2024 compared with 10.9 percent of 2023, reflecting the generally low interest rates in 2024. Meanwhile, operating expenses increased by 5.9 percent from P5.5 billion to P5.9 billion in the same period (Chart 2.20). Staff costs accounted for a significant proportion of operating costs, at 45.7 percent, followed by administration and other expenditures (36.8 percent), other expenses (audit and consulting fees, and occupancy and depreciation) (8.9 percent), and legal and management fees, at 8.6 percent.

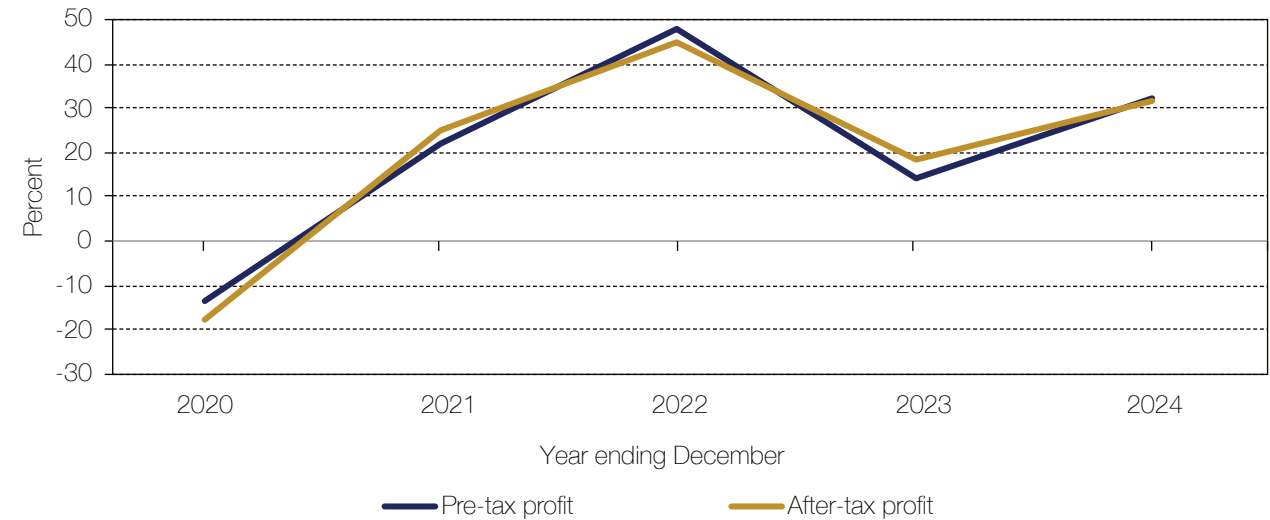
Profitability: Level, Source and Trend

- 2.49 Net after-tax profit of commercial banks rose by 31.7 percent from P3.1 billion in the year to December 2023 to P4.1 billion in the corresponding period in 2024 (Chart 2.20). In the review period, net after-tax profit increased for all banks.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.20: Commercial Banks: Growth Rates of Pre- and After-tax Profit: 2020 – 2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

Profitability and Operating Efficiency Indicators

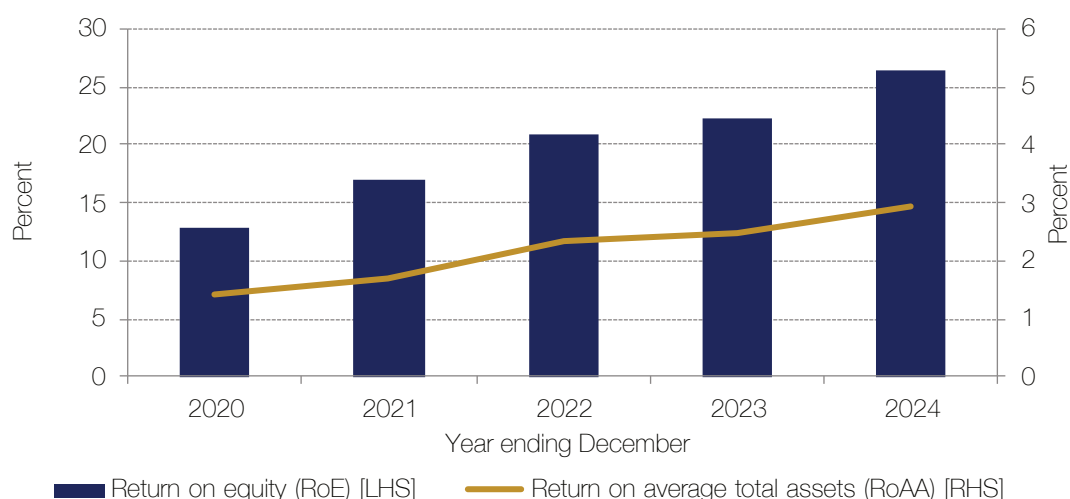
Profitability Indicators

2.50 The financial performance of commercial banks improved, as the return on equity (RoE) and return on average assets (RoAA) increased from 22.2 percent and 2.5 percent in the year to December 2023 to 27.3 percent and 3 percent, respectively, in the corresponding period in 2024 (Chart 2.21). For banks severally, RoE ranged from 5.5 percent to 39.6 percent, while RoAA ranged from 0.5 percent to 4.5 percent in the review period.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.21: Commercial Banks: Profitability Indicators: 2020–2024 (Percent)



Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.51 Table 2.9 shows financial performance indicators for commercial banks for the five-year period, 2020–24.

Table 2.9: Financial Performance Ratios: 2020–2024 (Percent)

Financial Performance Ratios	2020	2021	2022	2023	2024
Income on investments and securities to total income	5.3	6.5	6.3	10.3	9.2
Non-interest income to total income	38.8	40.5	40.4	35.3	34.3
Net interest income to total income	61.2	59.5	59.6	64.7	65.7
Return on equity	12.9	16.9	21.0	22.2	27.3
Return on average assets	1.4	1.7	2.3	2.5	3.0
Net interest income to average total assets	2.7	4.1	4.4	5.1	5.4
Interest income to average earning assets	6.6	6.4	6.8	8.6	8.5
Non-interest income to average total assets	2.7	2.8	3.0	2.8	2.8
Interest expense to average total assets	1.8	1.8	2.4	2.8	2.4
Earnings retention	85.9	17.3*	80.6	79.7	72.1
Interest income on loans to average total assets	5.7	5.2	5.9	6.3	6.1
Non-interest expense to average total assets	4.3	4.1	4.2	4.4	4.2
Gross interest income to average total assets	6.1	5.9	6.8	7.9	7.8

*Earnings retention was the lowest in 2021 because the dividends declared and paid in 2021 increased.

Source: Commercial Banks (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Operating Efficiency Indicators

- 2.52 The operational efficiency of commercial banks has been improving since 2021, and average cost-to-income ratio declined from 56.3 percent in the 12 months to December 2023 to 51.6 percent in the year to December 2024. The trend of efficiency measures for commercial banks for 2020–24 is shown in Table 2.10.

Table 2.10: Commercial Banks: Other Efficiency Measures: 2020–2024

	2020	2021	2022	2023	2024
Percent					
Average cost of deposits	1.9	1.9	2.6	3.2	2.7
Return on loans and advances	9.0	8.2	9.4	10.2	10
Net interest margin	4.7	4.4	4.8	5.5	5.8
Interest rate spread	4.0	3.8	3.9	4.5	4.8
Cost-to-income	61.0	60.3	56.6	56.3	51.6
Net income to employee costs	74.4	89.8	122.8	117.7	153.2
P'000					
Net income per employee	315.8	412.5	593.3	667.2	848
Staff costs per employee	424.6	459.5	461.9	566.7	553.5
Assets per employee	22 423	24 646	26 304	28 564	29 698

Source: Commercial Banks (Statutory Returns submitted to the Bank).

- 2.53 Considering earnings from commercial banks' core function (lending) and interest-earning assets, the return on loans and advances marginally declined from 10.2 percent to 10 percent; interest-rate spread rose from 4.5 percent to 4.8 percent, reflecting the risk profile of the balance sheet of commercial banks, which is dominated by higher interest-rate loans to retail customers. The average cost-of-deposits ratio declined from 3.2 percent in 2023 to 2.7 percent in 2024 owing to the decrease in the Monetary Policy Rate (MoPR), along with a sluggish growth in interest-bearing deposits. The ratio of net income-to-employee cost increased from 117.7 percent in the 12 months to 31 December 2023 to 153.2 percent in the corresponding period in 2024, given the faster growth in net income, at 31.7 percent, than the increase in staff costs of 1.2 percent. As a result of the increased profit levels, net income per employee rose from P667 223 to P848 034 in the same period. Assets per employee increased from P28.6 million to P29.7 million, thus reflecting the effect of a greater increase in the balance sheet (7.7 percent) than the 3.6 percent growth in the employment levels of commercial banks.

Assessment of the Financial Performance of Commercial Banks: Off-site Surveillance System Results

- 2.54 The Bank's off-site surveillance¹³ (OSS) system results and the annual risk assessment review indicate that, during 2024, the financial performance of commercial banks was sound. The strongest components were sensitivity to market risk (1.57), asset quality (1.73) and capital adequacy (1.91). Earnings and liquidity were rated adequate with an average score of 2.43 and 2.63, respectively. Table 2.11 shows the definition of colour codes, score ranges and risk rating for OSS. A summary of OSS ratings for commercial banks is provided in Table 2.12.

¹³ This is a quarterly monitoring tool that rates performance of banks with respect to capital adequacy, asset quality, management, earnings, liquidity and sensitivity to risk (CAMELS); it rates and ranks banks using an assessment of key financial soundness indicators. The ratings range from strong (1) to weak (4.5).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.11: Definition of Colour Codes, Score Ranges and Risk Rating

Rating		Strong		Adequate		Partially Adequate		Weak	
CAMELS	Category	Band 1		Band 2		Band 3		Band 4	
	Sub-category	B1-Upper	B1-Lower	B2-Upper	B2-Lower	B3-Upper	B3-Lower	B4-Upper	B4-Lower
	Score	1.0	1.5	2	2.5	3	3.5	4	4.5
Risk assessment summary	Risk rating	Low		Medium		Medium high		High	

Source: Bank of Botswana.

Table 2.12: Overall Commercial Banks 2024 Quarterly OSS Results

Bank	Capital adequacy	Asset quality	Earnings	Liquidity	Market sensitivity	Overall score
Banking Sector Average	1.91	1.73	2.43	2.63	1.57	2.06

Source: Bank of Botswana.

STATUTORY BANKS¹⁴

Statement of Financial Position

Assets

- 2.55 As at the end of 2024, total assets for the two statutory banks amounted to P6.7 billion, representing an increase of 44.6 percent from P4.6 billion in 2023, as shown in Table 2.14. The growth in total assets reflects an 85.1 percent increase in loans and advances of one statutory bank from P2.5 billion in 2023 to P4.5 billion in 2024. The statutory bank's assets constituted 78.7 percent of total statutory banks' assets. Further, assets for the statutory bank increased by 58.3 percent from P3.3 billion in 2023 to P5.3 billion in 2024; the assets grew because of a substantial rise of 85.1 percent in loans and advances in the same period.

¹⁴ Banks established by specific statutes.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.13: Asset Categories for Statutory Banks: 2020–2024 (P million)

Category (Percent)	2020	2021	2022	2023	2024
Cash and Balances with Bank of Botswana	37 806	56 380	27 776	36 360	71 923
Growth Rate	(83.8)	49.1	(50.7)	30.9	97.8
Share of Total Assets	0.5	0.8	0.4	0.8	1.1
Placements with Other banks and Credit Institutions	934 765	770 885	1 217 952	616 614	567 880
Growth Rate	(61.4)	(17.5)	58.0	(49.4)	(7.9)
Share of Total Assets	13.4	10.8	16.7	13.3	8.5
Net Loans and Advances	5 650 362	5 950 922	5 657 873	3 185 583	5 570 309
Growth Rate	16.0	5.3	(4.9)	(43.7)	74.9
Share of Total Assets	81.2	83.2	77.6	68.6	83.0
Fixed Assets Net of Depreciation	196 217	255 930	218 109	198 545	193 150
Growth Rate	39.6	30.4	(14.8)	(9.0)	(2.7)
Share of Total Assets	2.8	3.6	3.0	4.3	2.9
Other (assets) Net	135 799	118 741	167 834	606 432	311 437
Growth Rate	27.8	(12.6)	41.3	261.3	(48.6)
Share of Total Assets	2.0	1.7	2.3	13.1	4.6
Total Assets	6 954 949	7 152 857	7 289 544	4 643 533	6 714 698

Note 1. Parentheses denote negative figures.

2. Figures from 2023 exclude one bank because it ceased operating as a statutory bank.

Source: Statutory banks (Statutory Returns submitted to the Bank).

Liabilities

- 2.56 The two statutory banks' liabilities (excluding shareholder funds) rose by 47.9 percent from P3.6 billion in 2023 to P5.4 billion in 2024. The main source of funding for one statutory bank, however, was shareholders equity, which increased from P762.9 million in 2023 to P1 billion in 2024 and constituted 71.4 percent of total liabilities, whereas the largest funding source for the other statutory bank was deposits, which constituted 65.2 percent of liabilities in 2024, as shown in Table 2.15. The deposits for the statutory bank increased by 82.4 percent from P2.4 billion in 2023 to P4.4 billion in 2024.
- 2.57 Debt securities and other borrowings for the two statutory banks constituted 11.9 percent of total liabilities in December 2024 compared with 19.8 in December 2023. Meanwhile, equity, as another source of funding for the two statutory banks, accounted for 20.1 percent of the total funding sources in 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.14: Main Sources of Funding for Statutory Banks: 2020–2024 (P million)

Funding category	2020	2021	2022	2023	2024
Deposits	4 761 779	5 062 258	5 295 864	2 400 953	4 380 186
Growth rate (percent)	(12.8)	6.3	4.6	(6.8)	82.4
Share of total funding (percent)	68.5	70.8	72.7	51.7	65.2
Other Liabilities	383 666	430 182	342 090	307 010	188 985
Growth rate (percent)	(6.4)	12.1	(20.5)	(10.3)	(38.4)
Share of total funding (percent)	5.5	6.0	4.7	6.6	2.8
Share Capital	709 024	720 070	703 720	1 015 431	1 348 724
Growth rate (percent)	(1.2)	1.56	(2.27)	44.29	32.82
Share of total funding (percent)	10.2	10.1	9.7	21.9	20.1
Debt Securities and Other Borrowings	1 100 478	940 348	947 872	920 140	796 803
Growth rate (percent)	(7.1)	(14.6)	0.8	(2.9)	(13.4)
Share of total funding (percent)	15.8	13.1	13.0	19.8	11.9
Total Funding	6 954 948	7 152 858	7 289 545	4 643 533	6 714 698

Note: 1. Parentheses denote negative figures.

2. Figures from 2023 exclude one bank because it ceased operating as a statutory bank.

3. One statutory bank does not take customers deposits.

Source: Statutory banks (Statutory Returns submitted to the Bank).

Liquidity Risk

2.58 Liquid assets for statutory banks decreased by 22.4 percent from P1.1 billion in 2023 to P867.6 million in 2024. The liquidity position of the banks was satisfactory as at 31 December 2024; the ratio of liquid assets to total deposits for one statutory bank was 15.5 percent in 2024, a decline from 32.5 percent in 2023; the ratio remained above the statutory minimum of 10 percent. The fall in the ratio was attributable to a decrease of 71.7 percent in balances with Bank of Botswana from P5.2 million in 2023 to P1.5 million in 2024, as the bank funded the loan book. The total liquid assets to total assets ratio of the other statutory bank fell from 25.8 percent in 2023 to 13.1 percent in 2024. The reduction in the statutory bank's liquid assets is a result of a substantial fall of 44.4 percent in balances due from other banks, the main source of liquid assets for the bank, from P387.5 million in 2023 to P187.7 million in 2024.

Credit Risk

Regulatory Capital Requirements on Credit Risk

2.59 Reflecting the growth in loans and advances, credit RWAs of the two statutory banks rose by 48.9 percent from P3.2 billion in 2023 to P4.8 billion in 2024. The credit RWAs constituted 93.7 percent of total RWAs as at 31 December 2024.

Loans and Advances, Credit Risk and Asset Quality

2.60 The loan book of the two statutory banks grew by 65.6 percent from P3.5 billion in 2023 to P5.8 billion in 2024. The loan book comprised loans to the household sector and private businesses, which accounted for 84 percent and 16 percent of total credit, respectively. Within the household sector, personal loans constituted the largest proportion of loans, at 83.7 percent, mortgage, at 15.9 percent, and motor vehicle, at 0.4 percent.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

- 2.61 Aggregate NPLs for the two banks decreased by 5.6 percent from P349.8 million in 2023 to P330.1 million in 2024. Consequently, the ratio of NPLs to gross loans and advances for the banks decreased from 10 percent in 2023 to 5.7 percent in 2024. One statutory bank's NPLs fell by 16.6 percent between 2023 and 2024 owing to some loan recoveries and a write-off of some legacy NPLs, improved credit underwriting processes and stringent monitoring of the loan portfolio. Meanwhile, NPLs for the other statutory bank rose by 26 percent from P90 million in 2023 to P113.4 million in 2024; NPLs increased owing to a slowdown in collections by the bank due to the challenging economic environment in 2024.
- 2.62 The total specific provisions for the two banks were P146.3 million in 2024 compared with P230.7 million in 2023, which represented a decrease of 36.6 percent. As a result, the ratio of specific provisions to NPLs for the banks decreased from 66 percent to 44.3 percent in the same period.

Capital Adequacy (Solvency): Levels, Quality and Trends

- 2.63 Unimpaired capital for the two statutory banks increased by 19.4 percent from P1.1 billion in 2023 to P1.4 billion in 2024. The rise in unimpaired capital of the two banks was due to an increase of 5.6 percent in ordinary shares at one statutory bank. The increase in shareholder equity at the bank was attributable to inclusion of the proceeds from the industry support facility (ISF) in shareholder equity. According to the ISF structure, all loan collections are capitalised rather than being returned to the government. In addition, the increase in unpublished profits for the other statutory bank from P6.1 million in 2023 to P56.7 million in 2024 had a positive impact on the statutory banks' capital in 2024.
- 2.64 The two banks' RWAs rose by 48.1 percent from P3.5 billion in 2023 to P5.1 billion in 2024. This is consistent with an increase of 85.1 percent in loans and advances between 2023 and 2024. CAR of the two banks decreased from 32.7 percent in 2023 to 26.4 percent in 2024 but remained above the 12.5 percent minimum prudential requirement for banks. CAR for one bank was 60.3 percent and 14.4 percent for the other bank in 2024. The ratio of Tier 1 capital to unimpaired capital was 81.3 percent in 2023 and 74.8 percent in 2024. For one statutory bank, the Tier 1 capital to unimpaired capital ratio was 37.5 percent, an indication that the capital for the statutory bank is diluted with low-quality capital. The same ratio for the other statutory bank was 100 percent, an indication of high-quality capital levels for the bank.

Statement of Comprehensive Income

- 2.65 The two banks reported an aggregate profit of P55.3 million in the 12 months to December 2024, rising from the net loss of P33.4 million in the prior year. One statutory bank's net after-tax profit was P56.6 million in the same period, an increment from P17.2 million in the corresponding period in 2023. On the other hand, the other statutory bank reported a net loss of P1.3 million in the year to December 2024 compared with an after-tax loss of P50.6 million in the corresponding period in 2023.
- 2.66 RoAA increased from -0.7 percent in the 12 months to December 2023 to 1 percent in the corresponding period in 2024, while RoE improved from -3.3 percent to 4.1 percent in the same period.
- 2.67 The average cost-to-income ratio for the two banks fell from 99.2 percent in the year to December 2023 to 77.6 percent in the corresponding period in 2024, a reflection of cost optimisation and an increase of 40.3 percent in total income (net-interest and non-interest income) in the 12 months to December 2024. A large fall in cost-to-income was observed at one statutory bank, where the ratio declined from 92.6 percent in the 12 months to December 2023 to 67.4 percent in the corresponding period in 2024. Table 2.16 shows key performance indicators for the statutory banks during 2020 to 2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Table 2.15: Main Sources of Funding for Statutory Banks: 2020–2024 (P million)

Indicator	2020	2021	2022	2023	2024
P' million					
Net income	(28 715)	(11 015)	(11 857)	(33 395)	55 337
Interest income	516 970	544 827	558 385	448 382	522 985
Interest expense	277 784	291 323	326 486	210 773	231 459
Net interest income	239 187	253 503	231 898	237 610	291 526
Non-interest expense	267 586	313 103	300 784	335 057	367 665
Total assets	6 954 949	7 152 857	7 289 544	4 643 533	6 714 698
Average total assets	7 364 655	7 053 903	7 221 201	4 611 870	5 679 116
Average earning assets	6 939 334	6 653 467	6 798 816	3 999 624	4 970 193
Unimpaired capital	732 092	815 833	744 993	1 137 760	1 358 885
Risk-weighted assets	3 748 634	3 862 093	3 761 424	3 475 292	5 146 049
Percent					
Interest income to average total assets	7	7.7	7.7	9.7	9.2
Cost-to-income	94	104	104	99.2	77.6
Return on average assets	(0.4)	(0.2)	(0.2)	(0.7)	1
Return on equity	(4.0)	(1.5)	(1.7)	(3.3)	4.1
Return on advances	8.4	8.5	8.3	10.4	10
Average cost of deposits	3.8	4.3	5	6.4	5

- Notes:
1. Parentheses denote negative figures.
 2. Figures from 2023 exclude one bank because it ceased operating as a statutory bank.
 3. One statutory bank does not take customers deposits.

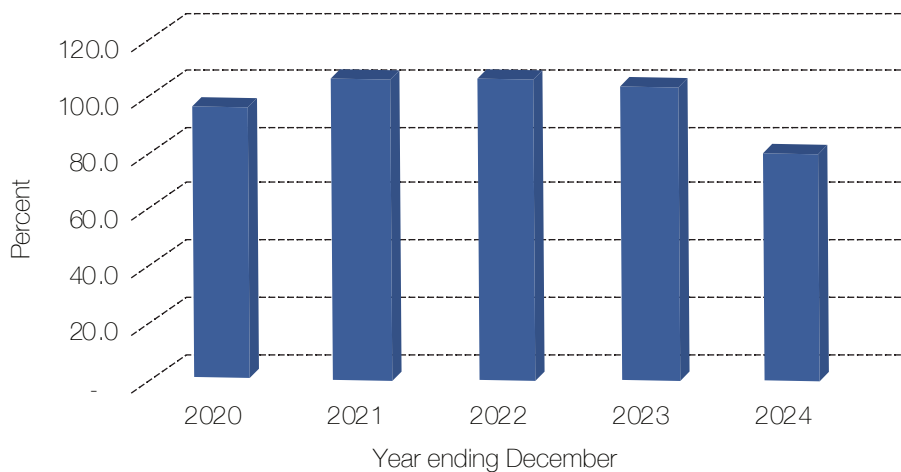
Source: Statutory banks (Statutory Returns submitted to the Bank).

2.68 Chart 2.22 presents the trend of the cost-to-income ratio for statutory banks over the five-year period, 2020–2024.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.22: Statutory Banks: Cost-to-Income Ratio: 2020–2024 (Percent)



Source: Statutory banks (Statutory Returns submitted to the Bank).

Operational Risk

Regulatory Capital Requirements for Operational Risk

2.69 Operational risk RWAs of the two statutory banks increased by 36.4 percent from P237.1 million in 2023 to P323.4 million in 2024. Operational RWAs contributed 6.3 percent to total RWAs in 2024.

OVERVIEW OF PILLAR 3 DISCLOSURE REQUIREMENTS

2.70 Pursuant to the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II), banks are required to publish information on their risk-management practices to enable stakeholders to assess the risk profiles and capital adequacy of these financial institutions. During 2024, all banks published information on the capital position, risk profile and risk management systems in accordance with the Circular on Implementation of Pillar 3 Disclosure Requirements (Pillar 3 circular). Overall, banks were compliant with the requirements of the Capital Directive and Pillar 3 circular, with minor shortcomings noted at a few banks. The Bank continues to guide banks towards compliance with the disclosure and all-other-regulatory requirements.

BOX 2: THE ROLE OF INNOVATION AND TECHNOLOGY IN SHAPING THE DIGITAL PAYMENTS LANDSCAPE

Introduction

Digital-payment channels refer to electronic methods that enable customers and businesses to carry out financial transactions and activities without the need for physical cash. Electronic payment-service (EPS) providers licensed by the Bank under the Electronic Payment Services Regulations, 2019 are digital financial services that provide mobile-money wallets, electronic money accounts, including prepaid payment cards, account-based payment services that facilitate funds collection from bank accounts and money-remittance services. Digital financial services also facilitate and provide for various digital payment options, including payments for insurance premiums, digital micro loans, person-to-person fund transfers, person-to-business fund transfers, mobile wallet to bank account and bank-to-wallets transfers, online payments, mobile point-of-sale (PoS) payments and digital remittances, among others.

Innovation and Technology as Payment Transformative Tools

Innovation and advances in technology are rapidly accelerating the transformation, modernisation and digitisation of payment methods. The digital channels leverage technology to facilitate payments. The EPS sector plays a crucial role in the payments ecosystem, with major EPS providers, such as Orange Money (Pty) Limited, Mascom Wireless Botswana (Pty) Limited (Mascom Myzaka service), Botswana Telecommunications Corporation Limited (BTC Smega), Botswana Postal Services (Poso Money) and others, expanding their product and service offerings through adoption of innovative digital channels. The introduction of soft PoS systems, cardless automated teller machine (ATM) withdrawals using one-time pin (OTP) and over-the-top (OTT) vouchers, as well as growing collaborations with banks to offer wallet-to-bank and bank-to-wallet transfers, and the use of agents to distribute services, among others, demonstrate the payments-landscape transformation and digitisation.

Digital-payment services have transformed the way commerce is conducted by making transactions more efficient, secure, and accessible for consumers.

The various modes of digital payment include the following:

- (a) Mobile-money wallet is an electronic wallet service that facilitates funds transfers through a mobile device. The wallet allows users to purchase items in retail shops or online, pay bills and top up mobile-phone airtime. Cash withdrawals can also be made at authorised agents and ATMs. Other functions include contactless person-to-person payments, person-to-business payments, business-to-business payments.
- (b) Mobile and web applications are software programmes designed to run directly on a mobile device, whereas web applications are specifically accessed through a web browser on any device with an internet connection. The applications allow customers to send and receive funds using the internet.
- (c) OTT vouchers are cardless, digital cash vouchers that enable users to make online payments, top up accounts, and access various digital services without needing a bank card or digital banking access. OTT vouchers may be redeemed or used as a method of payment for goods and services, including online payments.
- (d) Unstructured supplementary service data (USSD) payment is a method that allows users to make transactions using a mobile phone's menu-based system, accessed by dialling a specific code and following prompts. USSD payment is a secure and interactive payment method that works on basic-feature phones, making it accessible to a wider clientele, even those without smartphones.
- (e) Wallet-to-bank and bank-to-wallet transfers allow customers to transfer funds from a mobile-money account to a bank account and vice versa.

- (f) Prepaid cards are payments cards linked to the mobile-wallet account that facilitates payment for goods and services, cash withdrawals from ATMs and online payments.
- (g) Contactless payments (soft point-of-sale systems)—SoftPoS transforms smartphones or tablets into secure payment terminals, enabling merchants to accept contactless payments (like tapping a card) or payments via mobile wallets. Payments are enabled using near-field communication technology through tapping a prepaid card on a mobile device or smartphone reader without the need for traditional hardware payment terminals.
- (h) E-commerce payment gateways—the platform enables online purchases using payments cards.
- (i) Bulk-payment solutions facilitate distribution of payments to multiple recipients simultaneously, offering efficiency and cost savings by automating processes and reducing manual data entry. Mobile-money users access mobile platforms for payroll and supplier payments. Bulk payments are automated recurring payments, such as direct debits and salary and wage payments.
- (j) ATM cash-out allows a mobile-money account holders to withdraw funds from the ATMs using a one-time-pin sent to their mobile device.
- (k) Non-account-based or money-remittances payment services entail domestic and cross-border funds transfers.

Conclusion

Digital-payment channels have transformed the financial landscape by enabling seamless, fast, secure, and convenient cashless transactions. EPS providers play a pivotal role in modernising financial services, by offering a diverse portfolio of services, encompassing mobile money wallets, prepaid-card payments, online payments, and money remittances, both domestically and across borders. It is through technological innovations and strategic collaborations with banks that digital payment services continue to evolve, thereby enhancing accessibility, promoting financial inclusion, and modernising the way individuals and businesses interact for trade. As digital payment solutions become increasingly embedded in daily financial activities, they reshape the payments ecosystem by streamlining transactions, enhancing convenience, and reducing reliance on cash. The widespread use of digital payments is driving the transition towards a more inclusive, safe, secure, and efficient digital economy.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

NON-BANK FINANCIAL INSTITUTIONS

Bureaux de Change Activities

Market Entry and Exit

- 2.71 As participants in the financial services sector, bureaux de change are licensed by the Bank and subjected to market conduct and financial requirements to protect consumers, prevent financial crime, and mitigate AML/CFT/CPF risks associated with the sector. During 2024, the Bank processed four applications for a bureau de change licence. Of the four applicants, two were issued with a licence and began operation. One applicant was advised to invite the Bank to conduct a pre-operation inspection within six months, whereas the other applicant had its application lapse because of failure of the entity to meet the requirement to invite the Bank for a pre-operation inspection within six months. Further, five bureaux de change voluntarily surrendered their licences owing to their recurring financial losses. Thus, the number of licensed bureaux de change decreased from 52 in 2023 to 49 in 2024.

On-site Surveillance of Bureaux de Change

- 2.72 In 2024, the Bank conducted an on-site examination of one bureau de change in accordance with Regulation 19 of the Bank of Botswana (Bureaux de Change) Regulations. The entity generally complied with most of the regulations except for the contraventions shown in Table 2.16. The bureau de change was fined P1 500 for non-compliance with the regulations.

Table 2.16: Contraventions of the Bank of Botswana (Bureaux de Change) Regulations by one Bureau de Change

Contraventions	Contraventions
Failure to maintain a minimum bank balance of P5 000	Regulation 5(2)(c)
Failure to notify the Bank of changes in operating hours	Regulation 6(e)
Failure to observe the prescribed daily transaction limit of P10 000 per customer for purchase and sale transactions	Regulation 13(1)
Failure to submit accurate monthly consolidated purchase and sales return	Regulation 16(1)
Failure to submit the audited financial statements within the prescribed period of three months following the end of the financial year.	Regulation 18(5)

Off-site Surveillance of Bureaux de Change

- 2.73 An off-site review of the bureaux de change statutory returns showed that bureaux de change continued to serve economic agents through provision of foreign-exchange trading. Bureaux de change activities increased as reflected in the volumes of purchase and sale transactions conducted during the year. The sales value of foreign currency increased by 2 percent to P757 million in 2024 from P742 million in 2023, while that of purchases increased by 11.6 percent from P700 million in 2023 to P781 million in 2024. The increase in the sale and purchase of foreign currency can be attributed to the increase in both the demand for foreign currency, following the recovery of the tourism sector, and access points as bureaux de change increased branch networks.
- 2.74 The United States dollar (USD) and South African rand (ZAR) dominated the bureaux de change foreign-exchange transactions in the year, a similar trend to that of 2023.
- 2.75 Charts 2.23 and 2.24 compare the shares of sale and purchase of various currencies by bureaux de change in 2023 and 2024, while Chart 2.25 shows bureaux de change sale and purchase shares of foreign currency over a 5-year period.

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.23: Bureaux de Change: Shares of Foreign Currency Sales in 2023 and 2024 (Percent)



Source: Bureaux de Change (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.24: Bureaux de Change: Shares of Foreign Currency Purchases in 2023 and 2024 (Percent)

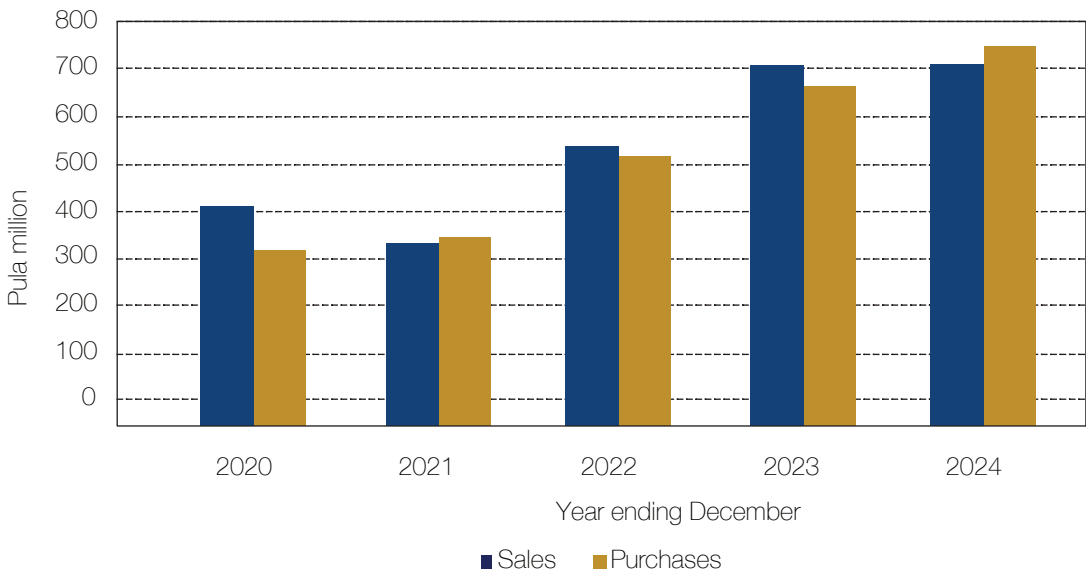


Source: Bureaux de Change (Statutory Returns submitted to the Bank).

CHAPTER 2:

PERFORMANCE OF THE BANKING INDUSTRY (CONTINUED)

Chart 2.25: Bureaux de Change: Sale and Purchase of Foreign Currency: 2020–2024 (Value)



Source: Bureaux de Change (Statutory Returns submitted to the Bank).

CHAPTER 3

THE NATIONAL PAYMENTS SYSTEM

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM

OVERVIEW OF THE NATIONAL PAYMENTS SYSTEM

- 3.1 A national payments system (NPS) forms the backbone of a country's financial infrastructure, which facilitates a secure, an efficient, and reliable transfer of funds between individuals, businesses, and government entities. As an essential enabler of economic activity, the NPS promotes financial stability, supports monetary policy implementation, and drives financial inclusion by ensuring that payment systems are accessible to all societal segments.
- 3.2 Pursuant to the Bank of Botswana Act, the primary objective of the Bank of Botswana (Bank) is to achieve and maintain price stability and support financial system stability. To support the objectives, the Bank plays a crucial role by establishing, promoting, regulating, and overseeing secure, reliable, and efficient payment, clearing and securities settlement systems, thereby enhancing efficiency, stability and safety of the Botswana financial system.
- 3.3 The Bank's oversight approach is guided by internationally recognised standards for payment systems, including the principles for financial market infrastructures (PFMIs) to achieve the objectives. The PFMI are published by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) and are a global benchmark for ensuring safety, efficiency, and resilience of financial market infrastructures. The principles extend to payment systems, central securities depositories, securities settlement systems, central counterparties, and trading repositories.
- 3.4 Further, the Bank's oversight function is aligned with the five core responsibilities for market regulators and central banks outlined by the BIS CPMI-IOSCO. The Bank also issues relevant guidelines tailored to Botswana's market needs and ensures compliance with any additional established oversight requirements. Through oversight approaches, the Bank reinforces the integrity and reliability of the NPS, ensuring its alignment with global standards, while customising the oversight approaches to the country's financial system.

Botswana National Payments System Ecosystem

- 3.5 The NPS ecosystem is an interconnected framework comprising various institutions, infrastructures, regulators, and stakeholders that collectively enable the seamless flow of payments within and across borders. Core components of the NPS include payment, clearing and settlement systems, payment service providers (PSPs), and NPS stakeholders. The Botswana NPS has evolved, underpinned by the adoption of modern technology, robust regulatory frameworks, and active collaboration between the public and private sector. The NPS ecosystem comprises traditional mechanisms, such as interbank transfers, alongside emerging digital payment innovations, including mobile money and financial technology (fintech) driven solutions.
- 3.6 The Botswana NPS is broadly classified into systemically important payment systems (SIPS)¹⁵ and non-systemically important payment systems (non-SIPS) on the basis of their role in and impact on financial stability. The primary distinction between SIPS and non-SIPS lies in their significance to the functioning of the financial system. SIPS are categorised according to size, nature, and complexity of the payments they process. Their failure could disrupt the financial system, undermine confidence, and negatively affect the broader economy. In Botswana, SIPS are defined as systems crucial to financial stability because of their transaction volumes, market share, and cross-border relevance. The Botswana Interbank Settlement System (BISS), Botswana Automated Clearing House (BACH) and Central Securities Depository Company of Botswana (CSDB) have been designated as SIPS in Botswana.

¹⁵ The methodology for designating a SIPS assesses its impact on financial stability, monetary policy, and the economy, using key factors such as size, substitutability, interconnectedness, and operational and financial risks. The criteria for designating a payment system as SIPS are guided by the PFMI set by the CPMI-IOSCO.

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

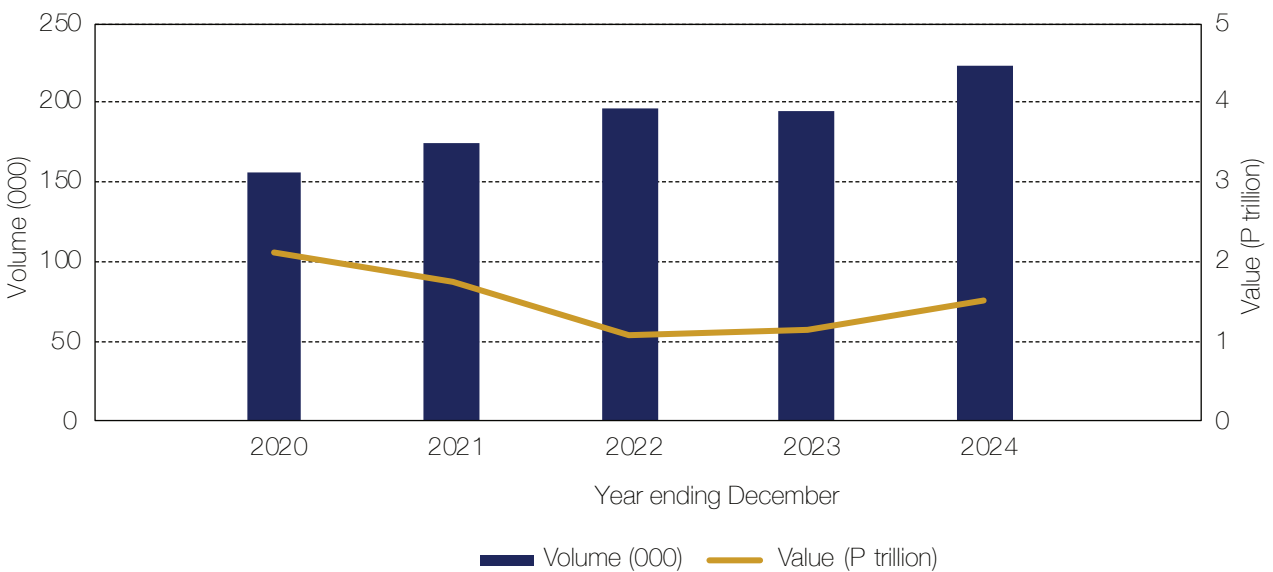
3.7 Non-SIPS, on the other hand, handle low-value, high-volume transactions, such as retail payments facilitated by card networks or mobile platforms. Non-SIPS¹⁶ are retail payment systems that do not have the potential to cause significant disruptions in the payments ecosystem. While non-SIPS play an essential role in supporting day-to-day economic activities, disruptions in these systems do not pose systemic risks or have the potential to cause widespread disruption to the payments ecosystem. Instead, their impact is generally limited to operational inconvenience for users.

Developments in the National Payments System

Trends in Selected Payment Systems

- 3.8 In 2024, the payment system usage in Botswana continued on an upward trajectory, reflecting increased confidence in digital platforms and robust infrastructure performance. Overall, the FMIs operating in Botswana, notably the BISS, BACH¹⁷ and CSDB continued to deliver secure and reliable clearing and settlement services.
- 3.9 The volume of transactions settled in the BISS increased by 14.8 percent from 194 726 in 2023 to 223 520 in 2024. Meanwhile, there was an increase of 38.6 percent in value of transactions settled in the BISS from P1.13 trillion to P1.57 trillion (Chart 3.1) in the same period.

Chart 3.1: Botswana Interbank Settlement System Transactions 2020–2024



Source: Bank of Botswana.

- 3.10 EFT transactions processed through the BACH system increased by 10.1 percent in volume from 11.3 million in 2023 to 12.5 million transactions in 2024 and 10.9 percent in value, from P300.9 billion in 2023 to P333.6 billion in 2024 (Chart 3.3).

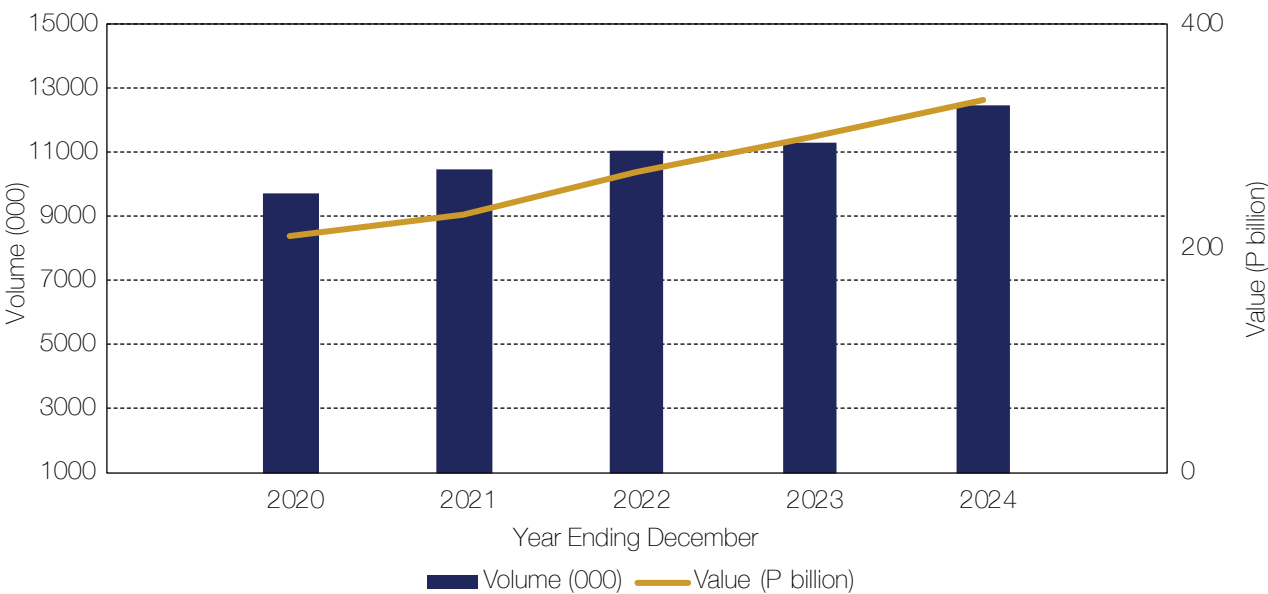
¹⁶ Examples of non-SIPS include Smartswitch Botswana (Pty) Limited, Orange Money Botswana (Pty) Limited and other EPS providers.

¹⁷ BACH ceased to accept and process cheque payment effective from January 2024.

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

Chart 3.2: Botswana Automated Clearing House, EFTs Processing: 2020–2024



Source: Bank of Botswana.

Efficiency, Security and Improvements in the NPS

- 3.11 The NPS in Botswana continues to evolve, with a strong focus on enhancing efficiency, ensuring security, and driving system-wide improvements. The Bank is reviewing and refining laws, regulations, and policies governing payment systems. These efforts aim to sustain the integrity, safety, and efficiency of the NPS, while fostering its adaptability to emerging challenges and technologies.
- 3.12 Efficiency remains a key pillar of the NPS, and ongoing initiatives have focused on streamlining processes, increasing transaction speed, and lowering costs. Efforts were directed at modernising clearing and settlement systems, integrating digital payment solutions, and encouraging greater interoperability among payment-service providers. These enhancements aim to improve user experience, expand financial inclusion, and support economic growth.
- 3.13 Several crucial developments are under way to future-proof the NPS and align it with Botswana's broader financial and economic objectives.

Modernisation of Payment Infrastructures

- 3.14 Commercial banks in Botswana and the Bank successfully migrated to ISO 20022 message standard for domestic payments on 16 September 2024. The migration coincided with the commissioning of the upgraded BISS aimed at increasing processing capacity, reducing latency, and accommodating the growing transaction volumes. The migration was generally smooth, and the system continues to be closely monitored, while post-implementation challenges continue to be addressed.

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

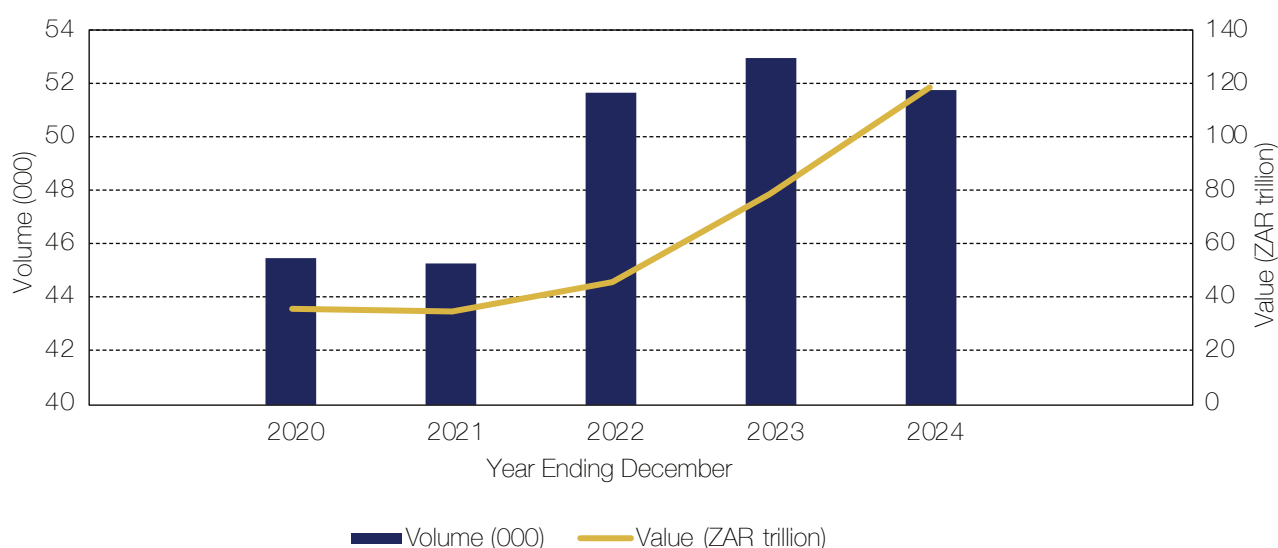
Update on the Implementation of the National Payments System Vision and Strategy 2020–2024

- 3.15 As at December 2024, which was the end of the National Payments System Vision and Strategy (NPSS) 2020–2024 period, 71 percent of the strategic objectives had been achieved, while pursuit of 29 percent of the strategic objectives was ongoing. Notable achievements include the discontinuation of the cheque, initiatives to promote digital payments, and the launching of a National Retail Payments Switch project to enhance interoperability. To progress the modernisation programme for Botswana, a new strategy is being developed under the coordination of the National Payments Task Force.¹⁸

Regional Payments Integration Project

- 3.16 In support of the South African Development Committee (SADC) regional payments integration initiatives, the Bank continues to facilitate participation of Botswana banks in the regional payments infrastructures, known as the SADC-Real-Time Gross Settlement (SADC-RTGS) system. As at end of the review period, four commercial banks in Botswana were participants in the SADC-RTGS, with a total value of settled messages of P117.7 billion and a corresponding volume of 56 452 transactions. Further, other four banks have expressed interest in joining the SADC-RTGS and are in the final stages of the on-boarding process. Chart 3.4 shows the aggregate volume and value of transactions of settled messages of the four Botswana commercial banks in 2020–24.

Chart 3.3: Transactions settled by Botswana Participants on the SADC-RTGS (2020–2024)



Source: Bank of Botswana.

¹⁸ The National Payments Task Force is a working group established to manage the national payments system (NPS) modernisation programme in Botswana and facilitates collaboration between various stakeholders in the financial sector.

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

- 3.17 Chart 3.3 shows an upward trend in the value of transactions settled through the SADC-RTGS system by Botswana banks, accompanied by a marginal decline in the volume of transactions between 2023 and 2024.

Licensing of Electronic Payment Services (EPS) Providers

- 3.18 During 2024, the Bank received one application for an electronic payment-service (EPS) provider licence. Assessment of the application was ongoing as at 31 December 2024.
- 3.19 A licence for one EPS provider was revoked owing to the provider's failure to comply with Regulations 10(1)(b) and 10(e) of the EPS Regulations, 2019. As a result, the number of operational EPS providers was 24, supported by a network of over 1 500 agencies across the country.
- 3.20 Moreover, the Bank regularly conducts enquiry meetings regarding EPS provider application for a licence and provides guidance to potential applicants throughout the application process.

Oversight Inspection

- 3.21 The Bank conducted an on-site oversight inspection of four EPS providers. The first EPS provider generally complied with applicable requirements of the EPS Regulations, 2019. Three EPS providers were, however, found to be non-compliant with certain provisions of the regulations. The entities were each fined P5 000.00 for non-compliance with those regulations. Table 3.1 shows a summary of the contraventions by the EPS providers.

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

Table 3.1: Common and Specific Contraventions of the Provisions of the FIA Regulations and EPS Regulations by the EPS Providers

ESP Provider	Regulation	Contravention	Description
EPS Provider 1	Regulation 16(2)(b)	Third-party certification of the system	The entity failed to certify the operating system through third-party certification authorities
	Regulation 22(2)	Interest earned on the dedicated cash account	The entity failed to credit interest earned on the dedicated cash account to a separate account
	Regulation 28	Transactional limits	The entity failed to observe transactional limits for RIA Money Transfer and Western Union
EPS Provider 2	Regulation 16(2)(b)	Third-party certification of the system	The entity failed to certify the operating system through third-party certification authorities
	Regulation 5(2)(c)	Capital Requirements	The entity failed to generate eligible capital to fulfil the required minimum capital of P2 million
	Regulation 22(4)	Reconciliation of liquid assets	The entity failed to reconcile the dedicated cash account with the outstanding electronic money issued on a daily basis
EPS Provider 3	Regulation 14	Approval of changes	The entity failed to seek approval from the Bank for introduction of new products or initiatives
	Regulation 16(2)(b)	Third-party certification of the system	The entity failed to certify the operating system through third-party certification authorities
	Regulation 24(4)	Submission of audited annual financial statements	The entity failed to submit audited financial statements within three months of the end of the financial year

CHAPTER 3:

THE NATIONAL PAYMENTS SYSTEM (CONTINUED)

Emerging Trends, Risks and Challenges in the NPS

- 3.22 Owing to the growing popularity of smartphones and other digital devices, more customers are using mobile-payment applications (apps) and digital wallets for quick and safe transactions. One emerging trend that has gained traction is the use of contactless payment methods, such as quick response code-enabled cards and mobile wallets owing to their speed, security and convenience.
- 3.23 While digitalisation in the financial services has brought about efficiency in the payments system, it has been marred with growth in fraud cases, with perpetrators targeting unsuspecting persons. The ubiquity of technology and the rise of innovative and disruptive technologies in the digital economy have heightened the risk of cyber-attacks and fraud, thus posing a significant risk to consumers and financial institutions. Increased risks could result in disruptions to the NPS, with far-reaching implications for stability of the financial system and the economy, the effect of which could be subjecting the NPS to stringent regulatory compliance, thus raising concerns of potential stifling of financial-inclusion efforts. The main challenge remains the need to maintain trust and confidence in the financial services industry, especially in the light of data breaches and security incidents, while effectively mitigating the evolving risk.

Financial Inclusion Initiatives

- 3.24 The Bank participates in several regional financial-inclusion engagements. The SADC Council of Ministers has approved the SADC Strategy on Financial Inclusion and Small to Medium Enterprises (SMEs) Access to Finance 2023–2028 as a means to accelerate financial inclusion programmes in all SADC member states. The regional financial-inclusion strategy seeks to address the varying levels of access and quality of financial inclusion within the region and support SADC member states in the development and implementation of their national financial inclusion strategies.
- 3.25 The availability of affordable and accessible financial services allows the unbanked and underbanked to participate in the formal financial system. EPS facilitates access to financial services by the unbanked and underbanked through providing users with access to mobile wallet accounts, which allows customers to store money, send and receive money, and pay bills, among others. Electronic payment services, such as mobile wallets have afforded users the opportunity for accessing other financial services, such as microcredit and insurance products. EPS providers, in partnership with other licensed financial institutions provide credit by offering digital short-term loans accessible through mobile-wallet platforms. With respect to insurance products, EPS providers partner with insurance companies to facilitate insurance-policy registration and payments through the mobile-money platform.
- 3.26 The Bank continued to receive from banks, requests for approval of financial-inclusion products, which are affordable, convenient and appropriate to close the remaining gaps in financial inclusion. These products and services covered a range of banking products, such as banking facilities that are unique to women, digital-loan banking product for SMEs, digital banking products, and youth and student current accounts.

CHAPTER 4

LICENSING AND CONSUMER PROTECTION

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION

MARKET ENTRY ENQUIRIES AND LICENSING OF BANKS

Enquiries on bank licensing

- 4.1 The Bank received one application for a banking licence during the year. The assessment of the application was ongoing at the end of 2024. In addition, the Bank received five enquiries regarding banking licence requirements in the year under review, none of which progressed to an application.

ILLEGAL DEPOSIT TAKING

Miracle Farm, Miracle Farm Capital or Miracle Farm Management

- 4.2 The Bank conducted investigations of a company operating under the name Miracle Farm, Miracle Farm Capital, or Miracle Farm Management, in February 2024. The company circulated messages through mobile phones and claimed to offer employment and investment opportunities in the agricultural sector, with a daily income of P100 to P1 000. While investigations were ongoing the Bank became aware that the Botswana Police Service (BPS) was also investigating the same matter, resulting in the Bank's halting of the investigation. BPS has since apprehended the promoters of the scheme, and the matter is at a court of law.

Dafritech Proprietary Limited

- 4.3 Following issuance of public notices by the Bank in December 2023, and a follow-up in April 2024, requesting members of the public who deposited funds into the Dafritech Proprietary Limited (Dafritech) account held with one commercial bank to claim their funds, as at 31 December 2024, twenty-six of 116 depositors had been refunded a cumulative amount of P393 261.89 from the Dafritech funds and the account balance was P437 982.67.

COMMERCIAL BANK INTEREST RATES AND CHARGES

Interest Rates and Policy

- 4.4 Banks accordingly reduced their prime lending rates by the same margin as the reduction in the MoPR throughout the year. Given increased competition for deposits, banks generally offered higher interest rates on deposits, which benefitted customers and ensured stable funding for banks.
- 4.5 Banks continued to comply with the Regulatory Guidelines RG. No. 01/11/2022 on deposit and lending rates, by publishing the indicative minimum and maximum deposit and lending interest rates in at least two newspapers widely circulating in Botswana and on websites of the respective banks. Table 4.1 shows actual ranges of deposit interest rates paid on the various deposit products offered by commercial banks as at 31 December 2024. Interest rates ranged from zero to 9 percent. Longer-dated deposit products attracted commensurately higher interest rates, mainly as an incentive to customers.

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION (CONTINUED)

Table 4.1: Commercial Banks: Deposit Rates as at 31 December 2024

Deposit Product	Deposit Rates (annual percent)	
	Lowest	Highest
Current account	0.00	5.00
Savings*	0.00	5.00
Call	0.00	6.00
91 days	0.75	8.00
6 months	0.00	8.10
12 months	0.50	9.00
24 months	0.50	7.85
Monetary Policy Rate	1.90	

*Savings include both ordinary and special savings accounts.

Source: Commercial Banks (Statutory Returns submitted to the Bank)

- 4.6 Table 4.2 shows a range of actual lending rates offered by various banks as at 31 December 2024. The actual lending rates ranged from zero to 36 percent. The differential between the lowest and highest interest rates charged were noted with respect to some products, with unsecured loans and credit cards attracting the highest interest rates, while secured loans were charged lower rates.

Table 4.2: Commercial Banks: Lending Rates as at 31 December 2024

Lending Product	Lending Rates (Annual Percent)	
	Lowest	Highest
Mortgage rate	0.76	14.01
Overdraft rate (revolving credit lines)	0.00	36.00
Credit card rate	16.01	36.00
Lease loans	3.01	12.02
Personal loans (excluding overdrafts, and credit cards)	0.76	36.00
Other long-term loan rates	2.00	20.01
Monetary Policy Rate	1.90	
Prime lending rate	6.01	

Source: Commercial Banks (Statutory Returns submitted to the Bank)

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION (CONTINUED)

Commercial Bank Charges

- 4.7 Consistent with item 12(1) of the Disclosure of Bank Charges Notice No. 41 of 2001, eight banks submitted their proposed tariff guides for assessment and approval by the Bank. In assessing the charges, the Bank took into consideration, among others, the cost justification advanced for the pricing adjustments and the medium-term inflation objective range of 3–6 percent.
- 4.8 According to the requirement of Disclosure of Bank Charges Notice No. 41 of 2001, banks gave customers notice of no less than 21 banking days before implementing the approved tariffs by publishing the tariff guides in local newspapers and on the banks' websites. Table 4.3 presents industry minimum and maximum charges for selected banking services in 2024. The structure is based on three broad categories of frequently applied charges: access facilitation, investment/intermediation, and trade facilitation.

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION (CONTINUED)

Table 4.3: Selected Commercial Banks Minimum and Maximum Charges as at December 2024 (Pula)

Service Charge Category (Pula)	Industry Minimum (Pula)	Industry Maximum (Pula)
Access Facilitation		
(i) Cash withdrawal (own bank)	2.52	7.77
(ii) Replacement of lost ATM card	57.19	114.00
(iii) Point of sale	1.28	2.42
Internet Banking Charges		
(i) Monthly fees	50.00	156.51
(ii) Transfers (third party within a bank)	1.71	3.85
(iii) Transfers (outside bank)	2.42	4.41
Mobile Banking Charges		
(i) Utility bill payments	2.85	3.79
(ii) Payment to third-party accounts	2.69	4.31
(iii) Buy pre-paid airtime	0.57	0.61
(iv) Cash send/e-wallet/instant money	7.13	11.48
(v) Electronic fund transfers	7.80	28.50
Investment/Intermediation		
(i) Personal-loan arrangement fee (minimum)	146.07	1 187.20
(ii) Vehicle/asset-finance arrangement fee (minimum)	353.29	949.50
(iii) Mortgage arrangement fee (minimum)	353.29	2 800.00
(iv) Credit Reference Bureau Africa Proprietary Limited and TransUnion Proprietary Limited *	6.83	68.02
Trade Facilitation		
(i) Purchase of foreign notes (minimum)	18.67	30.54
(ii) International SWIFT transfer (maximum)	132.30	585.13
(iii) Advising commission on letters of credit (minimum)	112.61	431.98
(iv) Real time gross settlement (maximum)	121.00	366.90
(v) Transfer to accounts at foreign banks (maximum)	215.79	457.46

*Fees revised from last year.

Source: Commercial Banks.

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION (CONTINUED)

CONSUMER COMPLAINTS MANAGEMENT

- 4.9 The Bank received 18 new complaints in 2024, and one complaint was brought forward from the previous year. Twelve complaints were resolved, while seven were undergoing the resolution process. The various complaints emanated from different sources of customer dissatisfaction as illustrated in Table 4.4.

Table 4.4: Commercial Banks' Consumer Complaints in 2024

Nature of Complaint Received	Received	Resolved	Total Outstanding as at 31 December 2024
Unsatisfactory service	7	4	3
Unfair handling of loans	3	1	2
Unauthorised transactions	4	3	1
Disputed mortgage/credit-card insurance covers	5	4	1
Total	19	12	7

Source: Bank of Botswana.

ABANDONED FUNDS

- 4.10 In accordance with Section 39 of the Banking Act, the Bank continued to administer abandoned funds received from commercial banks. As indicated in Table 4.5, the net increase in the balance of abandoned funds was 26.8 percent, from P27 088 850 in 2023 to P34 336 420 in 2024. The net increase in the balance occurred despite a rise in claims from P1 789 498 to P2 857 119 in the same period.

Table 4.5: Total Abandoned Funds from Commercial Banks in 2023 and 2024

	2023 (Pula)	2024 (Pula)
Balance brought forward	23 217 932	27 088 850
Funds received	5 812 562	11 023 901
Claims paid	(152 146)	(679 895)
Refund to banks	-	(241 717)
Refund to the Bank	-	2 400
Transfer to Guardian Fund	(1 789 498)	(2 857 119)
Balance at year-end	27 088 850	34 336 420

Note: Parentheses denote pula amount paid out.

Source: Bank of Botswana and Commercial Banks.

CHAPTER 4:

LICENSING AND CONSUMER PROTECTION (CONTINUED)

CORPORATE GOVERNANCE

- 4.11 During the year under review, banks continued to appoint board and senior management officials who met the requisite fitness and propriety criteria for eligibility to hold senior management positions in licensed banks in accordance with Section 29 of the Banking Act and the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana. The Bank received and processed 40 applications in 2024 compared with 59 in 2023. Thirty-seven proposed appointments were approved, as the candidates met the minimum requirements stipulated in the guidelines. Specifically, 17 approvals were for senior management positions, while 20 were for board appointments. Further, two applications for senior management positions were objected to, as the individuals did not meet the required fitness and propriety standards.
- 4.12 In addition, one application for appointment of an independent non-executive director had not been concluded by the end of 2024. Approved board and senior management appointments in 2024 consisted of 83.8 percent Botswana nationals, compared with 79.7 percent in 2023 (Table 4.6). This mix aligns with the intention of the Botswana Government's localisation policy, which prioritises employment opportunities for Botswana citizens.

Table 4.6: Number of Board and Senior Management Approvals in 2023 and 2024

	2023	2024
Number of Board approvals	13	20
Foreigners	3	4
Locals	10	16
Number of senior management approvals	46	17
Foreigners	9	2
Locals	37	15
Total number of approvals	59	37

Source: Bank of Botswana.

BOX 3: OPPORTUNITIES AND CHALLENGES OF ARTIFICIAL INTELLIGENCE IN THE BANKING SECTOR

Introduction

Artificial intelligence (AI) is a transformative field of computer science focussed on creating systems capable of performing tasks that traditionally require human intelligence, such as learning, decision-making, and problem-solving. AI in banking can be broadly categorised into three main types, each with distinct characteristics and applications. Narrow AI, also referred to as weak AI, is the most deployed type in banking institutions (Russell & Norvig, 2021). It is designed to perform specific tasks with high efficiency and precision, such as fraud detection, credit scoring, or customer service chatbots (PwC, 2023). Narrow AI operates within predefined parameters, thereby rendering it well suited for streamlining processes and enhancing accuracy in repetitive tasks (PwC, 2023). In contrast, general AI, or strong AI, is a more advanced concept where systems possess human-like cognitive abilities, enabling them to reason, learn, and make decisions independently across diverse contexts. While theoretical in nature, the potential of general AI continues to inspire research and development within the financial sector. Artificial superintelligence (ASI) represents a stage, where AI systems surpass human intelligence, exhibiting capabilities beyond human comprehension (Deloitte, 2023). Although ASI remains speculative, it raises important questions about governance, ethics, and control in its hypothetical application to banking and other industries (World Economic Forum, 2023). This article will explore the opportunities and challenges that AI poses to the banking industry looking at customer experience, risk management, operational efficiency, cybersecurity, innovation and financial inclusivity.

The Case for AI in the Financial Sector

With the world technologically evolving towards digitalisation, there is an increased demand for efficiency, advanced data analysis and processing power, financial inclusion, and customised offerings. Meanwhile, the financial services sector faces significant limitations in efficiency and adaptability. Processes such as fraud detection, credit scoring, and customer service remain largely manual, leading to delayed processing times, heightened operational costs, and increased susceptibility to human error. Traditional banking methods often struggle with scalability, particularly in risk management and regulatory compliance, as they rely heavily on manually analysed data and static reporting tools (McKinsey & Company, 2023). Financial institutions face challenges in managing the growing complexity of financial transactions and proactively identifying cybersecurity threats (IMF, 2022). Moreover, financial inclusion remains an important consideration, as conventional credit assessment models exclude individuals without a formal credit history, leaving significant segment of the population unbanked or underbanked (World Bank, 2022). Adoption of AI presents an argument for transformative solutions to these challenges faced by the financial sector.

Opportunities Presented by Artificial Intelligence

Below is a highlight of the potential of AI to enhance efficiency, security, and financial inclusion, while addressing key risks and implementation hurdles.

Enhancing Customer Experience

AI has revolutionised customer engagement by enabling banks to deliver personalised and efficient services through tools, such as chatbots and virtual assistants. PricewaterhouseCoopers (PwC) 2023 Global Consumer Insights Survey highlights that 31 percent of banking-customers expect seamless online assistance, which AI tools can provide by reducing waiting times and customising services to individual preferences (PwC, 2023). Challenges arise from the over-reliance on automated systems, which may struggle to address complex queries, leaving customers frustrated and thus reducing adoption rate. Moreover, AI tools risk excluding less tech-savvy users, particularly in regions with low digital literacy, as noted by the World Bank (World Bank, 2022). Similarly, while AI-powered fraud-detection systems and machine-learning algorithms have improved banks' ability to identify suspicious transactions, the International Monetary Fund (IMF) emphasises the challenges of the "black-box" nature of these systems, which can make their decision-making processes opaque (IMF, 2022). The "black box" is defined as a challenge commonly faced in deep learning models and complex machine-learning models, where there is little to no understanding of how an AI system came to a decision or output, even by their developers (IMF, 2022). This lack of transparency can complicate regulatory compliance and erode trust (IMF, 2022). To address the black-box problem, financial institutions are increasingly adopting explainable AI frameworks that

provide greater transparency in decision-making, enabling both regulatory compliance and user trust (IBM, 2023). As cybercriminals increasingly adopt AI to devise sophisticated fraud strategies, financial institutions face the dual challenge of defending against both traditional and emerging threats. As a result, financial institutions must adapt rapidly, employing advanced AI tools to identify and neutralise these evolving threats (EY, 2023).

Risk Management and Fraud Detection

Operational efficiency has been significantly enhanced by AI-driven automation, with technologies such as robotic process automation (RPA) streamlining tasks like data processing, account reconciliation, and regulatory reporting (Deloitte, 2023). According to Deloitte, these tools have reduced banking processing times by up to 25 percent for early adopters (Deloitte, 2023). This increased efficiency enables financial institutions to allocate resources more strategically, focusing on customer engagement and innovation while reducing the administrative burden on employees. Further, AI's ability to minimise errors in compliance and reporting enhances banks' reputational standing, ensuring adherence to regulatory frameworks and improving overall operational reliability.

This efficiency, however, comes with the downside of potential workforce displacement, particularly for roles reliant on manual processes. The World Bank warns that such displacement may exacerbate social and economic inequalities, especially in developing markets (UNEP FI, 2023). In addition, many banks operate on legacy systems that are often incompatible with advanced AI technologies, necessitating costly infrastructural upgrades to fully realise the benefits of automation (PwC, 2023). Institutions with more limited resources may face financial and technical constraints in deploying artificial intelligence, thereby delaying adoption and reducing their ability to compete with better-resourced counterparts.

To address these challenges, the banking sector must invest in workforce reskilling programmes and modernise core systems to create a balanced and inclusive approach to operational innovation.

Improving Operational Efficiency

AI's capacity for advanced data analytics has enabled banks to gain strategic insights into customer behaviour and market trends, improving decision-making in areas such as portfolio management and marketing. McKinsey & Company reports that AI-powered analytics have driven a 10 percent increase in revenue for financial institutions by optimising cross-selling and up-selling strategies (McKinsey & Company, 2023). The reliance on data, however, introduces risks related to privacy and security. The World Economic Forum advises that banks must navigate stringent data-protection regulations, such as the General Data Protection Regulation (GDPR), to avoid reputational and financial risks (World Economic Forum, 2023). In Botswana, the Data Protection Act (2024) can also be used as a tool to better protect consumer data by establishing clear guidelines for the collection, processing, storage, and sharing of personal information, thereby enhancing consumer protection and promoting responsible data governance.

Moreover, algorithmic biases, stemming from flawed or incomplete data, can lead to discriminatory outcomes, such as unequal access to credit (World Economic Forum, 2023). To mitigate these biases, banks should implement robust data-governance practices that guarantee representation and high-quality datasets during AI model development (World Economic Forum, 2022). Further, this will require continual review of the algorithms paired with human oversight to ensure that there is no discrimination in the AI's decision-making (World Economic Forum, 2022).

Strengthening Cybersecurity

Cybersecurity in the financial sector has greatly benefitted from the adoption of AI, particularly in detecting vulnerabilities and preventing breaches. AI-driven tools excel at analysing large volumes of data to identify anomalies and patterns indicative of malicious activity (EY, 2023). These systems can swiftly detect unusual transaction behaviours, unauthorised access attempts, and suspicious network traffic, enabling proactive responses to potential threats. According to the IMF, institutions leveraging AI-driven cybersecurity solutions have reduced the success rate of cyberattacks by 30 percent, underscoring the significant impact of AI in safeguarding sensitive financial data and maintaining operational integrity (IMF, 2022). The speed and precision of AI in identifying potential breaches are especially valuable in a sector where even minor security lapses can result in severe financial and reputational implications.

The reliance on AI for cybersecurity, however, is not without challenges. Overconfidence in AI systems, as noted by Ernest and Young (EY), 2020, can lead organisations to neglect traditional security measures such as human oversight, robust authentication protocols, and regular audits (EY, 2023). This creates vulnerabilities, particularly when AI systems encounter new attack strategies or fail to adapt to emerging threats. To mitigate these risks, institutions must prioritise a balanced approach that combines AI capabilities with human expertise, ensuring transparency, continual model updates, and robust oversight (World Economic Forum, 2023). Additionally, collaboration between financial institutions, technology providers, and regulators is crucial for developing industry-wide standards that enhance the robustness of AI-driven cybersecurity while fostering collective resilience against an evolving threat landscape.

Driving Financial Innovation and Inclusion

AI has also driven financial innovation and inclusion, with tools that expand access to credit for underserved populations by using alternative data sources for credit scoring. AI-driven credit scoring models use alternative data sources, such as mobile-payment history, utility bills, and social media activity, to assess the creditworthiness of individuals who lack traditional credit history. The World Bank highlights that AI has enabled financial institutions to reach rural and unbanked communities through mobile banking platforms (World Bank, 2022). This technological progress facilitates access to essential financial services, including loans, savings, and insurance, enabling individuals to improve their financial security and contribute to economic growth.

Facilitating Sustainability and Green Finance

AI has also supported the integration of sustainability into banking practices by facilitating environmental, social, and governance (ESG) considerations. United Nations Energy Program Finance Initiative research underscores AI's ability to assess ESG risks and promote sustainable investments (UNEP FI, 2023). The computational demands of AI systems, however, particularly those requiring significant energy resources, raise concerns about their environmental impact. PwC notes that the energy-intensive nature of AI models must be mitigated to align with global sustainability goals (McKinsey & Company, 2023). Furthermore, it is necessary to standardise ESG reporting frameworks to accurately measure the impact of AI on sustainability outcomes.

Conclusion

AI has become a transformative tool in advancing financial innovation and fostering inclusion. By harnessing alternative data sources such as mobile-payment history and utility bills, AI enables financial institutions to assess the creditworthiness of individuals without traditional financial records. This capability has significantly expanded access to credit, particularly for underserved populations, providing them with opportunities to participate in the formal financial system. Moreover, mobile-banking platforms enhanced by AI have bridged gaps in financial access, reaching rural and remote areas, and empowering individuals with tools to save, invest, and build financial security.

The positive ripple effects of these advances are far-reaching. AI's ability to personalise financial services ensures that individuals receive tailored solutions, enabling them to manage their finances more effectively. The personalised approach fosters trust and engagement with financial institutions, encouraging wider participation. In addition, the integration of AI in financial systems has the potential to drive economic growth by unlocking the potential of previously excluded populations. By fostering greater financial inclusivity, AI can play a pivotal role in reducing poverty, improving livelihoods, and creating more equitable opportunities for all. With continued innovation and a focus on inclusivity, entities that utilise AI, stand poised to build a more accessible and robust global banking system.

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CHAPTER 5

OTHER SUPERVISORY ACTIVITIES

CHAPTER 5:

OTHER SUPERVISORY ACTIVITIES

RECENT GLOBAL STANDARDS AND GUIDELINES ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION OF THE BANK FOR INTERNATIONAL SETTLEMENTS

- 5.1 The Basel Committee on Banking Supervision (BCBS) issued new and revised guidelines and standards for the regulation and supervision of banks and banking groups. The following reports, guidelines and standards were issued in 2024:
- (a) Revised Core Principles for Effective Banking Supervision (core principles) on 25 April 2024. The revision covered the following: supervisory powers and responsibilities; business model sustainability, corporate governance and risk management, climate-related financial risks, financial risks, and service providers, and operational resilience. Core principles are used by supervisors to assess the effectiveness of their regulatory and supervisory frameworks. They are also used by the IMF and World Bank as part of the Financial Sector Assessment Programme to evaluate the effectiveness of countries' banking supervisory systems and practices.
 - (b) Recalibration of shocks for Interest Rate Risk in the Banking Book (IRRBB) on 16 July 2024. BCBS has made targeted adjustments to the specified interest rate shocks in the IRRBB standard, consistent with commitments in the standard to periodically update their calibration. These targeted changes have been implemented to address problems associated with how the methodology captured interest rate changes during periods when rates are close to zero.
 - (c) Guidelines for Banks' Counterparty Credit Risk (CCR) management on 11 December 2024. The guidelines include key practices crucial to resolving long-standing industry weaknesses in CCR management, including the need to (i) conduct comprehensive due diligence at both on-boarding and on an ongoing basis; (ii) develop a comprehensive credit-risk mitigation strategy to effectively manage counterparty exposures; (iii) measure, control and limit CCR using a wide variety of complementary metrics; and (iv) build a strong CCR governance framework. The guidelines will replace the committee's Sound Practices for Banks' Interactions with Highly Leveraged Institutions of January 1999.
- 5.2 In addition, the BCBS issued, for consultation, the following standards in 2024:
- (a) The Role of Climate Scenario Analysis in Strengthening the Management and Supervision of Climate Related Financial Risks on 16 April 2024. The BCBS has issued a discussion paper on how climate scenario analysis (CSA) can be practically used to help strengthen management and supervision of climate-related financial risks. The role of climate scenario analysis in strengthening management and supervision of climate-related financial risks looks at the objectives of CSA exercises and relevant features to design and use them.
 - (b) The committee issued a consultative document proposing principles for the sound management of third-party risk in the banking sector. The principles address banks' increasing reliance on third-party service providers owing to the ongoing digitalisation and rapid growth in fintech. The principles establish a common baseline for banks and supervisors for the risk management of outsourcing arrangements. Simultaneously, the principles introduce the necessary flexibility to accommodate evolving practices and regulatory frameworks across jurisdictions. While primarily directed at large internationally active banks and their supervisors, these principles also benefit smaller banks and authorities in all jurisdictions. The principles will assist the Bank in reviewing the existing supervisory frameworks to align them with international best practices.

CHAPTER 5:

OTHER SUPERVISORY ACTIVITIES (CONTINUED)

PARTICIPATION IN INTERNATIONAL AND DOMESTIC REGULATORY AND SUPERVISORY FORUMS

Supervisory Colleges

- 5.3 Supervisory college meetings are consistent with core principle 13 of the Basel Core Principles for Effective Banking Supervision; the principle requires home supervisors to establish bank-specific supervisory college meetings (for banking groups with host supervisors). The objectives of a supervisory college are to assist supervisors in understanding the risk profile of the banking group, exchange information and encourage cooperation with a view to enhancing supervision, especially cross-border supervision. The Bank participated in two supervisory colleges¹⁹ in respect of two supervised banks in 2024.
- 5.4 The Bank participated in the supervisory college meeting of FMBcapital Holdings Group (FMBCH/Group), the parent company of one bank. The objective of the meeting was to discuss key supervisory matters relating to the supervision of the banking group and engage with the senior management officials of the group. The agenda of the meeting covered different subject areas, inter alia, overview of the group structure and recent developments, governance and oversight, FMBCH Group strategy, shared services arrangements, financial performance, risk assessment and home-host supervisory issues.
- 5.5 The Bank participated in a virtual supervisory college meeting of Standard Chartered Bank Group, the holding company of another bank. The supervisory college was organised by the Prudential Regulation Authority of the Bank of England, which is the home supervisor responsible for the consolidated oversight of the banking group. The purpose of the supervisory college was for regulators in different jurisdictions to comprehensively deliberate on matters relating to the risk profile of the group and supervisory challenges in regions.

Cross-border Supervision

- 5.6 Consistent with principle 12 of the core principles, the Bank hosted the Prudential Authority (PA) of the South African Reserve Bank (SARB) for a joint cross-border supervisory meeting of a bank originating from South Africa on 4–5 September 2024. The purpose of the meeting was to discuss, among others, the regulatory framework, significance of the bank in the domestic banking industry, and overall risk assessment of the bank. The meeting determined that, although the control environment was considered effective, there was a need to address deficiencies identified in the ongoing supervision of the banking group.
- 5.7 Further, the PA and the Bank representatives held meetings with the senior management and chairman of the Board of the bank to evaluate the bank's strategy and risk profile. Overall, the meeting enabled the PA and the Bank to understand the key risks and vulnerabilities faced by the banking group as well as the risk-management systems and controls for mitigating the risks.

¹⁹ A supervisory college is a working group of supervisors formed under the aegis of the BCBS to enhance the consolidated supervision of internationally active banking groups.

BOX 4: THE EXPECTED IMPACT OF IMPLEMENTATION OF CHANGES INTRODUCED BY THE BANKING ACT, 2023

The Banking Act provides for the licensing, regulation and supervision of banking institutions. In May 2023, after an extensive and comprehensive revision of the Banking Act, a Banking Bill was passed into law by Parliament, resulting in the re-enacted Banking Act, 2023.

Among the key changes of the Banking Act, 2023 the following are expected to have some impact on the banking industry upon implementation of the revised Act: section 11 on refusal to grant a banking licence; section 42 on consolidated supervision; sections 43–45 on bank recovery plans, corrective measures and early intervention measures; and sections 59–72 on resolution measures.

Section 11 on refusal to grant a banking licence has been amended to the effect that appeals for rejected applications for a banking licence will no longer be adjudicated by the minister responsible for finance; instead, appeals will be adjudicated by an Appeals Tribunal whose constitution, membership and governing procedures are prescribed in sections 92–95. The establishment of an appeals tribunal is expected to facilitate an intense review of the Bank's decisions, which would enhance transparency in the decision-making of the Bank, hence enhance the fairness of the regulatory environment.

Meanwhile, Section 42 of the re-enacted Act, on consolidated supervision as amended, provides for tools effective to remove obstacles to conducting national and cross-border consolidated supervision. The introduction of consolidated supervision requires banks to have robust risk-management frameworks, which covers risks that emanate from group-wide activities. In that regard, banks would be expected to understand inter-dependencies among group members and their impact on the risk profile and the overall financial position of the group and ultimately maintain capital adequacy that is sufficient to absorb losses, and a liquidity position that will satisfy liquidity needs of the group members. As a result, banks may need to invest in risk management systems and reporting infrastructure to facilitate assessment of their individual performance and banks' performance as part of a group to meet supervisory requirements.

Sections 43–45 on bank recovery plans, corrective measures and early intervention measures expanded the scope of temporary management of banks in the previous Act, while the new sections 59–72 on resolution measures represent the most extensive review of the Act. The designation of the Bank as a resolution authority and the exercising of this power, for example, requiring banks to submit recovery plans, performing resolvability assessments and developing resolution plans for the respective institutions, would motivate banks to undertake robust review of their business models, governance structures, risk management frameworks and adopt a forward-looking approach in identifying vulnerabilities to their operations, and developing appropriate mitigation strategies and recovery options. In so doing, enhance the resilience of the industry to shocks. Moreover, the development necessitates the need for banks to maintain high-quality data to be submitted to the Bank as needed, thus suggesting investment in systems.

Generally, it is expected that the re-enacted Act will be smoothly implemented.

CHAPTER 6

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS

PRUDENTIAL SUPERVISION ON-SITE EXAMINATION

Banks

- 6.1 The Bank conducted a targeted cybersecurity on-site examination of two banks in 2024. In addition, the Bank conducted a targeted on-site examination of one of the two banks, focussing on IRRBB and liquidity risk.
- 6.2 The on-site examination of the two banks was conducted with guidance of the IMF Africa Regional Technical Assistance Center South, and the reports on the examination were completed and submitted to the respective banks.

Interest rate in the Banking Book

- 6.3 The first bank's oversight of IRRBB was considered satisfactory, as the bank had established appropriate governance structures to monitor the risk exposure. Observed deficiencies included non-compliance with the net interest income (NII) sensitivity limit, exclusion of behavioural modelling from NII sensitivity analysis, lack of incorporation of parallel shocks for NII sensitivity and price value of a basis point (PV01) simulation, non-incorporation of off-balance-sheet items and prepayment risk analysis in the calculation of NII sensitivity and PV01, limited coverage of IRRBB in the internal audit scope, and data discrepancies in the IRRBB report.

Liquidity Risk

- 6.4 Regarding liquidity, the first bank examined had appropriate governance structures and controls to effectively manage its liquidity-risk environment. Some shortcomings were nevertheless noted, such as high funding concentration on asset managers and pension funds, non-compliance with limits for liquidity gaps, concentration risk due to large balances from related parties, and inaccurate computation of LAR.

Cyber-security Risk

- 6.5 The bank had a clearly stated cybersecurity governance structure and an information and a cybersecurity strategy, which is cascaded by the group to the Botswana subsidiary. The bank's board of directors and senior management were considered to have relevant skills, experience and knowledge necessary to guide the business and strategic decisions in line with the bank's risk profile.
- 6.6 On the other hand, inherent cybersecurity risk was driven by the dependence on the group for hosting and administering the bank's critical systems, such as the bank's core banking system and online banking applications. While the group's systems and processes were generally assessed to be of a high standard, this dependence introduced a different set of risks, such as cross-border connectivity between the local mainframes and systems to the group's main data centres and country risk. Overall, the bank had made satisfactory progress in implementing the risk-appetite framework, with key risk indicators used to manage cybersecurity across the enterprise.
- 6.7 The second bank's cybersecurity governance framework was unsatisfactory, as the existing one for information technology (IT) was insufficient to guide effective implementation of controls for cyber risk. The cybersecurity measures were implemented on an ad hoc basis, with little to no documentation. As a result, the bank's approach to managing cyber-risk was fragmented and lacked a clear strategic direction. The bank did not have an IT strategy, which would guide the bank to adapt to the rapidly evolving digital landscape. The lack of an IT strategy could lead to the following: heightened exposure to cyberattacks; non-compliance with industry regulations; disruption of the banks operations, which could lead to financial loss.

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

- 6.8 The same bank had not defined its risk appetite or tolerance for cyber-risks to facilitate a design of appropriate controls, for example, determination of recovery time objectives and recovery point objectives. Contrary to best practice of reviewing policies at least annually, the bank had not reviewed the IT policy. The cybersecurity culture at the bank was weak, as evidenced by insufficient resources for managing cyber-risks. The bank did not have structured processes, policies and systems for identifying, monitoring, managing critical operations and supporting critical information assets.²⁰ As a result, there was no consolidated IT-asset register and no record of identified critical assets. The bank did not conduct a continuous risk assessment of IT-related products, services, and connections, to enable identification of potential threats, vulnerabilities, and the associated protection mechanisms.

CONSUMER COMPLIANCE ON-SITE EXAMINATION

Banks

- 6.9 In 2024, consumer compliance on-site examination was conducted at two banks. Overall, the examination revealed that the banks were generally compliant with most consumer-compliance standards. There were instances, however, where anomalies were observed and, in such cases, the banks were directed to remedy all supervisory concerns within a prescribed timeline. Table 6.1 summarises the violations noted.

²⁰ Critical information assets of a bank include customer databases, financial data, product and service designs. Banks need to classify, manage the life cycle of and control access to critical information assets.

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

Table 6.1: Contravention of Consumer Compliance Standards in 2024

Institution	Section Contravened	Description
Bank 1	Disclosure of bank charges notice GN. No. 41 of 2001	Customers were not provided with the tariff guide at account opening Some narrations of the charges in customer statements did not conform to those in the approved tariff guide, and some fees were charged to customers without prior approval of the Bank The bank applied value added tax (VAT) to fees that were VAT inclusive, which resulted in customers being charged fees higher than those in the tariff guide Some customers were also charged withholding tax, which was higher than the applicable limit on interest earned
	Disclosure for deposit and lending interest rates. RG 01/11/2022	The bank issued loans with repayment periods that exceeded the customers' employment period The application forms for fixed deposit and savings accounts did not have material information, such as tenor, interest rate, annual percentage yield conditions for early withdrawal of funds The bank contravened Clause 14 of Government Notice No. 41 of 2001 by reducing interest rates contractually agreed upon with customers on fixed deposits
	Prescription of notice period and early settlement penalties for term loans and similar credit facilities: Government Notice No. 111 of 2011	The bank applied VAT to the early settlement penalty fee, contravening the early settlement of term loans notice Settlement quotations did not have a breakdown of applicable fees Early settlement penalty for one loan product was set at three months penalty interest for customers who settled within three months of loan disbursement. This was contrary to the early settlement of term loan notice, which states that the maximum penalty for early settlement should be equivalent to 30 days interest

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

Table 6.1: Contravention of Consumer Compliance Standards in 2024 (Continued)

Institution	Section Contravened	Description
Bank 2	Administration of dormant/abandoned funds: Section 39(1) of the Banking Act. (Cap. 46:04)	For the abandoned-funds account with Bank of Botswana, the bank remitted part of the funds instead of the full amount Some dormant accounts had been held by the bank longer than the 10-year period stipulated in the Banking Act
	Disclosure of bank charges notice GN. No. 41 of 2001	Some charge narrations in customers' account statements did not conform to those in the approved tariff guide Some fee narration in customer account statements corresponded to more than one fee in the approved tariff guide The bank did not disclose to customers the method of computation of the interest rate offered and when the deposit accounts would start to earn interest
	Disclosure for Deposit and Lending Interest Rates RG 01/11/2022	The bank did not display lending rates in the banking halls contrary to requirement The bank underpaid interest earned for customers on the fixed deposits The bank imposed a different term deposit brokerage fee from the one approved by the Bank.

Source: Bank of Botswana.

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

AML/CFT/CPF On-site Examination

Banks

- 6.10 In 2024, the Bank conducted follow-up and thematic on-site examination of two banks for AML/CFT/CPF. The scope of the thematic on-site examination was an assessment of the adequacy of processes and procedures for conducting risk of money laundering and terrorist financing and proliferation financing; identification of ultimate beneficial owners (UBOs) of legal persons and legal arrangements; identification of prominent influential persons and other high-risk customers, and application of enhanced due diligence measures; identification of individuals and entities on the list of United Nations Security Council Resolutions Targeted Financial Sanctions (UNSCR-TFS); monitoring, analysing, investigating, and reporting suspicious transactions and information captured in the AML/CFT/CPF data-gathering template submitted to the Bank.
- 6.11 The first bank's progress in addressing the deficiencies identified during the 2021 on-site examination was considered insufficient, as most deficiencies remained unresolved. Regarding the thematic on-site examination, the bank's processes and procedures for conducting the assessments described above were rated weak.
- 6.12 That bank was directed to implement measures to redress all supervisory concerns. As at 31 December 2024, the bank had made significant progress in addressing some deficiencies.
- 6.13 As for the second bank, the follow-up on-site examination revealed that the bank had not made satisfactory progress, as most of the inadequacies identified in 2019 had not been addressed. Further, the thematic on-site examination revealed that the bank's processes and procedures for conducting risk assessment of money laundering, terrorist financing and proliferation financing (ML/TF/PF); identification of high-risk customers and politically influential persons (PIPs) and UBOs of companies and trusts; identification, monitoring and reporting of suspicious transactions; and identification of customers on the UNSCR-TFS list were weak. Moreover, there were no established processes to ensure that the AML/CFT/CPF information submitted to the Bank through the data-gathering template was accurate.
- 6.14 The bank had also contravened various sections of the Financial Intelligence Act, 2022 (FI Act), which resulted in a fine of P160 000 against the bank. The bank was also directed to remedy all supervisory concerns and to submit progress updates to the Bank until all deficiencies have been satisfactorily redressed.
- 6.15 On a related exercise, the Bank and the PA of the SARB conducted a joint AML/CFT/CPF on-site examination of one bank in 2024. The purpose of the examination was to assess the bank's level of compliance with the AML/CFT/CPF requirements set out in the FI Act and to determine whether the bank applies AML/CFT/CPF standards that are stricter between the two countries. The examination revealed that, overall, the bank was implementing satisfactory AML/CFT/CPF controls, with minor deficiencies relating to the collection and documentation of customer information and processes to ensure that suspicious transactions are reported within the five-day reporting time frame.
- 6.16 Moreover, in 2024, the Bank conducted a spot-check on-site examination for all commercial banks except one. The examination covered the period from January 2020 to February 2024. The on-site examination was necessitated by reports from the Financial Intelligence Agency (FIA) indicating that the agency had been receiving suspicious transaction reports from commercial banks suggesting that certain companies were depositing large amounts of cash in high-value denominations (P100 and P200) into their accounts held with respective banks. FIA reported that such a trend could signal a possibility of counterfeiting currency by the concerned companies.

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

- 6.17 Overall, the spot check examination revealed that suspicious transactions relating to counterfeit notes were reported to BPS and the Bank. Further, the number of counterfeit currency reports by BPS and banks for the period 1 January 2020 to 29 February 2024 was 10 653 notes amounting to P1 398 580. In addition, banks reported small amounts of counterfeiting (2.2 percent of total counterfeits identified in the country), which was an indication that such crime was perpetrated outside the banking industry.
- 6.18 The examination further revealed that commercial banks had adequate processes and procedures for dealing with large-cash deposits; effective and efficient banknote counting machines at branches to assist in identifying counterfeit notes; effective and efficient systems for suspicious transactions monitoring that have the ability to identify transactions deemed to be misaligned with the business profile of a customer, and such transactions were reported to FIA; and automated deposit teller machines were reported to have built-in counting features that also rejected soiled and counterfeit notes.
- 6.19 In 2024, AML/CFT/CPF full-scope on-site examination was also conducted at three non-bank financial institutions (NBFIs) supervised by the Bank; in addition, the Bank conducted a follow-up on-site examination of one NBFI.
- 6.20 For the first NBFI, the following AML/CFT/CPF processes and procedures were rated weak: compliance function, independent testing, identification of persons and entities on the UNSCR-TFS lists, and identification and reporting of large-cash transactions, and international funds transfers. Other AML/CFT/CPF processes were rated satisfactory, such as processes and procedures for conducting ML/TF/PF risk assessment, customer identification programme, identification of PIPs, suspicious transactions monitoring, and record keeping arrangements.
- 6.21 Examination of another NBFI concluded that the adequacy and level of effectiveness of AML/CFT/CPF controls were satisfactory, with minor deficiencies relating to the rejection of large-cash transactions by the go-AML portal, late analysis of transactions alerts triggered by the suspicious transaction-monitoring system; and failure to report international funds transfer to FIA.
- 6.22 With regard to on-site examination of the third NBFI, the Bank rated the entity's AML/CFT/CPF policies, procedures and processes weak because the entity lacked awareness of Botswana's AML/CFT/CPF preventive measures stipulated in the FI Act. Consequently, the entity's policies and procedures were not aligned with the FI Act, thus resulting in contravention of several sections of the FI Act.
- 6.23 The four entities were directed to remedy all supervisory concerns and submit progress updates to the Bank until all deficiencies had been satisfactorily addressed.
- 6.24 Regarding the follow-up on-site examination, overall, it was found that the NBFI had made significant progress in addressing the deficiencies identified during the 2023 on-site examination, as most of the deficiencies had been addressed. Some minor deficiencies were, however, noted as follows: The entity had not risk-rated its customers, and the ML/TF/PF risk-assessment methodology did not include an evaluation of transactions conducted through electronic bank transfers and an assessment of customers from jurisdictions under the Financial Action Task Force's enhanced monitoring.
- 6.25 Th entity was directed to address all supervisory concerns by 31 December 2025 and submit quarterly progress updates to the Bank effective from 30 June 2025.

CHAPTER 6:

ON-SITE EXAMINATION OF ENTITIES, PRUDENTIAL MEETINGS AND COMPLIANCE MATTERS (CONTINUED)

CONSULTATIVE AND PRUDENTIAL MEETINGS

- 6.26 Prudential bilateral and statutory trilateral meetings were conducted in 2024, during which banks presented a review of their business strategies for the previous year(s) and those for the ensuing period, together with the financial performance results of previous financial years. In addition, statutory bilateral meetings were held with external auditors of banks to discuss audit strategies for banks and supervisory issues of mutual interest.

CONTRAVENTION OF THE BANK OF BOTSWANA ACT AND BANKING ACT

- 6.27 Three banks contravened various sections of the Banking Act and Bank of Botswana Act in 2024. Monetary penalties were imposed on banks as detailed in Table 6.2.

Table 6.2: Penalties Charged Banks for Various Contraventions of the Bank of Botswana Act and Banking Act

Name of Bank	Contravention	Banking Act and Bank of Botswana Act	Amount (P)
Bank 1	Failure to meet the minimum average holding of required reserves for the maintenance period from 11 September 2024 to 8 October 2024	Section 40 of the Bank of Botswana Act	P24 000.00
Bank 2	Late submission of progress update for on-site examination	Section 21(5) of the Banking Act	P10 000.00
	Failure to appoint board members on time	Section 21(5) of the Banking Act	P10 000.00
Bank 3	The bank's statutory liquid assets fell below the required 10 percent of its deposits and short-term liabilities, resulting in LAR breaching the minimum requirement	Section 16(1) of the Banking Act	P42 098.50
Total			P86 098.50

Source: Bank of Botswana.

BOX 5: REGULATORY SANDBOXES

Introduction

The introduction of new technologies in the financial services sector brings additional risks and changes the inherent risks in the financial system. To effectively assess these risks, a deep understanding of the technologies driving innovative products and services is essential, necessitating an enhancement of supervisory knowledge and capacity.²¹ As a result, regulatory authorities worldwide are increasingly implementing a variety of regulatory initiatives, such as regulatory sandboxes, to deepen their understanding of emerging fintech activities, business models, and the associated risks and incentives.

A regulatory sandbox is a structured framework that enables fintechs and other financial services providers to experiment with new products, services, or business models in a controlled environment.²² This environment offers some regulatory flexibility, alongside specific safeguards to manage associated risks, all overseen by a regulatory body. Regulatory sandboxes encourage greater interaction between fintechs and regulators, helping fintech firms to understand regulatory and supervisory expectations. Similarly, sandboxes help regulators comprehend the opportunities and risks associated with financial innovations and the implication for financial stability.

Potential Benefits and Risks of Regulatory Sandboxes

As innovation disrupts the financial services sector, it presents both benefits and risks. According to a report by the World Bank on Global Experiences from Regulatory Sandboxes, potential benefits that may arise from the operationalisation of a regulatory sandbox include facilitation of innovation and regulatory change through evidence-based policy decisions, and market entry for startups; promotion of financial inclusion; enhancement of supervisory understanding of emerging technologies; consumer protection by keeping regulators informed and up to date on innovative solutions and technologies; stimulation of market competition; and reduction of time to market.²³

Conversely, there are significant concerns regarding the possible adverse effects of regulatory sandboxes on consumer protection and financial stability. Critics contend that regulators may prioritise innovation at the expense of implementing adequate safeguards to protect the public and uphold consumer interests. The concern becomes particularly relevant if a regulatory sandbox is primarily designed to attract fintech companies and investors to a jurisdiction, potentially compromising financial stability and consumer protection in the process.

The Regulatory Sandboxing Process

The regulatory sandboxing process tends to be resource-intensive and long, following a structured, iterative process that guides market participants from entry to exit (see Figure 1).²⁴

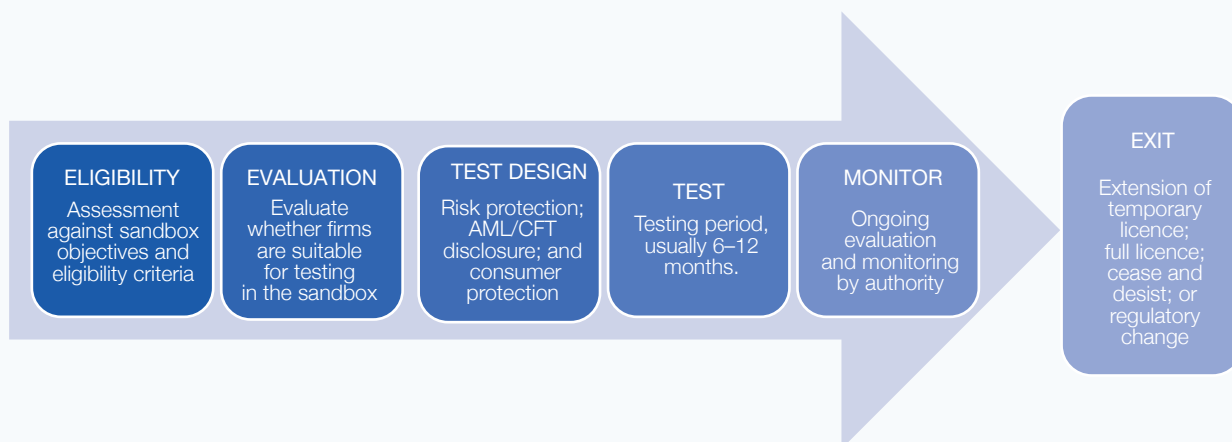
²¹ Parenti, R, (2020). Regulatory Sandboxes and Innovation Hubs for FinTech, Study for the committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament.

²² The World Bank, (2020). Global Experiences from Regulatory Sandboxes.

²³ The World Bank, (2020). Global Experiences from Regulatory Sandboxes.

²⁴ The World Bank (2020). How Regulators Respond to Fintech: Evaluating the Different Approaches: Sandboxes and Beyond.

Figure 1: A Typical Regulatory Sandbox Lifecycle



Source: World Bank (2020)

The regulatory sandboxing process consists of six stages, beginning with a financial institution's application for inclusion in the sandbox and an eligibility assessment by the regulator. The process culminates in exiting the test environment, where the regulatory authority evaluates and determines the appropriate exit strategy. These stages are staggered and activated progressively until the experiment is complete (see Figure 1 for brief description).

Country Cases of Regulatory Sandboxes

Reasons for establishing regulatory sandboxes vary by jurisdiction and are often driven by supervisory goals, the legal framework, and the specific scope of the sandbox.²⁵ Regulatory authorities typically emphasise statutory objectives, such as promoting financial stability; building confidence in the financial sector; and ensuring consumer protection.

United Kingdom—Financial Conduct Authority

The Financial Conduct Authority (FCA) pioneered regulatory sandboxing by creating one in May 2016. The motive for establishing the regulatory sandbox was to address legal concerns arising from the growing development of fintech products and services. Another reason was to reduce the cost and time for market entry by emerging fintech startups. From its inception until 30 November 2024, the FCA's sandbox has received over 630 applications, and has undertaken tests with firms that leverage technologies, such as artificial intelligence/machine learning (AI/ML), distributed ledger technologies (DLT), open banking, application programming interfaces (APIs), digital identifications systems, regulatory technology (RegTech) and data analytics.²⁶ FCA reported that as at 30 June 2022, of the firms participating in its regulatory sandbox, 92 percent achieved authorisation, with 80 percent of those firms remaining operational after testing.²⁷

²⁵ The World Bank, (2020). Global Experiences from Regulatory Sandboxes.

²⁶ <https://www.fca.org.uk/firms/innovation/regulatory-sandbox/accepted-firms>

²⁷ Financial Conduct Authority, (2022). Innovation and regulation: Partners for success in financial services.

Thailand—Bank of Thailand, the Securities and Exchange Commission, and the Office of Insurance Commission

In Thailand, three regulators the Bank of Thailand (BoT), the Securities and Exchange Commission (SEC), and the Office of Insurance Commission (OIC) have introduced regulatory sandboxes. Each sandbox pertains to distinct aspects of the financial system: payments, remote identity verification, and insurance, respectively. The sandboxes, however, vary in their approach, eligibility, and mandate. The BoT sandbox concentrates on new, unprecedented innovations and has so far focused on quick-response (QR) codes and cross-border payments. The SEC sandbox permits fintechs to trial new electronic know-your-customer technologies, while the OIC sandbox has facilitated testing of insurance technology (InsurTech) innovations by insurers, agents, and InsurTech firms.

South Africa—Intergovernmental Fintech Working Group

South Africa established a regulatory sandbox that is operated by the Intergovernmental Fintech Working Group (IFWG).²⁸ The first cohort of sandboxing participants was enrolled in April 2020 representing a broad range of financial services, including payments, savings, insurance; capital raising; deposits, lending, and investments.

Conclusion

A regulatory sandbox serves as an important platform for regulators to collaborate with fintech service providers and conduct experiments. The collaboration facilitates identification of regulatory gaps and enhances understanding of how emerging fintech activities can be integrated into existing legal and regulatory frameworks. Establishment of regulatory sandboxes is increasingly recognised as a proactive policy response to the rapid evolution of fintech across the globe. According to the World Bank²⁹, by the end of 2020, there were 73 regulatory sandboxes for financial services announced or operational in 57 countries; for example, East Asia and the Pacific had the highest number, with 19 sandboxes, followed by Europe with 18, and Africa with nine. This development presents an opportunity for local financial services regulators to assess their regulatory practices and consider the potential economic opportunities that regulatory sandboxes may offer.

²⁸ IFWG – a FinTech collaborative forum consisting of South African financial sector regulators, including the National Treasury, the Financial Intelligence Centre (FIC), the Financial Sector Conduct Authority (FSCA), the National Credit Regulator (NCR), the South African Reserve Bank (SARB), South African Revenue Service (SARS), and the Competition Commission.

²⁹ The World Bank, (2020). Global Experiences from Regulatory Sandboxes.

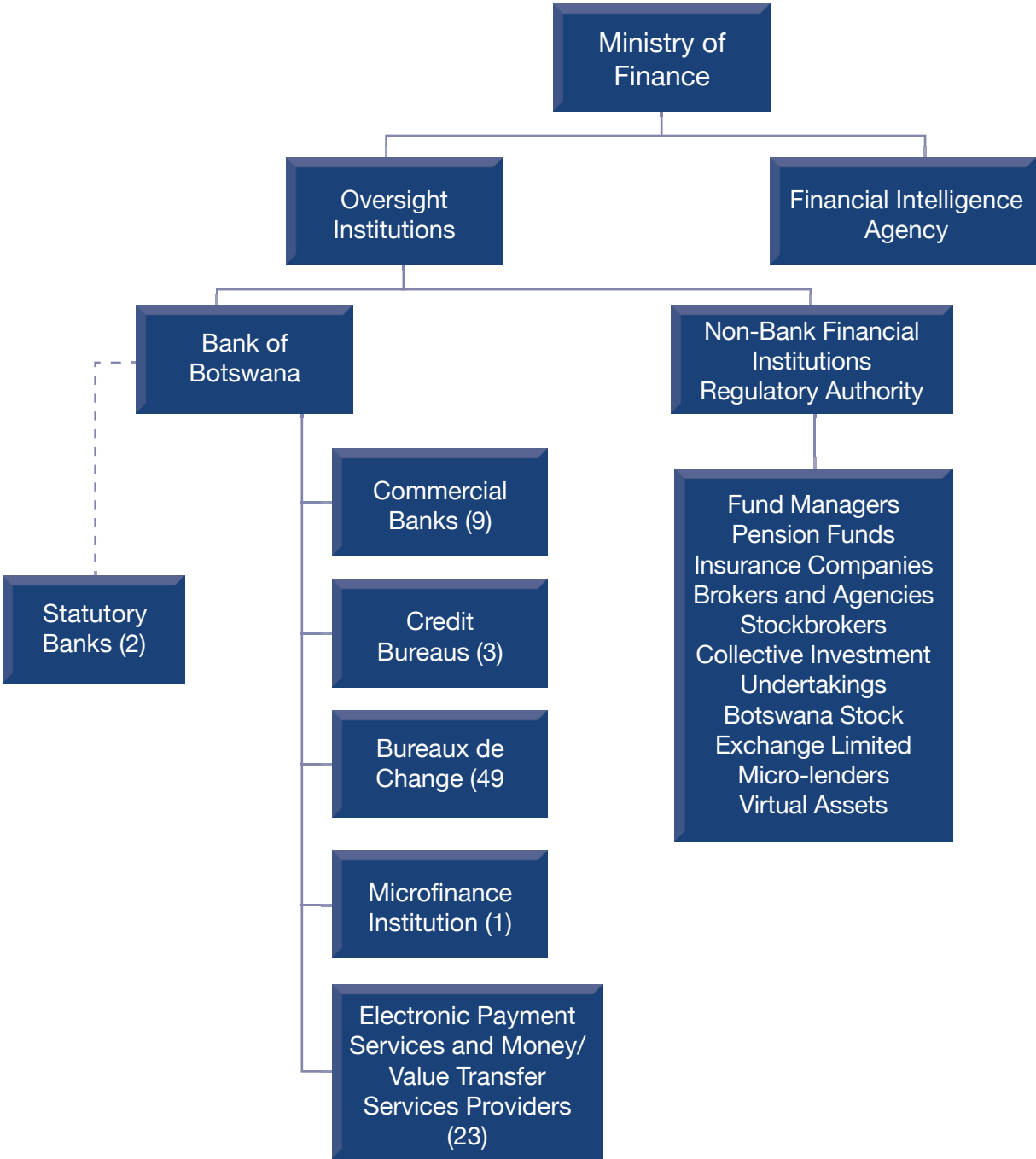
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APPENDIX 1

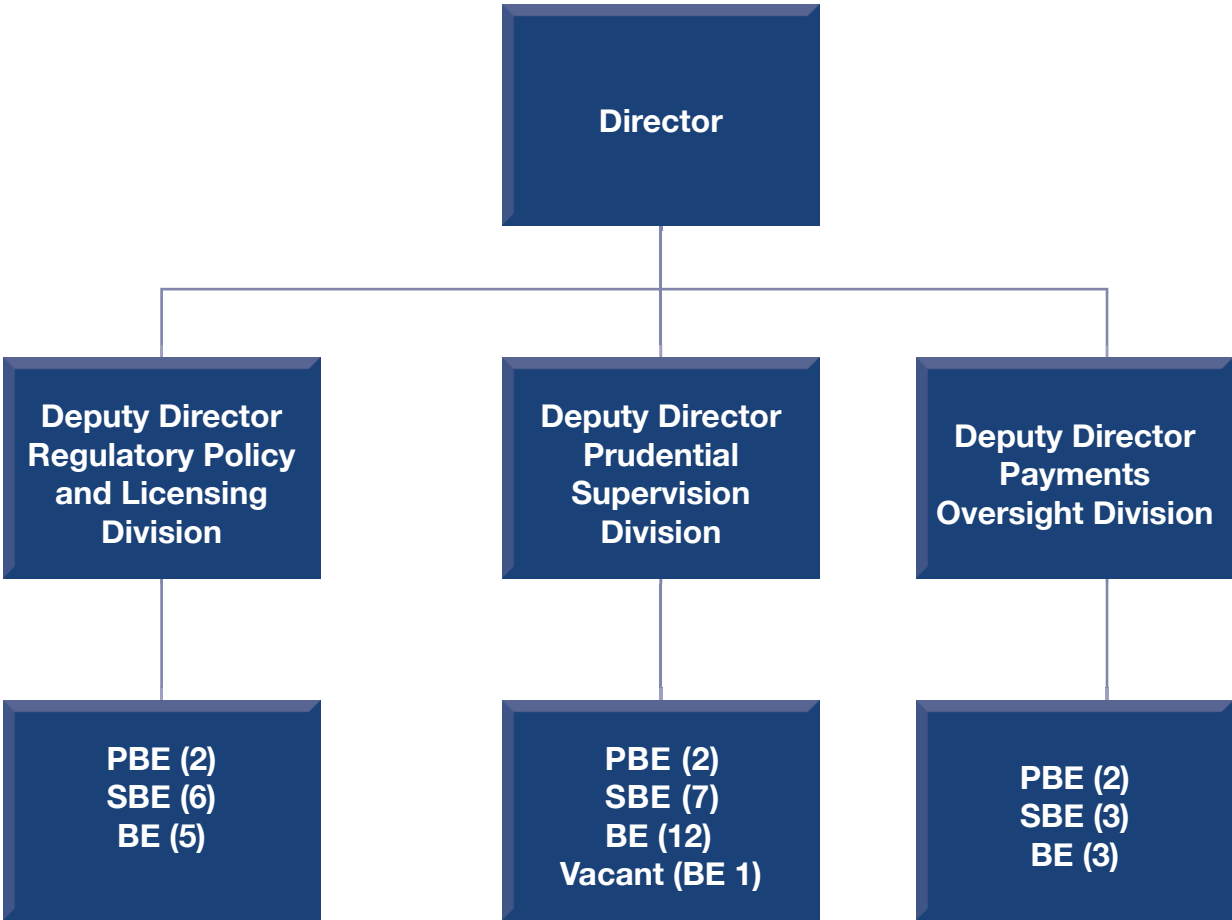
DIAGRAM 1.1: THE REGULATORY ARCHITECTURE OF THE DOMESTIC FINANCIAL SYSTEM



Source: Bank of Botswana.

APPENDIX 1

DIAGRAM 1.2: PRUDENTIAL AUTHORITY AND PAYMENTS OVERSIGHT DEPARTMENT AS AT 31 DECEMBER 2024



Key: PBE: Principal Bank Examiner/Manager
SBE: Senior Bank Examiner/Assistant Manager
BE: Bank Examiner/Supervisor

Source: Bank of Botswana.

APPENDIX 2

TABLE 1: BANK-BRANCH DISTRIBUTION NETWORK BY DISTRICT AS AT 31 DECEMBER 2024

DISTRICT	DECEMBER 2024	DECEMBER 2023	INCREASE/ DECREASE
Gaborone	51	50	1
Francistown	12	14	(2)
North-West	11	11	0
Palapye	11	11	0
Kanye	10	10	0
Boteti	9	9	0
Selebi-Phikwe	6	6	0
Serowe	6	6	0
Chobe	6	6	0
Kweneng	6	6	0
Mahalapye	6	6	0
Mogoditshane-Thamaga	5	5	0
Okavango	5	5	0
Ghanzi	4	4	0
Kgatleng	4	4	0
Mabutsane	3	3	0
Hukuntsi	2	2	0
Moshupa	1	1	0
North- East	1	1	0
Tsabong	1	1	0
Tutume	1	1	0
Bobirwa	1	1	0
Charleshill	0	0	0
Goodhope	0	0	0
Letlhakeng	0	0	0
Ramotswa	0	0	0
Tlokweng	0	0	0
Tonota	0	0	0
Total	162	163	(1)

Colour codes

Number of branches	Colour codes
0	
Less than 5	
5–10	
11–15	
16–20	
At least 20	

Source: Bank of Botswana.

APPENDIX 3

APPROACHES TO REGULATION AND SUPERVISION OF BANKS IN BOTSWANA

1. INTRODUCTION

- 1.1 This appendix outlines the basic elements of the framework, standards, and processes for banking supervision in Botswana. The Bank is committed to the development of a sound, stable and competitive banking system, which promotes savings mobilisation while responding, in a prudent and sustainable manner, to the credit requirements of the economy. The Bank also seeks to adhere to the best international practice enshrined in the Basel Committee's 29 Core Principles and the 40 + 9 Financial Action Task Force (FATF) recommendations. FATF is an independent inter-governmental body that develops and promotes policies aimed at protecting the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.

2. LEGAL FRAMEWORK

- 2.1 In general, it is considered that to be effective, a regulatory framework must have sufficient authority established by law, a high degree of independence or operational autonomy and adequate human and financial resources. In Botswana, the primary legislation covering the supervision and regulation of licensed banking institutions is the Banking Act. Important elements of the Banking Act are explicit provisions for licensing and authorisation processes, which give the Bank powers to regulate market entry to the banking industry; issue minimum prudential supervisory standards and policies with respect to capital adequacy, liquidity, restrictions on large exposures, loans to insiders and quality of management of banks; rules governing accounting, auditing and disclosure of bank information; and guidelines for the management and/or restructuring of banks in distress.
- 2.2 The banking law also covers governance, market discipline within the banking system, and prudential supervision of the banking system. It is recognised that, primarily, the responsibility for banking soundness lies with owners (shareholders) and managers of banks, who have a commercial incentive to operate banks prudently. Market discipline, which is underpinned by minimum disclosure requirements, provides an incentive for good internal governance, and imposes sanctions for failures, particularly for institutions listed on the Botswana Stock Exchange Limited. Prudential supervision is essential to provide external incentives for management and owners of banks to rectify inadequacies in governance and to impose the appropriate level of control where market behaviour could lead to imprudent conduct, which could have adverse systemic repercussions. Thus, the continuing safety, soundness and stability of the banking system and the extent to which it is effective in facilitating financial intermediation between savers and borrowers, as well as operating the payments system, reflects efficiency in all the three areas.

3. AUTHORITY FOR LICENSING BANKS

- 3.1 A central feature of banking supervision is a clear and transparent criterion for licensing of banks. Banking is a regulated industry because banks take deposits from the public and play a crucial role in the country's payments system. Thus, there are regulatory barriers to entry that importantly influence the structure of the banking industry relative to the number, size, and ownership of banks in the country. These market entry requirements must be carefully balanced with the public policy objective of a competitive and efficient banking system.
- 3.2 The mandate for licensing banks is exclusively conferred on the Bank by Section 3 of the Banking Act. This section covers licensing of commercial banks, merchant/investment banks, credit institutions and discount houses.

APPENDIX 3 (CONTINUED)

4. LICENSING POLICY AND PROCEDURES FOR ESTABLISHING A BANK

- 4.1 The licensing requirements and procedures for establishing a bank in Botswana are set out in Sections 6(1) and 8 of the Banking Act and detailed in Banking Regulations 3, 4 and 5.
- 4.2 To be licensed as a bank in Botswana, an applicant must satisfy the following requirements:
- (a) The company must be locally incorporated in Botswana (branch banking is not permitted).
 - (b) The proposed banking establishment must have the prescribed initial minimum capital (P5 million) and the owners must demonstrate willingness and ability to provide additional financial support when required. In case of applicants that are majority owned by holding companies or a part of a financial conglomerate, the parent entity should demonstrate capacity to be a source of financial strength to the applicant.
 - (c) The applicant must have adequate managerial capacity, which includes the appointment of fit and proper persons, as well as sound risk-management and governance structures.
 - (d) In the case of foreign banks, the parent bank must be subject to adequate home supervision, and documentary evidence of consent by the parent supervisor to operate in Botswana must be provided.
 - (e) The proposed ownership and organisational structure must be acceptable to the Bank, and the structure must be such that it does not inhibit effective supervision, or, where necessary and appropriate, consolidated supervision.
 - (f) The promoter must submit a business plan and five-year financial projections showing the establishment of a branch network, products to be provided, and demonstrate the ability to contribute to effective competition, and effectively provide products and services to meet legitimate financial needs of the public in a prudent and safe manner.

5. CORE PRUDENTIAL REQUIREMENTS

- 5.1 Among the most significant prudential regulations on banks are capital adequacy requirements, primary reserve requirements, liquid asset requirements, large exposure limits, restrictions on insider loans and asset quality requirements. Each of these is briefly described below:

Capital Adequacy Requirements

- 5.2 A bank is required to maintain a minimum capital adequacy (solvency) ratio of at least 8 percent, a statutory minimum, calculated as the ratio of unimpaired capital to total risk-weighted assets. Banks in Botswana are required to maintain a capital adequacy ratio at or above 12.5 percent which, in the context of the structure of the economy, prevailing macroeconomic and financial environment, is regarded as a safe and prudent level. The key issue is that a bank must maintain sufficient capital and other financial resources at a level that is commensurate with the nature and scale of its operations and the risks associated with them. The availability and adequacy of high-quality capital determines the degree of resilience of a bank to shocks to its financial position.

Liquid Assets Requirements

- 5.3 Section 16(2) of the Banking Act stipulates that every bank in Botswana must maintain, daily, specified eligible liquid assets as a percentage of its deposit liabilities. Currently, this requirement is equal to 10 percent and 3 percent of deposit liabilities for commercial banks and credit institutions, respectively.

APPENDIX 3 (CONTINUED)

- 5.4 In general, a licensed financial institution should establish appropriate and prudent policies for the management of liquidity risk. It should ensure, to the satisfaction of the Bank, that adequate internal risk management systems exist to monitor and control maturity mismatches between its assets and liabilities; that the bank has the capacity to meet maturing obligations and/or fund expansion of its statement of financial position in a sound and effective manner; and that the level, trend and quality of bank funding sources, including cash flow from earning assets, are supportive of the bank's growth strategy.

Asset Quality

Asset Concentrations (Large Exposures)

- 5.5 Section 17 of the Banking Act, read with Banking Regulation 9, restricts a bank from granting facilities that are more than 10 percent of a bank's unimpaired capital to a single customer or group of related customers without the specific approval of a bank's entire board of directors. Furthermore, a bank is required to seek approval of the Bank before granting loans and other credit facilities to a single entity or group of related companies which, in aggregate, are more than 30 percent of a bank's unimpaired capital. This is an asset-quality ratio intended to avoid vulnerabilities arising from excessive concentration of credit risk, or put more positively, to encourage diversification of the loans and advances portfolio of a bank.

Insider Lending

- 5.6 Section 17 of the Banking Act, read with Banking Regulation 9, restricts banks from granting credit facilities to directors and their related interests more than the higher of P50 000 or 1 percent of a bank's core capital without the approval of the bank's entire board of directors. In addition, no bank may grant facilities, direct or indirect, to a member of its board of directors more than 25 percent of its unimpaired capital. This provision aims to avoid possibilities of insider abuse, self-dealing or over-reliance on related-party business. Any lending in violation of this requirement is deemed to be a withdrawal of capital and, therefore, deducted from the unimpaired capital in computing the capital adequacy ratio of a bank.

Non-performing Loans and Provisions

- 5.7 Section 14 of the Banking Act deals with certain items, which should be provided for; that is, reserves to be made to account for potential losses when determining a bank's capital adequacy. It establishes the legal framework for the Bank to assess the adequacy of provisions for non-performing assets. Accordingly, the Bank has statutory powers to assess, in consultation with the bank's independent statutory auditors, the level of impairments in a bank's loans and advances portfolio and the amount of charges to the bank's profit and loss as an expense for non-performing assets.

6. MAIN SUPERVISORY APPROACHES

On-site Examinations

- 6.1 The Bank conducts regular on-site examination of banks pursuant to Section 24(1) of the Banking Act. The Bank may also conduct an examination of a bank if so petitioned by one fifth of the total number of depositors as provided for under Section 24(3) of the Banking Act.
- 6.2 A full-scope prudential on-site examination is one that is sufficient in scope to assess an institution's capital adequacy (C), asset quality (A), management and effectiveness of board oversight (M), earnings and profitability (E), liquidity (L) and sensitivity to market risk (S) components (referred to as CAMELS) and the risk-management systems and conclude the institution's safety and soundness. A limited-scope examination is an on-site examination that does not cover all components of the CAMELS, but rather focuses on a specific product, area, or risk, for example, consumer loans, treasury, or operational risk. An ad hoc on-site examination is usually a limited-scope examination designed to test a specific area of supervisory concern, for instance, compliance with laws and regulations, liquidity, capital adequacy, among others. A full-scope business-conduct supervision examination focuses on the entire business conduct of an institution and how it relates to customers (consumer protection).

APPENDIX 3 (CONTINUED)

- 6.3 The objective of an on-site examination is to assess the overall condition and financial soundness of a bank, compliance with applicable laws and regulations, the quality and effectiveness of governance structures, including the internal control environment, as well as to check the accuracy of statutory reports submitted to the Bank.
- 6.4 During an on-site examination, examiners have direct access to the books and records of the financial institution being examined. The access enables examiners to make a fair and realistic assessment of the condition of the institution in various risk areas.
- 6.5 An evaluation of the financial soundness of the institution is conducted by analysing CAMELS, and the risk-assessment systems (RAS) rating. CAMELS and RAS ratings are awarded on a scale of 1 to 5. A rating of 1 indicates strong performance and strong risk-management practices, while a rating of 5 represents weak performance and inadequate risk-management practices. Consistent with the risk-based supervision (RBS) method applied by the Bank, CAMELS ratings are used as a guide to determine, inter alia, the frequency of the on-site examination and intensity of supervisory programmes for each bank. A CAMELS rating of 1 (sound/strong bank) requires a bank to be examined within 24 months; a CAMELS rating of 2 within 18 months; a CAMELS rating of 3 within 12 months; and CAMELS ratings of 4 and 5 represent poor risk management and/or unsound banking operation, thus requiring a bank to be examined within six (6) months.
- 6.6 To ascertain the soundness and prudence of a bank's practices and procedures, an assessment is made of its inherent risks, and the adequacy of its risk-management systems and controls. The practices and procedures adopted would reveal the extent to which the financial institution is employing adequate measures to protect depositor funds, shareholder interests, ensure efficient deployment of resources and the effective measurement and control of risks that are inherent in any banking operation.
- 6.7 The internal control systems are also assessed to determine their effectiveness and the role of the internal audit function. Effective running of operations depends on the adequacy of records maintained and the adoption and implementation of issues that may adversely affect the performance of a bank for which the internal audit committee is responsible.
- 6.8 To enhance the traditional supervisory process, the Bank adopted the RBS framework in 2014. The framework places emphasis on understanding and assessing the adequacy of each financial institution's risk management systems. It also stresses the process of risk identification, measurement, monitoring, control and reporting on an ongoing basis. As a result, the use of RBS assists supervisors to identify banks in which risks are greatest, identify within a bank those areas or activities in which risks are high and apply supervisory resources to assessing and measuring those risks. Therefore, it enables the supervisor to prioritise efforts and focus on significant risks by channelling available resources to banks where the risk profile warrants greater attention. The major output of RBS is a bank's supervisory plan that outlines the planned supervisory activities for a bank over a given period. The supervisory plan is established every year with results obtained from the Bank's Off-site Surveillance System (OSS), CAMELS and RAS assigned to a bank during the previous on-site examinations.

Bilateral and Trilateral Meetings

- 6.9 Prudential bilateral meetings are held once a year with each supervised bank. Prudential meetings with the institution's management are meant to discuss its financial performance, risk profile, strategies, the market in which it operates and/or any other issues of supervisory concern. These meetings provide a forum, for exchange, of views on matters affecting the supervised banks and serve to improve communication and information flow between the Bank and the supervised banks. Statutory bilateral meetings are also held once a year with audit firms engaged by supervised banks pursuant to Section 22(9). The meetings are arranged to discuss supervisory matters that might need attention of both the external auditor and the supervisor. It is at such meetings that the Bank also discusses with auditors' expectations regarding the scope of statutory audits and other general prudential matters.

APPENDIX 3 (CONTINUED)

- 6.10 In addition to the separate bilateral meetings with both external auditors and the respective supervised banks, the Bank, pursuant to Section 22(8) of the Banking Act, arranges trilateral meetings with each financial institution and its external auditor. The trilateral meetings discuss matters relevant to the Bank's supervisory responsibilities that may have arisen during a statutory audit of a bank's business, its accounting and internal control systems, and its draft audited annual statement of financial position and statement of comprehensive income. The forum is also used to share information on the critical risk areas and/or any new developments in accounting and regulatory standards. Trilateral meetings have an added advantage of fostering effective collaboration and communication between the Bank (as the regulatory authority) and external auditors of banks in the application of accounting standards and ensuring effective disclosure in financial statements and related reports of material risks in a bank's statement of financial position.

Off-site Monitoring and Surveillance

- 6.11 Off-site surveillance involves off-site monitoring of the supervised institution regarding its performance and condition, together with an assessment of progress made regarding implementation of various directives and/or recommendations from the supervisor. All banks are required to submit statutory returns as prescribed under Section 20 of the Banking Act. The foreign exchange statutory return, which shows the bank's net foreign exchange position, is submitted every week to the Bank. The monthly and quarterly statutory returns must be submitted by the 10th day of the month following the reporting month. Instructions on how to complete the returns are contained in the statutory returns availed to each bank upon being granted a licence.
- 6.12 The Prudential Authority and Payments Oversight Department continually analyses financial data from banks to determine their financial condition, soundness, and viability. Specific objectives of the analysis are to determine the levels, trends and sources of banks' profits; compare each bank's performance for the period with that of prior periods, and against that of other banks; note changes in the banks' capital accounts and the causes thereof (monthly, quarterly and annual performance review); and determine whether the banks have complied with the Banking Act, Banking Regulations, directives, circulars and guidelines pertaining to prudential requirements.
- 6.13 The outcome of the off-site analysis is used for preparing early warning reports, which also serve as an input to the on-site examination work, including planning, scope of on-site examination work and resourcing of the on-site examination teams. Furthermore, this regular off-site monitoring, surveillance and analysis serves an important function of risk profiling of banks, continuous engagement with bank management and, as may be necessary, any targeted supervisory interventions.
- 6.14 In 2015, the Bank adopted the use of an OSS quarterly monitoring tool in order to enhance the off-site monitoring process. The OSS is a hybrid of the off-site rating system and the Financial Ratio and Peer Group Analysis monitoring tools that are used by regulators worldwide. The OSS rates and ranks banks based on an assessment of 32 financial soundness indicators or ratios. It is the adaptation of the traditional CAMELS ratings system that weighs the components relative to their current industry importance to financial soundness. The OSS scoring places banks within four broad categories of strong, adequate, partially adequate, and weak, with a rating scale of 1 to 4.5, where 1 is strong and 4.5 is weak. This rating method was developed based on the Botswana banking industry data and, therefore, factored in the country-and-sector-specific variables affecting local banking business. It is expected that this system will bring some benefits in terms of tracking financial soundness and, accordingly, trigger appropriate supervisory reactions to systemic and idiosyncratic conditions that may warrant intervention.

7. ACCOUNTING, AUDITING AND DISCLOSURE STANDARDS

- 7.1 Section 22 of the Banking Act requires banks to annually appoint independent external auditors acceptable to the Bank. Statutory audits are conducted annually, usually at financial year-end, except when a bank intends to capitalise half-year interim profits, in which case it must call for an audit of the accounts. Change of external auditors or the financial year-end requires prior approval of the Bank. The external audit firm must rotate, every five years, the lead auditor or coordinating partner or the partner responsible for reviewing the audit.

APPENDIX 4

SUPERVISED FINANCIAL INSTITUTIONS AS AT 31 DECEMBER 2024

(a) COMMERCIAL AND STATUTORY BANKS

Institution	Total Assets (P' million)	Postal Address	Business Locations	Auditors
Absa Bank Botswana Limited	25 758	P O Box 478, Gaborone	37	KPMG
Access Bank Botswana Limited	10 077	Private Bag 00303, Gaborone	20	PricewaterhouseCoopers
Bank Gaborone Limited	8 831	Private Bag 00325, Gaborone	14	Deloitte
Bank of Baroda (Botswana) Limited	4 264	P O Box 216 ADD, Gaborone	4	Grant Thornton
BBS Bank Limited	5 576	P O Box 40029, Gaborone	10	Ernst & Young
First Capital Bank Limited	8 514	P O Box 5548, Gaborone	10	Ernst & Young
First National Bank of Botswana Limited	35 330	P O Box 1552, Gaborone	28	Ernst & Young
Stanbic Bank Botswana Limited	27 441	Private Bag 00168, Gaborone	18	Deloitte
Standard Chartered Bank Botswana Limited	18 126	P O Box 496, Gaborone	19	Ernst & Young
Statutory Banks				
Botswana Savings Bank	5 283	P O Box 1150, Gaborone	11	Deloitte
National Development Bank	1 432	P O Box 225, Gaborone	4	Ernst & Young

Source: Commercial and Statutory Banks Returns submitted to the Bank.

APPENDIX 4 (CONTINUED)

(b) BUREAUX DE CHANGE AS AT 31 DECEMBER 2024

Name	Postal Address	Business Location
4Corners Bureau de Change	P O Box 848, Ghanzi	1
Andy and Esi Bureau de Change	P O Box 504125, Gaborone	1
Ban Mo Bureau de Change	P O Box 99, Sherwood	1
Beni Fame Bureau de Change	P O Box 2143, AAD Gaborone	3
BSmart Bureau de Change	P O Box 422, Kasane	3
City Exchange Bureau de Change	P O Box 50282, Gaborone	1
Cruise Africa Bureau de Change	P O Box 10238, Lobatse	2
CSS Bureau de Change	P O Box 45168, Gaborone	3
Exim Bureau de Change	P O Box 1020, Gaborone	1
Fanz Bureau de Change	P O Box 617, Lobatse	1
Fundex Bureau de Change	P O Box 401547, Gaborone	3
Galaxy Bureau de Change	P O Box 501055, Gaborone	2
Garona Bureau de Change	P O Box 408, Gaborone	3
Genesis Bureau de Change	Private Bag BR 225, Gaborone	1
Gorogang Bureau de Change	P O Box 46785, Gaborone	1
Guile and khoison Bureau de Change	P O Box 82052, Gaborone	1
Iteksh Bureau de Change	P O Box AE 25 AEH, Gaborone	1
Joshua Bureau de Change	P O Box 4, Bobonong	1
Kabona Bureau de Change	P O Box 465 ADD, Tlokweng	1
Kuvuki Bureau de Change	P O Box 1108, Mogoditshane	1
Kwanokeng Bureau de Change	P O Box 10, Sherwood	2
Lady Bureau de Change	P O Box 1418, Lobatse	4
Limpopo Bureau de Change	P O Box 8, Sherwood	1
Live Connection Bureau de Change	P O Box 144, Lobatse	2
Macheng Bureau de Change	P O Box 60474, Gaborone	1
Madikwe Bureau de Change	P O Box 268, Sikwane	1
Maharhash Bureau de Change	P O Box 154, Gaborone	1
Mochudi Bureau de Change	P O Box 202147, Gaborone	2
Monyglob Bureau de Change	P O Box AD 749 ADD, Postnet, Kgale, Gaborone	19
Mukuru Bureau de Change	P O Box AD 148 ADD, Gaborone	5
Naik Bureau de Change	P O Box AD 749, Gaborone	5
Open Door Bureau de Change	P O Box 839, Maun	9
Ozair Bureau de Change	P O Box 4862, Gaborone	3
Pennies and Cents Bureau de Change	P O Box 60490, Gaborone	1

APPENDIX 4 (CONTINUED)

(b) BUREAUX DE CHANGE AS AT 31 DECEMBER 2024 (CONTINUED)

Name	Postal Address	Business Location
Prime Ex Bureau de Change	P O Box 686, Moshupa	2
Proxy Bureau de Change	P O Box 404108, Gaborone	2
Renaissance Bureau de Change	P O Box 45524, Gaborone	1
River Ride Bureau de Change	P O Box 301106, Francistown	1
Safari Bureau de Change	P O Box 21410, Maun	1
Sefremit Bureau de Change	P O Box 0080, Gaborone	11
Sherwood Ranch Bureau de Change	P O Box 1, Sherwood	1
Sunny Bureau de Change	P O Box 370, Maun	2
Thari Bureau de Change	P O Box 40074, Gaborone	2
The Silver Bureau de Change	P O Box 1894, Ramotswa	1
Toluca Bureau de Change	P O Box 402026, Gaborone	1
Trans Fronter Bureau de Change	P O Box 183, Pitsane	2
Travellers' Choice Bureau de Change	P O Box 26725, Gaborone	1
Tshilong Bureau de Change	P O Box 40418, Gaborone	1
Unity Bureau de Change	P O Box 1586, Francistown	1
Total	49	118

Source: Commercial and Statutory Banks Returns submitted to the Bank.

(c) MICROFINANCE INSTITUTION

Institution	Postal Address	Business Location	Auditor
Women's Finance House	Private Bag 124, Gaborone	1	Sharma & Associates

Source: Women's Finance House.

APPENDIX 4 (CONTINUED)

(d) ELECTRONIC PAYMENT SERVICE PROVIDERS

Type of Electronic Payment Services	Electronic Payment Service Providers	Postal Address
Electronic Money Issuance Payment Services	Orange Money Botswana (Pty) Limited	Private Bag B064, Gaborone
	Mascom Wireless Botswana (Pty) Limited	Private Bag B0298, Gaborone
	Botswana Telecommunications Corporation Limited	P O Box 700, Gaborone
	Botswana Postal Services Limited	P O Box 100, Gaborone
	Monyglob (Pty) Limited	Private Bag 00278, Gaborone
	Motshelo Mobile (Pty) Limited	P O Box 746 ACR, Mogoditshane
	Mobipay (Pty) Limited	P O Box 959 AAD, Gaborone
	OKP Botswana (Pty) Limited	P O Box 41034, Gaborone
	Fastech Epay (Pty) Limited	P O Box 1190 AAD, Gaborone
	Tylersoft Technologies (Pty) Limited	Private Bag B070, Gaborone
	Afritec Pay (Pty) Limited	Private Bag 115, Gaborone
	Code Fintech (Pty) Limited	P O Box 81384, Gaborone
Account Based Payment Services	Smartswitch Botswana (Pty) Limited	P O Box AD16 ADC, Gaborone
	PAA Capital (Pty) Limited	P O Box AD 30 AEG, Gaborone
	Botswana Life Insurance Limited	Private Bag 00296, Gaborone
	Cellulant Botswana (Pty) Limited	P O Box AD120 ABE Kgale View, Gaborone
	PAYM8 (Pty) Limited	P O Box 1172, Gaborone
	Realpay Botswana (Pty) Limited	Private Bag BO 155, Gaborone
	Virtual Card Services Botswana (Pty) Limited	Private Bag 46024, Gaborone
Non-Account Based (Money Remittance) Payment Services	Mukuru Bureau de Change	P O Box AD148 AAD, Gaborone
	Beni Fame (Pty) Limited	P O Box 2143 AAD, Gaborone
	FMC Investments (Pty) Limited t/a CSS Money Transfer	P O Box 45168 Riverwalk, Gaborone
	Sefremit (Pty) Limited	Private Bag 00422, Gaborone
	VK Consultancy (Pty) Limited	Private Bag 0080, Gaborone

APPENDIX 5

DEFINITION OF BANKING SUPERVISION TERMINOLOGY AS USED IN THE REPORT

(a) DEFINITION OF BANKING SUPERVISION TERMS

- (aa) **Asset Concentration:** Measures aggregate exposure to one borrower, an affiliated group of borrowers, or borrowers with a common controlling interest, common management, cross-guarantees, or financial interdependency that cannot be substituted in the short term. This exposure is usually expressed as a percentage of the bank's unimpaired capital and its various thresholds are subjected to prudential regulatory requirements. According to Section 17 of the Banking Act, an exposure more than 10 percent of a bank's unimpaired capital is deemed an asset concentration requiring prior approval of the board of directors of the lending financial institution. Exposures exceeding 30 percent of the bank's unimpaired capital require the Bank's approval.
- (ab) **Asset Quality:** A relative measure of the performance of a bank's loan portfolio based on the appraisal of the asset using the degree of risk and the likelihood of recovery, adherence to the terms of contracts and orderly liquidation of the account. A good-quality asset means the loan, advance or investment is producing cash flows as was expected and/or agreed upon. A non-performing asset or loan is a loan where payment of interest and principal is past due by 90 days or more.
- (ac) **Loan Classifications:**
- (i) **"Pass" Assets:** A credit is in the "pass/standard" category if there are no material or significant performance problems (the credit is current, and the borrower is complying and is expected to continue to comply with all terms of the contract); or there are no technical and/or legal documentation deficiencies.
 - (ii) **"Special Mention" Assets:** A credit should be in the "special mention" or watch category if it is currently protected, but potentially weak. That is, assets with potential weaknesses that may, if not checked corrected, weaken the asset as a whole or potentially jeopardise a borrower's repayment capacity future. This would, for example, include credit given through inadequate loan agreement or covenants, a lack of control over collateral, or incomplete or inadequate documentation, as well as adverse trends which are not yet serious enough for a classification of substandard.
 - (iii) **"Sub-standard" Assets:** A credit should be classified as "substandard" if it has one or more well-defined weaknesses that make the full collection of principal and interest questionable. This would include, for example, (i) deterioration of the borrower's financial condition, including net worth and/or repayment capacity; (ii) the pledged collateral (if any) is undocumented, insufficient, or deteriorating; (iii) the borrower's financial information is absent or unsatisfactory; (iv) other adverse factors exist, which cause concern regarding the ability of the borrower to repay the credit in accordance with the existing repayment terms, such as delinquency of 90 days, significant deviation from original source of repayment or carryover debt; and/or (v) an actual breach of the contract has occurred.
 - (iv) **"Doubtful" Assets:** A credit shall be classified as "doubtful" when weaknesses exist that make collection or repayment in full, highly questionable, and improbable based upon current circumstances, conditions, and the estimated recoverable amount of the pledged collateral (if any). Such credits generally display high levels of delinquency, and the possibility of loss is very high. However, because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the credit, classification of the credit as "loss" is deferred until its more exact status is determined. Pending factors may include a merger/acquisition and capital injection.

APPENDIX 5 (CONTINUED)

(v) **“Loss” Assets:** At the time of classification, the credit is deemed uncollectable and of such little value that it should not continue to be included in the accounts and financial statements of the bank. The classification of credit as loss does not mean that the credit has no recovery or salvage value, but that the bank should not defer writing it off even though at least part of the value could be recovered in the future. Such classification does not cancel the borrower's obligation to repay, nor does it mean that the bank should not continue to exercise its full legal right to collection or payment. Loans classified as loss may have severe delinquency, unsecured and/or not well secured and not in the process of collection. Overdrafts considered loss may be hardcore, stagnant for a long period of time and unsecured or not well secured.

(ad) **Core Capital:** An aggregate of share capital, share premium, general revenue reserve and retained earnings, also called Tier 1 capital. It represents the most stable and permanent form of capital for supporting a bank's operations. (See Appendix 6 (d) for computations).

(ae) **Total Risk-weighted Assets:** An aggregate of the total value of assets after adjusting for the risk inherent in each asset for both on-balance sheet and off-balance sheet items. A list of assets and the corresponding risk conversion factors used in risk-weighting is presented at Appendix 6 (c). The amount of the risk-weighted assets for both operational risk and market risk shall be determined by multiplying the respective capital requirements by 6.7 (the 6.7 is an inverse of 15 percent minimum capital adequacy ratio), the result of which is added to the risk-weighted assets for credit risk to come up with the total risk-weighted assets for a bank.

(af) **Unimpaired Capital:** Unimpaired in relation to the capital of a bank means the absence of any legal or technical covenant, term, restriction or encumbrance, which would otherwise render such capital not to be freely available for distribution to depositors and/or other creditors in the event of the liquidation or dissolution of the bank, and the absence of any condition or arrangement which would, in the opinion of the central bank, diminish the value of the whole or any portion of the capital of the bank. An outline of capital elements used to compute unimpaired capital is presented at Appendix 6 (d).

(b) PRUDENTIAL RATIOS

(ba) **Return on Equity:** The ratio measures the after-tax profit against shareholders' funds. The ratio, however, tends to favour highly leveraged banks in that the ratio tends to be higher for low capitalised banks than for highly capitalised banks. It is of major interest to the shareholders of a bank and less so for banking supervisory authorities.

(bb) **Return on Average Total Assets:** The ratio measures after-tax profits as a percentage of average total assets. This ratio is widely used by both banking supervisors and market analysts, since banking assets are the base from which earnings are primarily derived. The ratio measures the earnings capacity of the assets of a financial institution. It measures profit earned against the amount invested in assets and is the key to profitability measurement as it shows how efficiently a financial institution's assets are employed. It is also used to measure the effectiveness of management's decisions with respect to resource utilisation. The higher the ratio, the more efficient the management is in its asset allocation decisions.

(bc) **Dividend Pay-out:** The ratio measures the proportion of the after-tax income that is paid out to shareholders. This ratio is of greater interest to investors than for prudential supervision. Emphasis is on the adequacy of capital with reference to the quality of capital funds in relation to the statement of financial position risk profile, for example, the core and unimpaired capital to risk-weighted assets ratio. The rationale is that owners of banks must have sufficient own funds in a bank, though it is recognised that unnecessarily high capital levels could result in economic inefficiencies, if not employed productively. However, for commercial and other strategic reasons, most banks will retain some or a portion of their income to build greater capacity by way of a larger capital base in order to take advantage of lending and/or investment opportunities in large projects, or to support organic growth of the bank.

APPENDIX 5 (CONTINUED)

- (bd) **Risk-based Capital:** On 1 January 2016, the Bank implemented the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II). This new framework augments the risk sensitivity of the Basel Committee Capital Accord (Basel I). In terms of the Basel II framework, in addition to credit risk, a separate and explicit computation of the regulatory capital for market risk and operational risk is introduced. Therefore, the minimum amount of regulatory capital (the ratio of unimpaired capital to risk-weighted assets) is derived from the summation of capital charges for credit risk, operational risk and market risk. The move to this method of capital adequacy measurement has alerted banks to the types of assets they hold and the associated risk profiles. The intention is to strengthen the resilience of banks. In the process, some existing capital instruments held by banks and fixed revaluation reserves were disqualified from being part of Tier II capital. Also excluded are any elements that are likely to impair a bank's capital, such as investment in unconsolidated subsidiaries and associated companies, and connected lending of a capital nature. The use of risk-weighted assets is intended to take into account the risk inherent in the different types of assets. If two banks with the same size of assets and capital base are to be compared, their unadjusted capital ratio will be the same. However, if the inherent risk of the statement of financial position is taken into consideration, the bank with less risky assets will enjoy a higher capital adequacy ratio and is better able, therefore, to expand its business by lending to more borrowers, if opportunities arise. A good capital base implies that adequate funds are available to absorb risks inherent in the types of assets held by a bank, its foreign exchange dealing operations and all other risks associated with the business.
- (be) **Interest Rate Spread (Percent):** This covers only those assets and liabilities that have an interest rate attached to them. Thus, it excludes the effect of non-interest-bearing demand deposits, capital and non-remunerated reserve requirements on net interest earned and thus on bank profits. This is helpful in that it isolates the effect of interest rates on bank profits and thereby enables a better understanding of the sources of bank profitability and, consequently, of the vulnerability of bank earnings.
- (bf) **Net Interest Margin (Percent):** this is net interest income as a percentage of average total earning assets. The ratio identifies the core earnings capability of a bank.
- (bg) **Other Operating Income to Total Assets (Percent):** The ratio shows the dependence on "non-traditional" income such as foreign exchange fees and commissions. Growth in this ratio can indicate diversification into fee-based financial services or a reaching for speculative profits to make up for deficiencies in the bank's core interest differential income.
- (bh) **Net Operating (or Intermediation) Margin (Percent):** The intermediation margin can be defined as the differential between the cost of funds and the yield on earning assets plus related fee income. The differential quantifies the cost incurred by the banking system for intermediating between the providers and the users of funds.
- (bi) **Net Income per Staff Member:** The ratio measures the average income generated by each staff member. It should be noted that this ratio will be significantly different for a wholesale (investment) bank with relatively few, but highly paid staff compared to a retail bank with a large branch network and many less highly paid clerical staff.
- (bj) **Net Income to Staff Expense:** Measures the return on investment in staffing costs. This ratio is probably a better measure than net income per staff member since it enables institutions of a different type to be compared to some degree. It considers the effect of staffing decisions, regardless of whether these are low cost, low expertise clerical staff, or high cost, high qualified professionals.
- (bk) **Cost-to-Income:** The ratio measures the non-interest expenses as a percentage of net interest income plus non-interest income (total operating income). It shows how well the non-interest expenses are managed by the institution relative to the level of total operating income.

APPENDIX 5 (CONTINUED)

- (bl) **Average Cost of Deposits:** The ratio measures interest paid on deposits as a percentage of total average deposits. It shows the average cost of deposits. Institutions with a large customer base of operating transaction accounts (demand deposits) relative to interest earning savings accounts tend to report low average cost of deposits. In turn, banks that tend to rely on wholesale deposits (call and other highly volatile money) for funding will have relatively high average cost of deposits. Similarly, banks that begin to engage in aggressive marketing for deposits, either due to liquidity concerns and/or to fund expansion of their lending business, will have a high average cost of deposits.

APPENDIX 5 (CONTINUED)

(c) CAPITAL ELEMENTS

COMMON EQUITY TIER 1 (CET1) CAPITAL	
Line no.	Item
1	Common shares
2	Share premium resulting from the issue of common shares
3	Retained earnings
	Retained earnings brought forward from the previous financial year
	Add: interim profits (audited by external auditor)
	Less: dividend declared
	Less: dividend paid in the current financial year
4	Accumulated other comprehensive income and other disclosed reserves
	a. Statutory credit risk reserve
	b. Capital buffer
	c. Statutory reserves
	d. Other (specify)
5	Common shares issued by consolidated subsidiaries of the bank and held by third parties (minority interest)
6	Regulatory adjustments applied in the calculation of CET1 capital
7	CET1 Capital Lines (1+2+3+4+5-6)
ADDITIONAL TIER 1 CAPITAL	
Line no.	Item
8	Instruments issued by the bank, which meet the criteria for inclusion in additional Tier 1 capital in line with paragraph 4.9 of the Capital Directive
9	Stock surplus (share premium) resulting from the issued additional Tier 1 capital instruments meeting all relevant criteria for inclusion
10	Instruments issued by consolidated subsidiaries of the bank and held by third parties, which meet the criteria for inclusion in additional Tier 1 capital and are not included in CET 1, subject to terms and conditions in paragraph 3.5 of the Basel II Guidelines
11	Regulatory adjustments applied in the calculation of additional Tier 1 capital
12	Additional Tier 1 Capital Lines (8+9+10-11)
13	Total Tier 1 Capital Lines (7+12)
TIER 2 CAPITAL	
Line no.	Item
14	Instruments issued by the bank, which meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)
15	Stock surplus (share premium) resulting from the issued instruments included in Tier 2 capital
16	Unpublished current year's profits
17	Tier 2 capital instruments (subject to gradual phase-out treatment)
18	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)
19	General provisions/general loan-loss reserves eligible for inclusion in Tier 2, limited to a maximum of 1.25 percentage points of credit risk-weighted risk assets calculated under the standardised approach
20	Regulatory adjustments applied in the calculation of Tier 2 capital
21	Total Tier 2 Capital Lines (14+15+16+17+18+19-20)
22	Total Unimpaired Capital Lines (13+21)

Source: Bank of Botswana.

APPENDIX 5 (CONTINUED)

Table 1: Regulatory Adjustments Applied in the Calculation of Capital

1. REGULATORY ADJUSTMENTS APPLIED IN THE CALCULATION OF CET 1 CAPITAL	
A. Full deductions	
Line	Item
23	Goodwill and other intangible assets
24	Advances of a capital nature granted to connected persons
25	DTA that rely on future profitability to be realised
26	Investments in own shares, whether directly or indirectly
27	Unrealised revaluation losses on investments in securities
28	Defined benefit pension fund assets
29	Reciprocal holdings in the capital of banking, financial and insurance entities
30	Cash flow hedge reserve
31	Gain on sale related to securitisation transactions
32	Regulatory adjustments applied to CET1 capital due to insufficient additional Tier 1 and Tier 2 capital
33	Full Deductions applied to the calculation of CET1 Capital Lines (23+24+25+26+27+28+29+30+31+32)
B. Threshold deductions	<i>(Recognition capped at 10 percent of the bank's common equity (after the application of all regulatory adjustments set out under paragraph 4.6 of the Basel II Directive))</i>
Line	Item
34	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities) – instead of full deduction, only deduct the excess over the 10 percent threshold, the remaining balance below the threshold shall be treated as other assets (para 3.16 - 3.18 Basel II Guidelines)
35	DTAs that arise from temporary differences
36	Mortgage servicing rights
37	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made – instead of full deduction, only deduct the excess over the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
38	Threshold deductions applied to the calculation of CET 1 Capital Lines (34+35+36+37)
39	Total regulatory adjustments applied to the calculation of CET 1 Capital Lines (33+38)
2. REGULATORY ADJUSTMENTS APPLIED IN THE CALCULATION OF ADDITIONAL TIER 1 CAPITAL	
A. Full deductions	
40	Direct investments in own additional Tier 1 capital, net of any short positions, if the short positions involve no counterparty risk
41	Indirect investments in own additional Tier 1 capital (e.g., through holdings of index securities in which the bank itself is a constituent), net of any short positions
42	Any own additional Tier 1 capital which the bank could be contractually obliged to purchase
43	Reciprocal cross holdings and the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation
44	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities)
45	Full deductions applied to the calculation of Additional Tier 1 Capital Lines (40+41+42+43+44)

APPENDIX 5 (CONTINUED)

B. Threshold deductions	<i>Recognition capped at 10 percent of the bank's common equity (after the application of all regulatory adjustments set out under paragraph 4.10 of the Basel II Directive)</i>
46	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made - instead of full deduction, only deduct the excess over the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
47	Total threshold deductions applied to the calculation of additional Tier 1 capital
48	Total regulatory adjustments applied to the calculation of additional Tier1 capital lines (45+47).
3. REGULATORY ADJUSTMENTS APPLIED IN THE CALCULATION OF TIER 2 CAPITAL	
A. Full deductions	
49	Direct investments in own Tier 2 capital, net of any short positions, if the short positions involve no counterparty risk
50	Indirect investments in own Tier 2 capital (e.g., through holdings of index securities in which the bank itself is a constituent), net of any short positions
51	Any own Tier 2 capital which the group could be contractually obliged to purchase
52	Reciprocal cross holdings and the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation
53	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities).
54	Full deductions applied to the calculation of Tier 2 Capital Lines (49+50+51+52+53)
B. Threshold deductions	<i>Recognition capped at 10 percent of the bank's common equity (after the application of all regulatory adjustments set out under paragraph 4.15 of the Basel II Directive)</i>
55	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made – instead of full deduction, only deduct the excess above the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
56	Total threshold deductions applied to the calculation of Tier 2 Capital
57	Total regulatory adjustments applied to the calculation of Tier 2 Capital Lines (54+56)
Note	(1) The amount of the three items (34, 35, 36) not deducted (threshold amounts) in the calculation of CET1 is treated as other assets and risk-weighted at 250 percent. (2) Line 37: The amount above the 10 percent threshold shall be deducted from CET1, and the amount at or below threshold shall be risk-weighted as appropriate in line with the Monthly Schedule M- SRWA 12a (CRM.1): Credit Risk Mitigation (Simple Approach) or Monthly Schedule M-SRWA 12b (CRM.2): Credit-risk Mitigation (Comprehensive Approach).

Source: Bank of Botswana.

APPENDIX 6

RISK-WEIGHTS APPLIED TO VARIOUS ASSET EXPOSURES FOR CAPITAL ADEQUACY MEASUREMENT

Table 1 (a): Summary of Risk-weights under the Standardised Approach for Credit Risk

Claims on Exposure	Credit Rating						Risk Weight/Credit Conversion Factor Percentage
	AAA to AA-	A+ to A-	BBB+ to BBB-	BBB+ to BBB-	Below B-/BB	Unrated	
Government of Botswana and Bank of Botswana							0
Cash							0
Cash items in the process of collection							20
Sovereigns and central banks	0	20	50	100	150	100	
BIS, IMF							0
Domestic public sector entities							20
Public sector entities	20	50	100	100	150	100	
Domestic banks							20
Foreign banks	20	50	100	100	150	100	
Security firms	20	50	100	100	150	100	
Eligible retail							75
Other retail							100
Mortgages ¹							35
Corporates/insurance companies	20	50	100	100	150	100	100
Multilateral development banks	20	50	50	100	150	50	0/100
Commercial real estate	100	100	100	100	100	100	100
Other assets ²							100
Past due items **							100 (20); 100 (20-50); 150(20)
Other non-qualifying residential property							75
Significant investments in equity and regulatory capital instruments issued by unconsolidated financial institutions							250
Mortgage servicing rights							250
Deferred tax assets (DTA)							250
Investments in commercial entities							1 250
Non-payment/delivery on non-delivery-versus-payment and non-payment-versus-payment transactions							1 250
Venture capital and private equity investment							150

Notes:

** Treatment of past due loans (non-performing loans net of specific provisions).

1 Owner-occupied or rented by the borrower to a third party but used for residential purposes.

2 Excludes cash items in the process of collection.

APPENDIX 6 (CONTINUED)

Specific Provision (SP)	Risk weight (Percent)
SP < 20 percent of outstanding loan amount	150
SP between 20 percent and 50 percent of outstanding loan amount	100
For loans secured by residential property, where such loans are past due for more than 90 days, and their SP < 20 percent	100

Source: Bank of Botswana.

APPENDIX 6 (CONTINUED)

Table 1 (b): Credit Conversion Factors: Off-Balance-Sheet Items

Maturity/Commitment	Credit Conversion Factor Percentage
Commitments:	
• Original maturity up to 1 year	20
• Original maturity over 1 year	50
• Unconditionally cancellable commitments without notice	0
Direct credit substitutes:	
• Acceptances and endorsements	
• Guarantees on behalf of customers	
• Letters of credit issued by the bank with no title to underlying shipment	100
• Letters of credit confirmed by the bank and standby letters of credit serving as financial guarantee	
Repo style transactions:	
• Sales and repurchase agreements and asset sales with recourse, where the credit risk remains with the bank	100
Lending of banks' securities or posting of securities as collateral:	
• Repurchase/reverse repurchase agreements and securities/borrowing transactions	100
Forward asset purchases:	
• Commitment to purchase at a specified future date on prearranged terms, a loan, security or other asset from another party, including written put options on specified assets with the character of a credit enhancement	100
Placements of forward deposits:	
• An agreement between a bank and another party where the bank will place a deposit at an agreed rate of interest at a predetermined future date	100
Partly paid shares and securities:	
• Amounts owing on the uncalled portion of partly paid shares and securities held by a bank representing commitments with certain draw down conditions by the issuer at a future date	100
Certain transaction-related contingent items:	
• Performance bonds, warranties and indemnities	
• Bid or tender bonds	
• Advance payment guarantees	50
• Customs and excise bonds	
• Standby letters of credit related to particular contracts and non-financial transactions	
Note issuance facilities and revolving underwriting securities:	
• An arrangement whereby a borrower may draw down funds up to a prescribed limit over a predetermined period by making repeated note issues to the market. If the issue is unable to be placed in the market, the unplaced amount is to be taken up or funds made available by a bank being committed as an underwriter of the facility	50
Short-term self-liquidating trade letters of credit/trade related contingent items with an original maturity below 6 months:	
• These are contingent liabilities arising from trade-related obligations, secured against an underlying shipment of goods for both issuing and confirming bank	20

Source: Bank of Botswana.

APPENDIX 7

AGGREGATE FINANCIAL STATEMENTS OF LICENSED BANKS: 2020–2024

Table 1: Aggregate Statement of Financial Position of Licensed Commercial Banks: 2020–2024 as at 31 December (P million)

Total Assets in Local Currency	2020	2021	2022	2023	2024
1. Cash and balances with the central bank	5 699	5 336	3 604	8 622	4 738
1.1. Currency	2 193	1 932	1 977	2 246	2 240
a) Foreign currency	173	197	187	259	222
b) Local currency	2 020	1 735	1 790	1 987	2 018
1.2. Balances with central bank	3 506	3 404	1 627	6 375	2 498
1.3. Other	-	-	-	-	-
2. Investment and trading securities	15 820	13 653	15 931	20 188	23 207
3. Placements with other banks and credit institutions	15 426	19 337	23 222	20 933	27 245
4. Gross loans and advances to other customers	65 554	68 920	73 202	81 795	87 127
4.1 Impairments – specific	1 713	1 654	1 437	1 509	1 479
4.2 Interest in suspense	318	216	214	277	290
4.3 Impairments portfolio	739	943	832	1 074	1 063
5. Loans and advances to other customers (net of specific provisions)	62 785	66 107	70 718	78 935	84 296
6. Fixed assets net of depreciation	1 449	1 323	1 320	1 437	1 490
7. Other assets (net)	2 081	2 835	2 155	3 478	2 942
Total Assets	103 260	108 591	116 949	133 593	143 919
Total Liabilities in Local Currency					
1. Amounts owed to government institutions	45	-	-	-	4 437
a) Central bank accounts	45	-	-	-	4 437
b) Direct government credits (CB or Ministry of Finance)	-	-	-	-	-
2. Due to other banks and credit institutions	3 022	3 999	5 222	6 150	7 030
3. Debt securities and other borrowing	5 594	6 162	5 481	5 886	6 625
4. Due to other customers/depositors	80 540	84 364	90 927	104 127	107 277
5. Shareholder funds	11 299	10 756	12 587	14 074	15 034
6. Other liabilities	2 759	3 310	2 733	3 355	3 515
a) Taxes payable	212	35	66	120	133
b) Dividends payable	-	254	-	-	501
c) Accrued expenses	907	1 008	674	1 220	759
d) Other	1 640	2 013	1 993	2 015	2 123
Total Liabilities	103 260	108 591	116 949	133 593	143 919

Source: Commercial Banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 2: Aggregate Statement of Comprehensive Income of Licensed Commercial Banks for the period ended 31 December (P million)

	2020	2021	2022	2023	2024
1. Total interest income from loans and advances	6 149	6 207	7 665	9 915	10 855
2. Interest expense	1 774	1 880	2 669	3 552	3 378
3. Net interest income [1 – 2]	4 375	4 327	4 996	6 364	7 477
4. Total non-interest income	2 773	2 946	3 387	3 479	3 910
5. Gross operating income/(loss) [3+4]	7 148	7 273	8 383	9 843	11 387
6. Total impairments	830	495	108	281	211
a) Impairment of loans and advances – specific	611	632	138	218	341
b) Impairment of loans and advances – portfolio	224	(142)	(24)	50	(171)
c) Impairment on other financial assets	(4)	5	(7)	13	41
7. Operating income/(loss) net of bad and doubtful debts	6 318	6 778	8 275	9 562	11 177
8. Total non-interest expense	4 361	4 388	4 747	5 542	5 871
a) Salaries and employee benefits	1 955	2 025	2 148	2 651	2 682
b) Auditing and consulting expenses	19	20	45	112	21
c) Rents paid	133	110	147	135	136
d) Depreciation and amortisation	281	299	302	331	366
e) Other	1 973	1 935	2 104	2 314	2 666
9. Other provisions and write-offs	-	-	-	-	-
a) Investments	-	-	-	-	-
b) Other balance sheet items	-	-	-	-	-
c) Off-balance sheet items	-	-	-	-	-
10. Net operating income/(loss) [7-8-9]	1 957	2 390	3 528	4 019	5 306
11. Extraordinary gains/(losses)	-	-	-	-	-
a) Gains/losses on revaluation of assets (net)	-	-	-	-	-
b) Translation gains/losses (net)	-	-	-	-	-
c) Other gains/losses	-	-	-	-	-
12. Net before-tax income/(loss) [10+11]	1 957	2 390	3 528	4 019	5 306
13. Income tax	503	573	891	899	1 196
14. Net after-tax income/(loss) [12-13]	1 454	1 817	2 638	3 121	4 110

Source: Commercial Banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 3: Aggregate Statement of Financial Position for Statutory Banks in Botswana as at 31 December (P million)

Total Assets in Local Currency	2020	2021	2022	2023	2024
1. Cash and balances with the central bank	38	56	28	36	72
a) Currency	29	45	18	31	70
aa) Foreign currency	-	-	-	-	-
ab) Local currency	29	45	18	31	70
b) Balances with central bank	9	12	10	5	1
c) Other	-	-	-	-	-
2. Investment and trading securities	-	-	-	1	1
3. Placements with other banks and credit institutions	935	771	1 218	617	568
4. Gross loans and advances to customers	5 866	6 104	5 810	3 487	5 774
5. Impairments	215	153	152	302	203
6. Net loans and advances to customers	5 650	5 951	5 658	3 186	5 570
8. Fixed assets net of depreciation	196	256	218	199	193
9. Other assets (net)	136	119	168	605	310
Total Assets	6 955	7 153	7 290	4 644	6 715
Liabilities in Local Currency					
1. Amounts owed to government institutions	-	-	-	-	-
a) Central bank accounts	-	-	-	-	-
b) Direct government credits (CB** or Ministry of Finance)	-	-	-	-	-
c) Other	-	-	-	-	-
2. Debt securities and other borrowing	1 100	940	948	920	797
3. Due to customers/depositors	4 762	5 062	5 296	2 401	4 380
4. Shareholders funds	709	720	704	1 015	1 349
5. Other liabilities	384	430	342	307	189
a) Taxes payable	1	1	1	-	-
b) Dividends payable	-	-	-	-	-
c) Accrued expenses	-	-	-	-	-
d) Other	383	429	341	307	189
Total Liabilities	6 955	7 153	7 290	4 644	6 715

** CB denotes central bank.

Source: Statutory banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 4: Aggregate Statement of Comprehensive Income of Statutory Banks for the period ended 31 December (P million)

	2020	2021	2022	2023	2024
1. Total interest income from loans and advances	517	545	558	423	523
2. Interest expense	278	291	326	205	231
3. Net interest income [1-2]	239	254	232	219	292
4. Total non-interest income	46	48	57	86	182
5. Gross operating income/(loss) [3+4]	285	301	289	305	474
6. Total Impairments	46	(6)	(4)	27	35
a) Impairment of loans and advances – specific	85	(6)	(4)	27	35
b) Impairment of loans and advances – portfolio	2	-	-	-	-
c) Releases and recoveries of bad debts previously written off	2	-	-	-	-
d) Share of associate company profits	-	-	-	-	-
e) IFRS adjustments	(33)	-	-	-	-
f) Reversal of interest in suspense	(10)	-	-	-	-
7. Operating income/(loss) net of specific loss provisions	239	307	293	302	439
8. Total non-interest expense	268	313	301	335	368
a) Salaries and employee benefits	127	145	152	165	170
b) Administrative expenses	-	-	-	-	-
c) Auditing and consulting expenses	-	-	3	2	2
d) Rents paid	4	3	3	6	2
e) Depreciation and amortisation	27	32	31	26	28
f) Other	110	134	112	137	165
9. Other provisions and write-offs	-	-	-	-	-
a) Investments	-	-	-	-	-
b) Other balance sheet items	-	-	-	-	-
c) Off-balance sheet items	-	-	-	-	-
10. Net operating income/(loss) [7-8-9]	(29)	(6)	(8)	(21)	72
11. Extraordinary gains/(losses)	-	-	-	-	-
a) Gains/losses on revaluation of assets (net)	-	-	-	-	-
b) Translation gains/losses (net)	-	-	-	-	-
c) Other gains/losses	-	-	-	-	-
12. Net income/(loss) before Tax [10+11]	(29)	(6)	(8)	(21)	72
13. Income tax	-	5	4	-	16
14. Net income/(loss) after-tax [12-13]	(29)	(11)	(12)	(21)	55

Source: Statutory banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 5 (a): Aggregate Capital Structure of Commercial Banks in Botswana (Basel II) as at 31 December (P million)

		2020	2021	2022	2023	2024
COMMON EQUITY TIER 1 (CET1) CAPITAL						
1	Common shares	1 265	1 140	1 374	1 861	1 861
2	Share premium resulting from the issue of common shares	275	275	41	41	41
3	Retained earnings:	7 629	7 473	8 125	8 978	9 669
	Retained earnings brought forward from the previous financial year	7 831	7 887	8 693	9 850	10 393
	Add: interim profits (audited by external auditor)	(9)	-	(24)	80	176
	Less: IFRS 16 take on impact	-	-	-	10	-
	Less: dividend declared	-	160	544	14	68
	Less: dividend paid in the current financial year	-	254	-	928	832
4	Accumulated other comprehensive income and other disclosed reserves	319	335	487	343	359
	a) Statutory credit risk reserve	163	174	327	189	189
	b) Capital buffer	-	-	-	-	-
	c) Statutory reserves	2	8	8	8	8
	d) Other (specify)	154	153	152	146	162
5	Common shares issued by consolidated subsidiaries of the bank and held by third parties (minority interest)	-	-	-	-	-
6	Regulatory adjustments applied in the calculation of CET1 Capital¹	324	141	119	151	232
	a. IFRS 9 provisions transitional adjustments	52	20	20	-	-
	b. Transitional adjustment amount added back to CET1	126	-	-	-	-
7	CET1 Capital (Lines (1+2+3+4+5-6))	9 238	9 008	9 834	11 019	11 645
ADDITIONAL TIER 1 CAPITAL						
8	Instruments issued by the bank that meet the criteria for inclusion in additional Tier 1 capital as per paragraph 4.9 of the Basel II Directive	400	400	400	400	400
9	Stock surplus (share premium) resulting from the issue of additional Tier 1 capital instruments meeting all relevant criteria for inclusion	-	-	-	-	-
10	Instruments issued by consolidated subsidiaries of the bank and held are not included in CET 1 subject to terms and conditions in paragraph 3.5 of the Basel II Guidelines	-	-	-	-	-
11	Regulatory adjustments applied in the calculation of Additional Tier 1 capital	-	-	-	-	-
12	Additional Tier 1 Capital (Lines (8+9+10-11))	400	400	400	400	400
13	Total Tier 1 Capital (Lines (7+12))	9 638	9 408	10 234	11 419	12 045
TIER 2 CAPITAL						
14	Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	2 460	2 324	2 585	2 431	2 320
15	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-
16	Unpublished current year profits	1 178	1 086	2 034	2 331	2 808
17	Tier 2 capital instruments (subject to gradual phase-out treatment)	-	-	20	72	102
18	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-	-	-	-	-
19	General provisions/general loan-loss reserves eligible for inclusion as Tier 2 capital, limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach	741	825	855	883	1 028
20	Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21	Total Tier 2 Capital (Lines (14+15+16+17+18+19-20))	4 378	4 235	5 494	5 718	6 259
22	Total Unimpaired Capital (Lines (13+21))	14 016	13 643	15 729	17 136	18 304

Source: Commercial Banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 5 (b): Summary of Components of the Capital Structure of Commercial Banks in Botswana as at 31 December (P million)

		2020	2021	2022	2023	2024
1	Common shares	1 265	1 140	1 374	1 861	1 861
2	Share premium	275	275	41	41	41
3	Retained earnings	7 629	7 473	8 125	8 978	9 669
4	Total tier 1 capital	9 638	9 408	10 234	11 419	12 045
5	Subordinated term debt	2 460	2 324	2 585	2 431	2 320
6	Current year's unpublished profits	1 178	1 086	2 034	2 331	2 808
7	Total tier 2 capital	4 378	4 235	5 494	5 718	6 259
8	Total unimpaired capital (sum of Lines 4 and 7)	14 016	13 643	15 729	17 136	18 304

Source: Commercial Banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 6 (a): Aggregate Capital Structure of Statutory Banks in Botswana (Basel II) as at 31 December (P million)

	2020	2021	2022	2023	2024
COMMON EQUITY TIER 1 (CET1) CAPITAL					
1 Common shares	507	507	507	784	827
2 Share premium resulting from the issue of common shares	-	-	-	-	-
3 Retained earnings:	45	45	45	94	171
Retained earnings brought forward from the previous financial year	45	45	45	94	171
Add: interim profits (audited by external auditor)	-	-	-	-	-
Less: unpublished current year's losses	-	-	-	-	-
Less: dividend declared	-	-	-	-	-
Less: transfers during the year	-	-	-	-	-
Less: dividend paid in the current financial year	-	-	-	-	-
4 Accumulated other comprehensive income and other disclosed reserves	172	173	182	79	82
a) Statutory credit risk reserve	-	-	-	-	-
b) Capital buffer	-	-	-	-	-
c) Statutory reserves	172	173	182	79	82
d) Other (specify)	-	-	-	-	-
5 Common shares issued by consolidated subsidiaries of the bank and held by third parties (minority interest)	-	-	-	-	-
6 Regulatory adjustments applied in the calculation of CET1 capital	14	17	62	33	64
7 CET1 Capital (Lines (1+2+3+4+5-6))	722	721	672	925	1 017
ADDITIONAL TIER 1 CAPITAL					
8 Instruments issued by the bank that meet the criteria for inclusion in additional Tier 1 capital as per paragraph 4.9 of the Basel II Directive	-	-	-	-	-
9 Stock surplus (share premium) resulting from the issue of additional Tier 1 capital instruments meeting all relevant criteria for inclusion	-	-	-	-	-
10 Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in additional Tier 1 capital and are not included in CET 1 capital subject to terms and conditions in paragraph 3.5 of Basel II Guidelines	-	-	-	-	-
11 Regulatory adjustments applied in the calculation of additional Tier 1 capital	-	-	-	-	-
12 Additional Tier 1 Capital (Lines (8+9+10-11))	-	-	-	-	-
13 Total Tier 1 Capital (Lines (7+12))	722	721	672	925	1 017
TIER 2 CAPITAL					
14 Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	-	77	79	216	260
15 Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-
16 Unpublished current year's profits	(15)	(5)	(30)	(32)	56
17 Tier 2 capital instruments (subject to gradual phase-out treatment)	-	-	-	-	-
18 Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-	-	-	-	-
19 General provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital, limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach	25	23	24	28	27
20 Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21 Total Tier 2 Capital (Lines (14+15+16+17+18+19-20))	10	95	73	213	342
22 Total Unimpaired Capital (Lines (13+21))	732	816	745	1 138	1 359

Source: Statutory banks (Statutory Returns submitted to the Bank).

APPENDIX 7 (CONTINUED)

Table 6 (b): Summary of Components of the Capital Structure of Statutory Banks in Botswana as at 31 December (P million)

		2020	2021	2022	2023	2024
1	Common shares	507	507	507	784	827
2	Retained earnings	45	45	45	94	171
3	Total tier 1 capital	722	721	672	925	1 017
4	Current year's unpublished profits	(15)	(5)	(30)	(32)	56
5	Total tier 2 capital	10	95	73	213	342
6	Total unimpaired capital (sum of lines 3 and 5)	732	816	745	1 138	1 359

Source: Statutory banks (Statutory Returns submitted to the Bank).

APPENDIX 8

CHARTS AND TABLES OF PRUDENTIAL AND FINANCIAL SOUNDNESS INDICATORS

Chart 8.1: Average Cost of Deposits

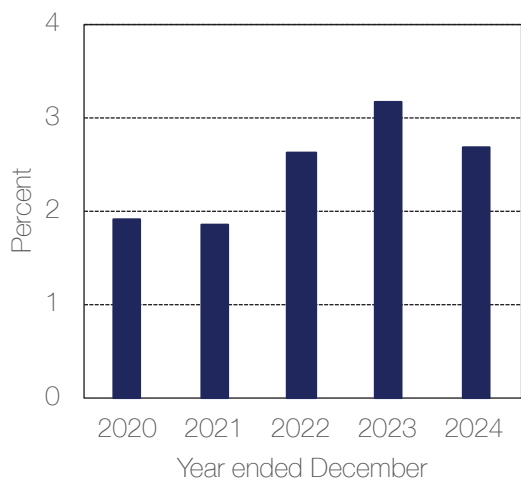


Chart 8.2: Return on Loans and Advances

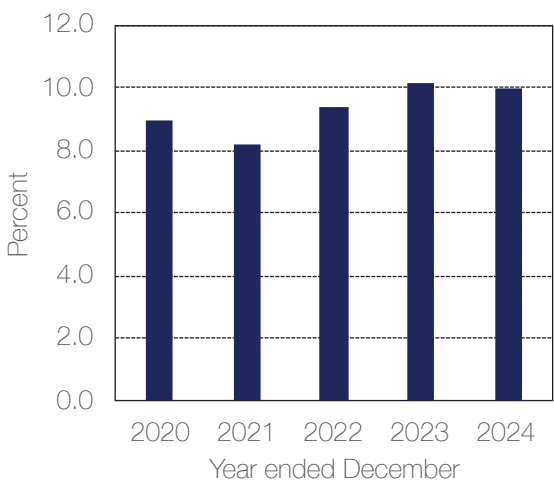


Chart 8.3: Residential Real Estate Loans to Gross Loans and Advances

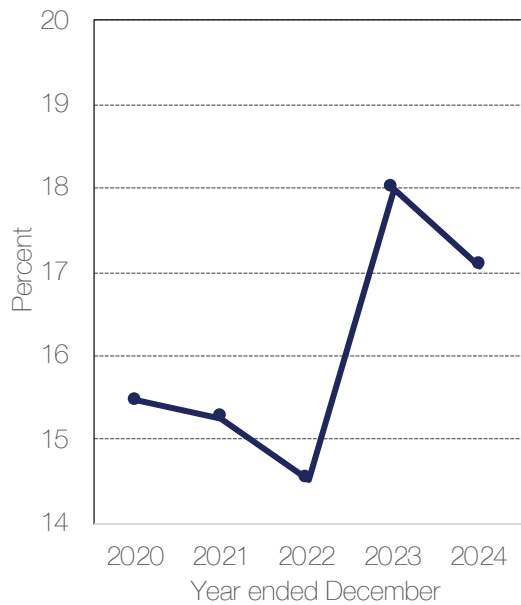
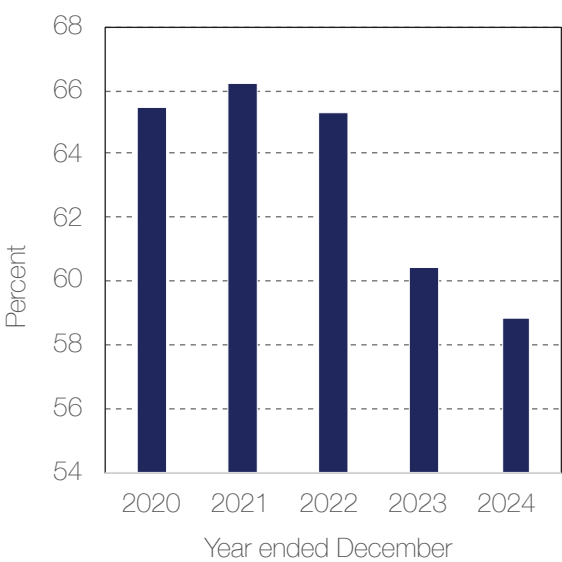


Chart 8.4: Household Loans to Gross Loans and Advances



Source: Statutory banks (Statutory Returns submitted to the Bank).

APPENDIX 8 (CONTINUED)

Chart 8.5: Non-Performing Loans Growth rate

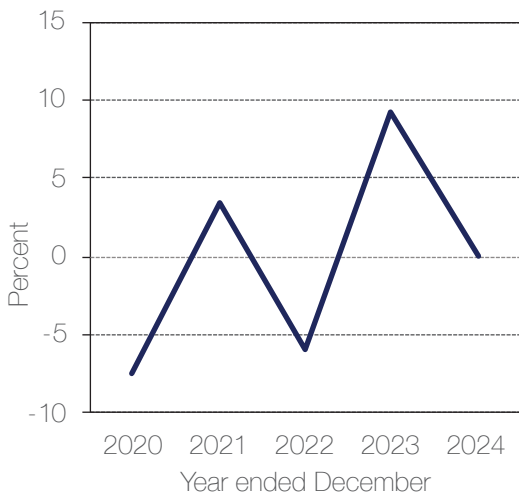


Chart 8.6: Share of Value of Total Deposits by Type (including FCAs)

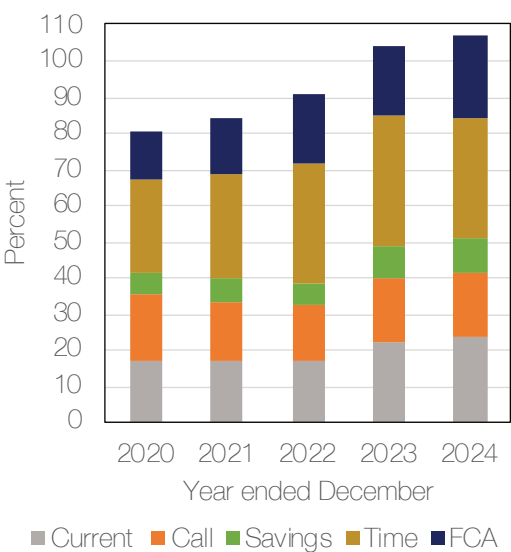


Chart 8.7: Foreign Currency Accounts

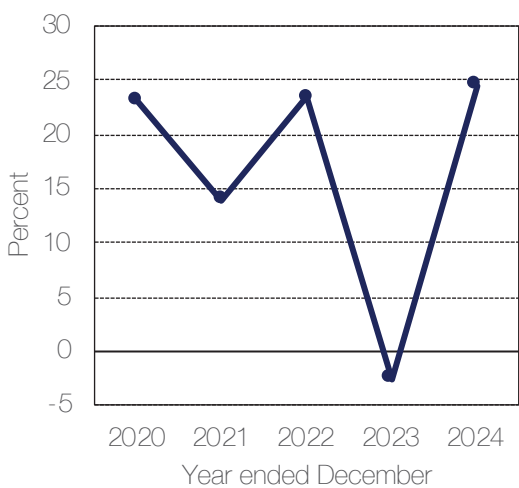
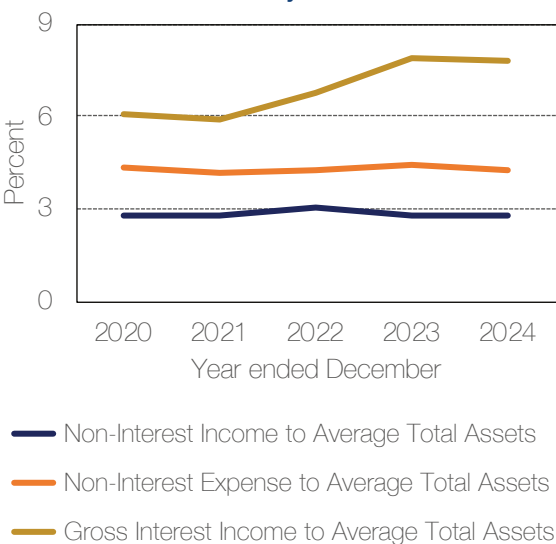


Chart 8.8: Efficiency ratios



Source: Statutory banks (Statutory Returns submitted to the Bank).

NOTES

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