



ANNUAL REPORT | 2025



STRATEGIC INTENT STATEMENTS



Vision

A trusted steward of the financial system
- advancing stability and contributing to
inclusive growth and economic prosperity.



Mission

To safeguard price and financial stability,
strengthen trust in the national currency and
payment systems and promote inclusive and
sustainable economic development through
sound policy, regulation and strategic advice.



Our Values



Agility

- We are proactive and respond swiftly and effectively to change.
- We are resilient and adapt our policies, processes, and operations in response to evolving economic, financial, and technological realities.



Collaboration

- We work together to achieve shared goals.
- We partner internally across departments and externally with stakeholders to leverage collective strengths and expertise.



Excellence

- We strive to be the best in all that we do.
- It is not just about meeting basic standards, but about consistently exceeding expectations and delivering timely, professional, and high-quality results.



Integrity

- We act with strong moral principles and honesty in all our engagements with our stakeholders.
- It is the foundation for building trust with employees, customers, and the public.



Transparency

- We engage openly, clearly, and take accountability for our actions.
- We ensure that policies, decisions, and operations are clear, accessible, and subject to appropriate scrutiny.



BANK OF BOTSWANA ANNUAL REPORT 2025

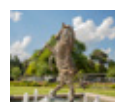
**17938 Khama Crescent, Gaborone, Botswana
Tel: 3606000, Website: www.bankofbotswana.bw**

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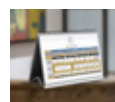
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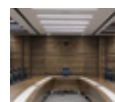
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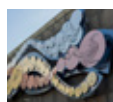
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ABBREVIATIONS USED IN THE REPORT

AACB	-	Association of African Central Banks
ARC	-	Audit and Risk Committee
BACH	-	Botswana Automated Clearing House
BISS	-	Botswana Interbank Settlement System
BEFS	-	Botswana Economic and Financial Statistics
BES	-	Business Expectations Survey
BoB	-	Bank of Botswana
BoBCs	-	Bank of Botswana Certificates
BSE	-	Botswana Stock Exchange
BURS	-	Botswana Unified Revenue Service
BWP	-	Botswana Pula (currency)
CAR	-	Capital Adequacy Ratio
CCBG	-	Committee of Central Bank Governors (SADC)
CF	-	Credit Facility
CPMI	-	Committee on Payments and Market Infrastructures
CSDB	-	Central Securities Depository Botswana
EFT	-	Electronic Funds Transfer
ESG	-	Environmental, Social and Governance
FDI	-	Foreign Direct Investment
FIA	-	Financial Intelligence Agency
FMI s	-	Financial Market Infrastructures
FSC	-	Financial Stability Council
FSR	-	Financial Stability Report
GEC	-	Governance and Ethics Committee
GDP	-	Gross Domestic Product
GMRA	-	Global Master Repurchase Agreement
HIS	-	Household Indebtedness Survey
HRC	-	Human Resources Committee
IASD	-	Internal Audit Services Department
ICT	-	Information and Communication Technology
IFRS	-	International Financial Reporting Standards
IIP	-	International Investment Position
IIRC	-	International Integrated Reporting Council
IMF	-	International Monetary Fund
IOSCO	-	International Organisation of Securities Commissions
ISDA	-	International Swaps and Derivatives Association
ISO	-	International Organisation for Standardisation
LAR	-	Liquid Asset Ratio
MEFMI	-	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MPC	-	Monetary Policy Committee
MPR	-	Monetary Policy Report
MoF	-	Ministry of Finance
MoPR	-	Monetary Policy Rate
MPS	-	Monetary Policy Statement
NBFI	-	Non-Bank Financial Institution
NBFIRA	-	Non-Bank Financial Institutions Regulatory Authority
NEET	-	Not in Education, Employment or Training
NGFS	-	Network for Greening the Financial System

NGO	-	Non-Governmental Organisation
NPC	-	National Payments Council
NPS	-	National Payments System
NRPS	-	National Retail Payments Switch
NPLs	-	Non-Performing Loans
OAG	-	Office of the Accountant General
OMO	-	Open Market Operations
PA	-	Public Address
PAPOD	-	Prudential Authority and Payments Oversight Department
PFMI	-	Principles for Financial Market Infrastructures
PLR	-	Prime Lending Rate
PRR	-	Primary Reserve Requirement
RTGS	-	Real-Time Gross Settlement
SACCOS	-	Savings and Credit Co-operative Societies
SACU	-	Southern African Customs Union
SADC	-	Southern African Development Community
SADC-RTGS	-	SADC Real-Time Gross Settlement System
SDF	-	Standing Deposit Facility
SDR	-	Special Drawing Rights
SLF	-	Senior Leadership Forum
SPRMD	-	Strategic Planning and Risk Management Department
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
TCIB	-	Transactions Cleared on an Immediate Basis
VAT	-	Value Added Tax
VUCA	-	Volatile, Uncertain, Complex and Ambiguous
WTI	-	West Texas Intermediate (crude oil benchmark)
ZAR	-	South African Rand

Bank of Botswana at a Glance

-  The principal objectives of the Bank are enshrined in Section 4 of the Bank of Botswana (Amendment) Act, 2022.
-  The Bank publishes a report of its operations and audited financial statements annually, as guided by the Board, and required by the Bank of Botswana Act.



Quick Facts about Bank of Botswana



Structure: A body corporate, 100% owned by Botswana Government



Assets: BWP 56.6 billion



Products & Services:
Economic Policy Analysis; Financial Stability, Regulation and supervision of banks and other financial institutions; Oversight of the National Payments System (NPS) in Botswana; Currency Issuance (Notes & Coin); Financial Markets Operations - domestic money and capital bond markets, and foreign exchange markets; Issuance of Government securities; and Financial and external sectors statistics



Establishment: 639 (2025)



Main Functions of the Bank

- Formulate and implement policies for monetary and financial stability
- Issue and manage the currency of Botswana
- Establish, promote, regulate, oversee safe and sound payment, clearing and securities systems
- Regulate, license, supervise banks and other financial institution
- Act as banker to Government, banks, and other financial institutions
- Implement exchange rate policy
- Conduct foreign exchange operations
- Hold and manage the official foreign exchange reserves of Botswana
- Banker, advisor, and fiscal agent to Government
- Collect and produce statistics in accordance with mandate
- Advise Financial Stability Council on potential risks to financial stability
- Collect, analyse and publish financial and economic data and support economic policy of Government (without compromising independence)



Intended Outcomes

- Safeguard integrity and value of the national currency
- Safeguard purchasing power of the Pula
- Predictable Pula exchange rate that supports domestic industry competitiveness
- Trust and confidence in the Pula; the banking system; and other financial sector institutions
- Secure payments and uninterrupted conduct of transactions
- For the Government, safe and accountable custody of deposits, operation of accounts and return on savings
- Enable commercial banks' access to, and management of liquidity
- Evidence-based economic policy



01

INTRODUCTION

INTRODUCTION

(a) Bank of Botswana Integrated Thinking and Reporting

About this Report

The Bank of Botswana (Bank) presents the inaugural Integrated Annual Report on its operations as well as the economic and financial performance for the year ended 31 December 2025. This milestone publication reflects the Bank's commitment to transparency, accountability and sustainable value creation as it transitions towards fully embedding integrated reporting. This report is, therefore, transitional and hybrid. It consolidates selected financial and non-financial information to provide a coherent and holistic account of the Bank's mandate, strategy, governance, performance and outlook. It reflects the Bank's journey toward embedding integrated thinking across its operations, decision-making and reporting processes.

In alignment with internationally recognised integrated reporting principles, the report demonstrates how the Bank utilises and influences the six capitals: financial, manufactured, intellectual, human, social and relationship and natural, in fulfilling its mandate of price and financial stability. It articulates how these capitals interact to support macroeconomic stability and contribute to Botswana's long-term economic development and sustainable prosperity.

Purpose of the Integrated Report

The Integrated Annual Report aims to:

- (i) provide a balanced and comprehensive account of the Bank's strategy, governance, performance and outcomes;
- (ii) explain the interaction between financial and non-financial factors in supporting sustainable value creation;
- (iii) demonstrate effective stewardship across the six capitals; and
- (iv) promote integrated thinking to support value creation over the short, medium and long term.

Reporting Philosophy and Frameworks

This report is informed by and aligned with key principles of the International Integrated Reporting Council (IIRC) Framework, including strategic focus, connectivity of information, stakeholder responsiveness, materiality and future orientation. As this is the Bank's inaugural integrated report, application of the framework remains progressive. The Bank is committed to deepening integrated thinking and strengthening connectivity between strategy, risk, performance and resource allocation in future reporting cycles.

Scope and Boundary – Reporting Parameters

The report covers the Bank's operations and financial performance for the year ended 31 December 2025. It also contains a section on economic developments, performance and outlook to give context to the Bank's performance outcomes and for public information. The report partially complies with integrated reporting requirements and is therefore transitional and hybrid, reflecting the Bank's progression towards full integration of financial and non-financial disclosures. While certain elements of integrated reporting maturity are still evolving, the Bank remains committed to progressively enhancing the quality, coherence, comparability and transparency of its reporting over time.

(b) Our Suite of Reports

The Bank's suite of publications supports its role as a credible and trusted central bank by providing stakeholders with timely, reliable and policy-relevant information. Collectively, these reports:

- (i) strengthen transparency and accountability through clear disclosure of policy and operational frameworks, decisions, outcomes and impact;
- (ii) support stakeholder empowerment through information and data sharing, research, analysis, recommendations and advice;
- (iii) guide expectations, inform economic decision-making in support of market stability;
- (iv) contribute to research and thought leadership; and
- (v) promote financial system resilience through the rigorous assessment and transparent communication of systemic risks.

(c) Key Publications

The Bank publishes a range of reports (Figure 1.1) on a monthly, quarterly and annual basis, including:

- (i) **Integrated Annual Report:** presents the Bank's annual financial statements, provides an overview of its operations, key functions and responsibilities and outlines the accountability framework for its performance;
- (ii) **Monetary Policy Statement (MPS):** presents a review of inflation trends and policy performance and articulates the policy choices for the ensuing year;
- (iii) **Monetary Policy Report (MPR):** presents economic analysis, inflation trends and projections used by the Monetary Policy Committee (MPC) to implement the chosen monetary policy path, as articulated in the MPS and reviews policy performance over the preceding year;

- (iv) **Financial Stability Report (FSR):** identifies risks and vulnerabilities in the financial system and outlines remedial measures to support long-term sustainability;
- (v) **Research Bulletin:** disseminates applied research outputs and analytical insights;
- (vi) **Banking Supervision Annual Report:** provides an analysis of the banking system’s overall activity and performance and information on banking regulation and supervision developments;
- (vii) **Botswana Economic and Financial Statistics (BEFS):** provides regular updates on economic and financial data;
- (viii) **External Sector Statistics Bulletin:** provides quarterly insights into Botswana’s external sector developments and economic transactions with the rest of the world;
- (ix) **Business Expectations Survey (BES):** analyses perception survey data from the domestic business community on prevailing economic conditions and prospects; and
- (x) **Household Indebtedness Survey (HIS):** monitors household credit developments to complement other official data sources and support sound policy analysis and formulation.

Figure 1.1: Bank of Botswana Publications



(d) Reporting Standards / Frameworks / Assurance

Reporting Standards

In accordance with Section 66 of the Bank of Botswana Act (CAP 55:01), the Bank maintains accurate accounting records and prepares annual financial statements for the period 1 January to 31 December. These statements are prepared in accordance with standards appropriate for a central bank and comply with International Financial Reporting Standards (IFRS).

Assurance

The annual financial statements included in this report were independently audited by Ernst & Young (Pty) Ltd. Internal assurance is provided by the Bank’s Internal Audit and Risk Management functions.

Assurance over non-financial information remains limited at this stage. As integrated reporting processes mature, the Bank intends to progressively enhance assurance over non-financial disclosures.

(e) Institutional Ecosystem and Key Role Players

The Bank operates within a domestic, regional and international policy and regulatory ecosystem that collectively supports monetary and financial stability in Botswana. Key stakeholders include:

- (i) commercial banks, non-bank financial institutions and financial market infrastructures;
- (ii) Government, particularly the Ministry of Finance (MoF);
- (iii) international financial institutions, including the International Monetary Fund (IMF), World Bank and Bank for International Settlements (BIS);
- (iv) regional cooperation and policy coordination bodies, including the Association of African Central Banks (AACB) and the SADC Committee of Central Bank Governors (CCBG);
- (v) capacity-building institutions, including the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and IMF's AFRITAC South; and
- (vi) foreign exchange reserves consultants, custodians and fund managers, as well as governance and policy forums, such as the African Sovereign Investment Forum and the International Forum for Sovereign Wealth Funds.

Through supervision, regulation and oversight, as well as operational facilities and policy responses the Bank safeguards stability while enabling financial intermediation and economic growth.

(f) Key Collaborative and Statutory Structures

The Bank's mandate is supported by statutory and collaborative structures, including:

- (i) **Monetary Policy Committee** - formulates and implements monetary policy;
- (ii) **Financial Stability Council** - serves as a statutory apex body overseeing financial stability;
- (iii) **Exchange Rate Committee** - advises on exchange rate policy;
- (iv) **Banking Committee** - facilitates engagement on sector-wide issues;
- (v) **Investment Committee** - oversees the Bank's management of foreign exchange reserves and investment activities;
- (vi) **Regulatory Policy Committee** - provides oversight and direction on financial sector regulation and supervisory policy;

- (vii) **Botswana Financial Markets Committee** - monitors money, capital and interbank market developments to ensure operational effectiveness, efficiency and stability of domestic financial system;
- (viii) **Bond Auction Committee** - oversees the issuance of Government bonds and Treasury instruments;
- (ix) **Bank of Botswana/MoF Working Group** - Facilitates information sharing and mutual support in policy analysis, coordination and development;
- (x) **National Fintech Working Group** - advances responsible financial innovation;
- (xi) **National Payments Council (NPC)** – facilitates the modernisation, safety and efficiency of Botswana's national payments systems; and
- (xii) **Media and stakeholder engagement platforms** - strengthen transparency and public accountability

(g) Disclaimer: Forward-looking Statements, Process Disclosures

This report contains forward-looking statements based on current assumptions, expectations and information available at the time of preparation. Actual outcomes may differ materially owing to economic, financial, geopolitical and other developments.

Subject to prevailing conditions, going forward, the Bank anticipates:

- (i) **Economic outlook:** moderate growth supported by domestic demand and exports, as well as the impact of transformation initiatives;
- (ii) **Financial stability:** continued strengthening of financial resilience and regulatory effectiveness;
- (iii) **Monetary policy:** a broadly supportive stance, adjusted in response to evolving inflation dynamics;
- (iv) **Risk management:** ongoing enhancement of frameworks to mitigate shocks and preserve stability; and
- (v) **Strategic initiatives:** progressive adoption of digital solutions to improve operational efficiency and financial inclusion.



02

ABOUT BANK OF BOTSWANA



ABOUT BANK OF BOTSWANA

(a) Establishment and Evolution

Established in 1975 under the Bank of Botswana Act, Cap 55:01, as amended, the Bank of Botswana serves as the country's central bank. Its primary mandate is to achieve and maintain domestic price stability, thereby safeguarding the purchasing power of the Pula. In support of this objective, the Bank also promotes financial stability and contributes to sustainable national economic development.

The establishment of the Bank followed Botswana's withdrawal from the Rand Monetary Area and marked a defining step towards monetary sovereignty and independent macroeconomic management after independence. In its formative years, the Bank focused on institution building and foundational policy decisions, including the introduction of the Pula on 23 August 1976 (Pula Day).

Over the past five decades, the Bank has evolved from an institution-building phase into a credible and modern central bank. This evolution has been underpinned by sustained investment in human capital, technological modernisation and institutional capability. In recent years, the Bank has progressively transitioned from traditional operating models towards digitalisation and the selective adoption of advanced technologies, including artificial intelligence, as well as greater transparency to enhance policy effectiveness, operational efficiency, accountability and financial system resilience.

The Bank of Botswana (Amendment) Act, 2022 reaffirmed and strengthened the Bank's operational independence and related accountability frameworks, reinforcing its capacity to execute its mandate credibly and effectively. As the Bank marked its golden jubilee in 2025, it continued to position itself as a resilient national institution generating long-term value through sound governance, credible policy, transparency, accountability and institutional stability.

(b) Purpose

The purpose of the Bank of Botswana, as established under the Bank of Botswana Act, is to safeguard price and financial stability in support of sustainable economic development. This mandate is operationalised through its mission and further articulated in its vision (Figure 2.1).

Figure 2.1: Bank of Botswana Mission, Vision and Values



(c) Bank of Botswana Mandate

The Bank of Botswana (Amendment) Act, 2022 mandates the Bank to achieve and maintain domestic price stability, contribute to the stability of the financial system and without prejudice to the forementioned objectives, support national economic development goals. While the Bank’s policy instruments and frameworks have evolved over time, the overarching objective of contributing to macroeconomic

stability has remained central.

Figure 2.2 shows the Bank’s key functions and responsibilities as established in its governing legislation. These functions are executed within a governance framework that upholds the principles of independence, accountability and institutional resilience. Figure 2.3 - 2.5 depict the Bank’s strategic framework, performance overview and institutional identity.

Figure 2.2: Key Functions and Responsibilities of the Bank

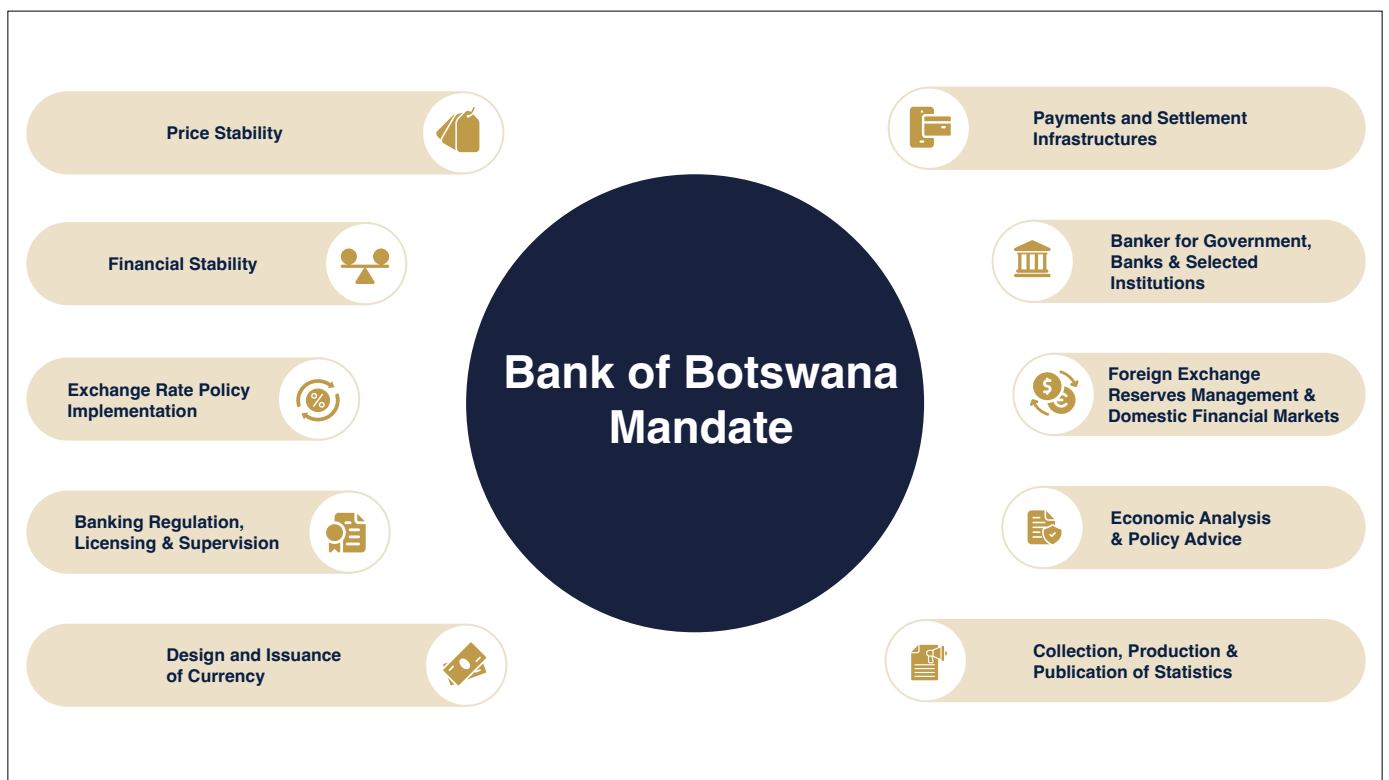


Figure 2.3: Objectives, Strategies and Supportive Structures

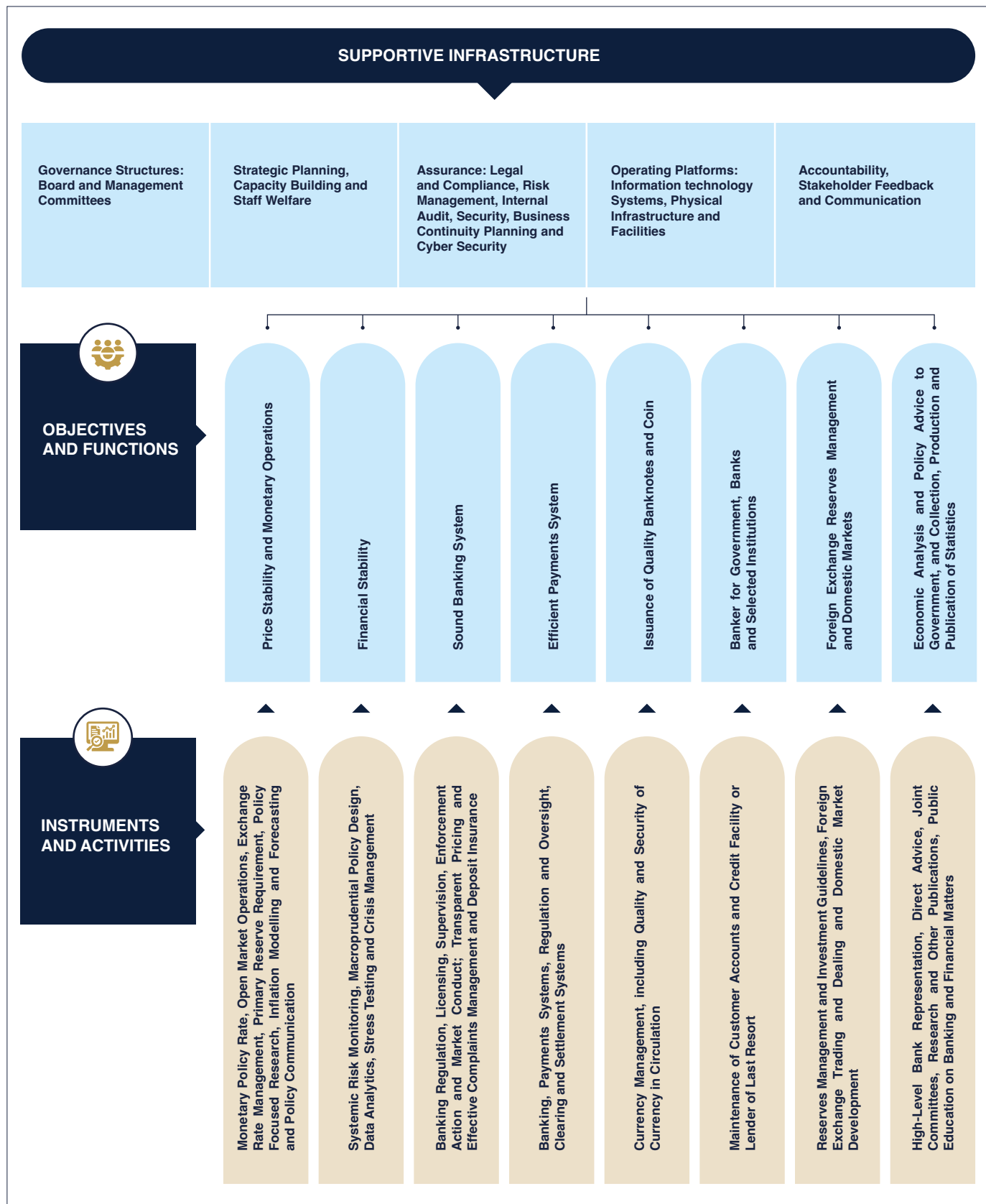


Figure 2.4: 2025 at a Glance

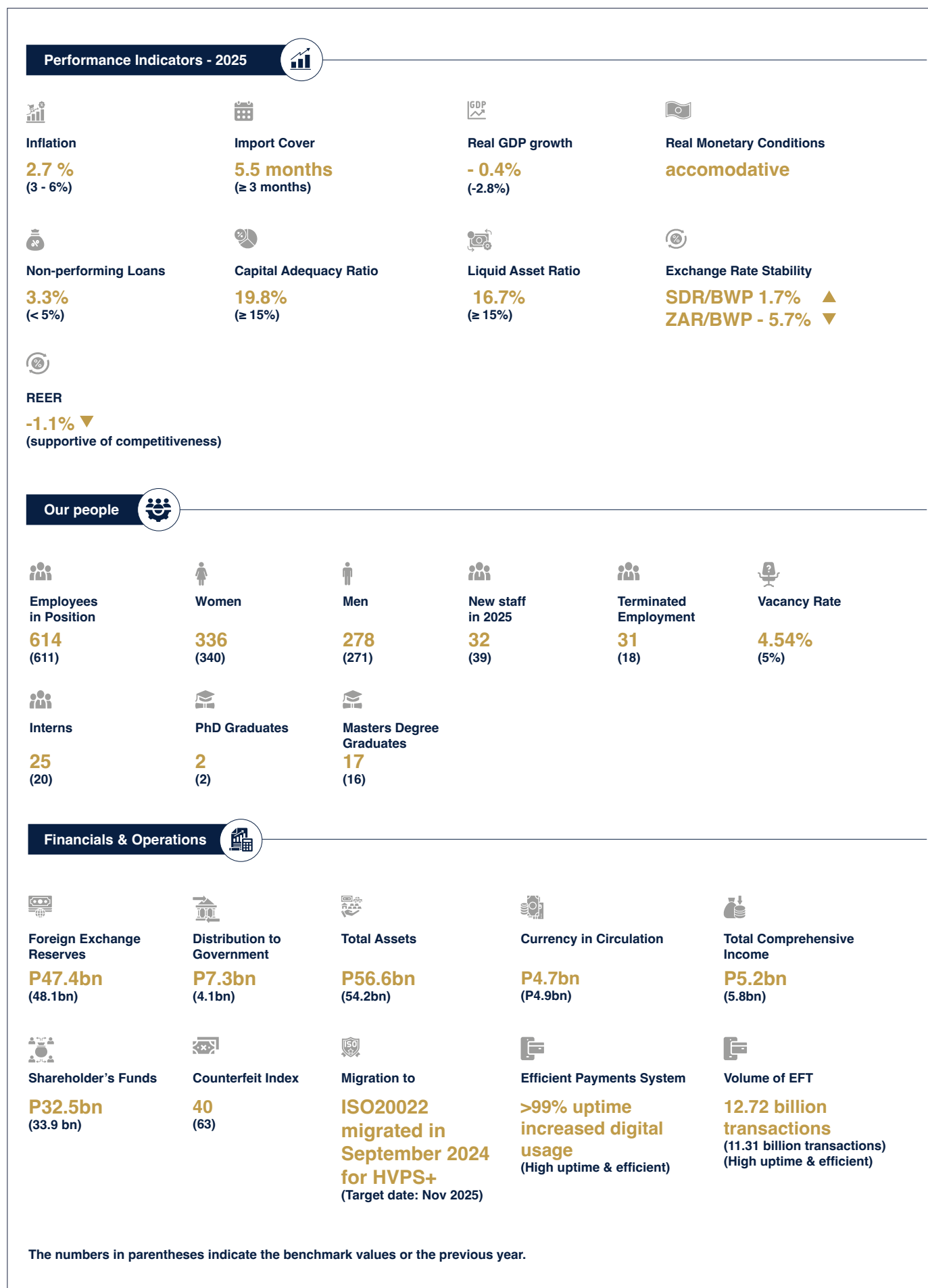


Figure 2.5: Key Factors to Identify the Bank of Botswana Brand



(d) Stakeholders Engagement

The Bank maintains active engagement with domestic, regional and international stakeholders through committees, working groups, public briefings and digital platforms (Table 2.1). These interactions enhance policy transparency, support informed public discourse and strengthen reputational risk management and economic education.

Complementing these efforts, the Bank undertakes public education, media engagements, academic collaborations and corporate social responsibility initiatives. Regular appearances on national television and radio underscores the Bank's commitment to transparency and meaningful stakeholder engagement.

Table 2.1: The Bank’s Stakeholders and their Needs

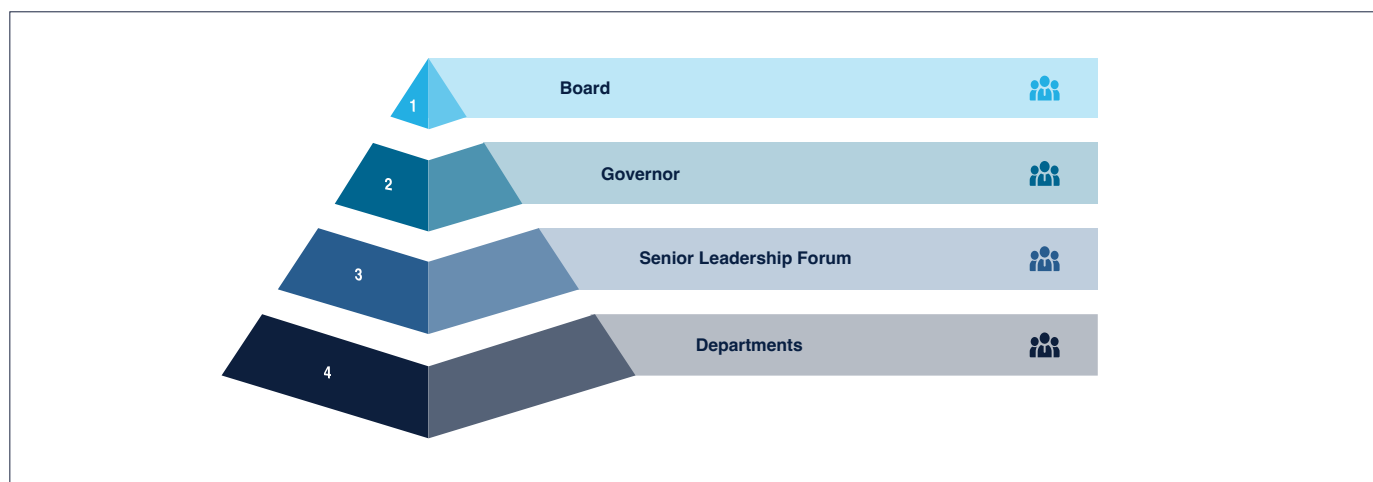
 Bank Services	 Communication Channels	 Customers	 Stakeholders	 Stakeholder Needs
<p>Monetary and Financial Stability Services</p> <ul style="list-style-type: none"> • Research and Statistics • Monetary/Economic Analysis • Policy Advice to Government and Policy communication • Collection, Production and Publication of Statistics and Stability Reports • Monetary Policy Committee Activities • Financial Institutions Regulation • Risk-based Supervision • Enforcement of Regulatory and Prudential Requirements <p>Currency Management Services</p> <ul style="list-style-type: none"> • Cash Management (Design, production, distribution and restoration of Botswana banknotes and coins) <p>National Payment Systems</p> <ul style="list-style-type: none"> • Promote, regulate and supervise payment systems and settlement <p>Banking Services</p> <ul style="list-style-type: none"> • Banking services to government, ministries, departments, agencies, semi-autonomous institutions and local government 	<ul style="list-style-type: none"> • Face to face • Physical mail • Email • Documents and publications • Policy statements • Press conferences • Bilateral meetings • Participation in global forums • Newsletters • Media briefings • Media interviews • Economic briefings • Social Media 	<ul style="list-style-type: none"> • Industry • Government Entities • Individuals/members of Public • Commercial and statutory banks • Bureau de Changes • Sovereign Rating agencies • Service Providers/ contractors • Researchers • Academics and Students • Members of Parliament and local authorities • Ntlo ya Dikgosi • Internal (Board of Directors, Bank Management and Staff) 	<ul style="list-style-type: none"> • Ministry of Finance • Non-Bank Financial Institutions Regulatory Authority • Financial Intelligence Agency • Deposit Insurance Scheme of Botswana • Botswana Stock Exchange • Statistics Botswana • Diamond Sector Agencies • Central Banks • Bilateral organisations (IMF/World Bank, MEFMI etc.) • Law Enforcement Officers • Investment Companies • Business Enterprises & Business Botswana • International financial institutions • Foreign exchange reserves managers and custodians • Media • Peer Central Banks • Employees 	<ul style="list-style-type: none"> • Low and stable inflation • Stable financial system • Effective coordination between fiscal and monetary policies • Efficient and safe management of Government funds • Efficient banking services • Sound financial advisory services • Stewardship of valuables • Clean and secure currency • Efficient payment and settlement systems • Transparency and fairness • Expeditious approval systems for licenses and appointments • Effective supervision • Timely submission of reports and data • Quality statistics • Transparency and accuracy in information provision • Effective engagement and communication • Good work environment • Recognition and being valued • Work-life integration/ flexibility-first culture.

(e) Organisational Structure of the Bank

The Board is the apex body responsible for corporate governance, ethical culture, performance oversight and strategic direction, in accordance with the Bank of Botswana Act and the Bank of Botswana Bye-Laws. The Governor, as the Chief Executive Officer, implements Board resolutions and oversees the Bank’s operations.

The Senior Leadership Forum (SLF), chaired by the Governor, provides oversight of operational execution, policy formulation, risk and financial management and the Bank’s broader governance processes. The Bank is structured into thirteen (13) departments and one division; each aligned to strategic priorities and mandate delivery. Figure 2.6 illustrates the management hierarchy.

Figure 2.6: Management Hierarchy of the Bank



(f) Board Changes

The Board continued to provide strategic oversight and governance stewardship during a year characterised by leadership transitions. At the beginning of 2025, with one vacancy, the Board operated under the Interim Chairman, Ms Daphne Kgalaletso Briscoe, until her departure on 30 April 2025, which created a vacancy. The Bank expresses sincere appreciation for Ms Briscoe’s leadership and guidance during a period of economic adjustment and institutional transformation. Mr Kenneth Molosi took over as Chairman with effect from 1 May 2025.

In August 2025, the term of Mr Bernard Mogajana Ditlhabi came to an end, creating an additional vacancy in the Board. As a result, the Board operated below its full complement of nine members for part of the year, comprising eight members from January to April 2025 and, subsequently six members following the two additional vacancies that came about at the end of April and August 2025, respectively.

Notwithstanding these vacancies, the Board and its committees fully and effectively discharged their statutory responsibilities. All scheduled Board and committee meetings were convened, quorum requirements were met and key strategic, financial and policy matters were deliberated upon and approved in accordance with the Bank of Botswana Act, the Bank’s Bye-Laws, and Board Committee Charters.

The composition of the Board continues to reflect a diversity of expertise across economics, finance, business, law and public administration. This breadth of experience strengthens collective judgement and enhances governance effectiveness.

As the Bank moves forward, the Board remains committed to maintaining independence and objectivity in its oversight role, strengthening governance frameworks, providing strategic guidance during periods of economic transition and ensuring institutional resilience in an increasingly complex and evolving environment.

The Bank extends its gratitude to outgoing members for their dedicated service and valuable contributions and looks forward to the continued strengthening of the Board through future appointments.

The year also marked an important leadership transition within the Bank, with the departure of former Governor Mr Cornelius Karlens Dekop and the appointment of Mr Lesego Caster Moseki as Governor in accordance with the Bank of Botswana Act. In line with its commitment to strong governance and institutional resilience, the Board ensured continuity of oversight and stability throughout this transition, reinforcing its stewardship role during a period of organisational and economic change.

(g) Key Milestones in 2025

In 2025, inflation remained below the lower bound of the medium-term objective range for most of the year, before returning to the objective range from September 2025.

Against a backdrop of fiscal consolidation pressures, reduced level of external buffers

and heightened global uncertainty, the Bank advanced reforms to strengthen monetary transmission, external resilience, financial system oversight and institutional preparedness. These reforms were complemented by key institutional developments, including continuing capacity enhancements, strategic repositioning, and enhanced regional and international engagement. These collectively enhanced policy credibility and effectiveness and supported institutional capability alignment (Figure 2.7).

Figure 2.7: Key Milestones for Bank of Botswana in 2025



(h) Looking Ahead

The global economy continues to face heightened geopolitical tensions, commodity price volatility and financial market uncertainty. Against this backdrop, the Bank remains focused on safeguarding price stability while supporting sustainable economic growth and maintaining confidence in the domestic financial system.

Looking forward, the Bank will continue to reinforce monetary policy credibility, strengthen financial system resilience, enhance risk management frameworks, deepen integrated reporting practices and support economic transformation through sound macroeconomic stewardship.



i Board and Senior Executive leadership engaged in strategic deliberations during the Strategy Retreat held at Travelodge Kasane from 13 -18 July 2025.

BOARD CHAIRMAN'S STATEMENT



It is my privilege to present the Bank of Botswana's inaugural Integrated Annual Report for the year ended 31 December 2025. This report marks a significant milestone in the Bank's evolution towards integrated thinking and reporting, demonstrating how governance, strategy, risk oversight and performance interact to safeguard monetary and financial stability for Botswana.

The year under review was characterised by heightened global uncertainty, subdued diamond revenues, fiscal consolidation pressures and evolving liquidity conditions. Within this environment, the Board remained firmly focused on its stewardship responsibility: safeguarding the purchasing power of the Pula and promoting a resilient financial system.

Governance and Leadership

The credibility and effectiveness of a central bank are anchored on strong governance, operational independence in policy formulation, and accountability to the public. These principles remain central to the Bank's mandate and continued to guide its actions during 2025.

During the year, the Board strengthened its oversight of risk management, governance frameworks, and internal control systems to ensure that the Bank's operations remained sound, resilient, and aligned with its statutory objectives. This included an enhanced focus on the Bank's enterprise-wide risk management framework and aligning compliance with evolving regulatory and reporting standards.

The Board also recognises the critical contributions of the Monetary Policy Committee, the Exchange Rate Committee and the Financial Stability Council. These bodies played an instrumental role in navigating a challenging macroeconomic environment characterised by subdued economic activity, tightening liquidity conditions, and external sector pressures.

While there were Board vacancies during the year, statutory, governance and oversight duties were discharged without disruption. All scheduled meetings were held, quorum requirements met, and key decisions taken in accordance with the Bank of Botswana Act and relevant governance frameworks.

The year also marked a leadership transition within the Bank. Dr Tshokologo Kganetsano, hitherto, Deputy Governor, was appointed Permanent Secretary at the beginning of the year and replaced by Mr Lesego Caster Moseki. Following the departure of former Governor Mr Cornelius Karlens Dekop, Mr Moseki was appointed Governor. Both appointments were made in accordance with the provisions of the Bank of Botswana Act. One deputy Governor position was, therefore, vacant at the end of the year. The Board worked closely with the incoming Governor to ensure continuity of governance, strategic alignment and institutional stability during the transition period. Maintaining confidence, policy consistency and operational resilience remained paramount. The Board extends its appreciation to the former Governor for his service and contributions to the institution and welcomes the new Governor as he assumes leadership of the Bank during a period of economic adjustment and strategic renewal.

The Board remains conscious that independence must coexist with transparency and accountability. Accordingly, enhanced communication platforms and stakeholder engagement initiatives continue to disseminate the Bank's activities and reinforce public trust and policy credibility.

Value Creation and the Six Capitals

As reflected in this inaugural integrated report, the Bank creates long-term value through its stewardship of interconnected capitals:

- financial capital, through prudent reserves management and disciplined balance sheet oversight;
- human capital, through sustained investment in specialist expertise and institutional capacity;
- intellectual capital, through research, modelling and policy innovation, including engagement on climate-related financial risks;
- manufactured capital, through payments system modernisation, including progress on the National Payments Switch and onboarding of the Pula onto the SADC Real-Time Gross Settlement platform (RTGS);
- social and relationship capital, through transparent communication, regional cooperation and initiatives such as the Regulatory Sandbox and a national Hackathon supporting responsible financial innovation; and
- natural capital, through the increasing integration of climate related risks into policy dialogue.

The Board recognises that safeguarding price stability is not only a policy objective but also a mechanism for protecting economic value across these interconnected capitals.

Strategic Direction and Institutional Readiness

In July 2025, the Board and Senior Management convened a strategy retreat to reflect on the Bank's operating environment, emerging risks and long-term institutional positioning. These deliberations informed the development of the Bank's 2026–2028 Strategic Plan. Following further refinement and governance review, the Board formally approved the 2026 – 2028 Strategic Plan in October 2025 under the strategic intent: "Building a Future-Ready Central Bank: Leading Stability in a Rapidly Changing World." This strategic direction acknowledges that, while the Bank's mandate remains constant, the environment in which it operates is evolving rapidly. Technological disruption, climate-related risks, financial innovation, geopolitics and realignment of global trade relations require institutional agility without compromising policy discipline.

To strengthen execution discipline, the Board approved the implementation of the Balanced Scorecard framework as the Bank's strategic and performance management tool. This

framework enhances alignment between strategic priorities, risk management and performance measurement, ensuring that the Bank's strategic intent translates into measurable outcomes. The Board will maintain active oversight of strategy implementation to ensure that ambition is matched by demonstrable institutional impact.

Risks and Trade-offs

The Board remains vigilant to key risks, including inflationary pressures emanating from exogenous factors, impact of rapid information and communications developments, external sector vulnerabilities linked to commodity dependence, liquidity distribution challenges within the banking system, and structural transformation risks amid fiscal consolidation. Policy and strategic decisions inevitably involve trade-offs. The Board is committed to ensuring that these are assessed rigorously, transparently and in a forward-looking manner.

Looking Ahead

The macroeconomic outlook, while judged to be moderately positive, remains subject to uncertainty, including inflation risks, external sector pressures, adverse effects of geopolitics and fiscal adjustments. The Board remains committed to

safeguarding price stability, promoting financial system resilience and strengthening governance and risk management frameworks to ensure institutional credibility.

On behalf of the Board, I extend sincere appreciation to the Governor, Management and staff for their professionalism and dedication, and to our stakeholders for their continued trust and collaboration.

As the Bank builds on five decades of institutional development, we remain steadfast in our commitment to stability, integrity and long-term stewardship in service of Botswana's economic prosperity.



Kenneth Molosi
CHAIRMAN OF THE BOARD

GOVERNOR'S STATEMENT



It is my honour to present the Bank of Botswana's Integrated Annual Report for the year ended 31 December 2025. The year under review was one of adjustment, resilience and institutional renewal, taking place within a complex global and domestic economic environment. The Bank continued to execute its mandate of achieving and maintaining domestic price stability, while promoting financial system stability. These objectives remain central to safeguarding the purchasing power of the Pula, integrity of the financial and payments system and supporting sustainable economic development.

Macroeconomic and Policy Environment

Global economic conditions in 2025 remained uncertain, characterised by geopolitical tensions, evolving trade dynamics and uneven growth outcomes. Domestically, subdued diamond revenues, fiscal consolidation pressures and tighter liquidity conditions shaped the macroeconomic landscape. Inflation averaged 2.7 percent, broadly aligned with the Bank's 3 – 6 percent objective range, notwithstanding temporary lower-bound deviations driven by administered price adjustments. The economy is estimated to have contracted by 0.4 percent in 2025, an improvement from the steeper 2.8 percent decline in 2024, reflecting weaker mining activity that was partly offset by resilience in some non-mining sectors. Foreign exchange reserves remained at approximately 5.5 months of import cover, providing an important buffer amid external sector pressures and global volatility.

Monetary policy implementation focused on preserving price stability while restoring effective transmission in an evolving liquidity environment. Operational refinements strengthened funding predictability and supported orderly interbank market functioning. Reforms to the exchange rate framework, including adjustments to the currency basket, widening of trading margins and recalibration of the annual rate of crawl, enhanced flexibility and improved market-based price discovery in the foreign exchange market. These measures reduced structural reliance on the Bank for foreign exchange allocation and supported external competitiveness while maintaining inflation stability.

The domestic financial system remained sound and resilient. The capital adequacy ratio was 19.8 percent, well above prudential requirements, while non-performing loans (NPLs) were contained at 3.3 percent. Supervisory oversight and macroprudential surveillance frameworks were further strengthened to safeguard systemic stability.

Institutional Progress and Financial Performance

The year also marked important institutional milestones. Currency operations ensured adequate supply and integrity of notes and coin, including the launch of the commemorative P50 banknote during the Bank's Golden Jubilee.

Progress was made in strengthening financial infrastructure, including progress on the National Retail Payments Switch Project, migration toward ISO 20022 standards and advancement of onboarding of the Pula into the SADC Real Time Gross Settlement System. These initiatives enhance efficiency, interoperability and resilience within the national and regional payments ecosystem.

Innovation remains integral to institutional resilience. During the year, the Bank launched its Regulatory Sandbox framework and hosted a national Hackathon to stimulate digital financial solutions and inclusive finance initiatives. Engagement on climate-related financial risks was also advanced following membership in the global Network for Greening the Financial System.

Financially, the Bank recorded net distributable income of approximately P8 billion in 2025, reflecting prudent reserves management and disciplined operations. Financial strength remains essential to supporting policy credibility and institutional sustainability.

Strategy and Outlook

Following Board approval of the 2026 – 2028 Strategic Plan in October 2025, Management commenced implementation under the strategic intent: "Building a Future-Ready Central Bank: Leading Stability in a Rapidly Changing World." The Balanced Scorecard framework has been adopted to ensure alignment, sustain measurable performance and accountability across the organisation.

Looking ahead, the risk environment remains elevated. Inflation risks are tilted to the upside, particularly in relation to administered prices and external developments. Liquidity dynamics, fiscal consolidation and global uncertainty will require continued vigilance and forward-looking policy assessment. While monetary policy alone cannot generate sustainable long-term growth, it contributes to a stable macroeconomic foundation upon which broader structural transformation can take place.

I am pleased to present the annual report for the year 2025, highlighting our central bank's achievements, challenges and outlook.

I extend my appreciation to the Board for the guidance, Management and staff for their professionalism and dedication, and our domestic and international stakeholders for their continued engagement and trust. The Bank remains committed to credibility, resilience, safeguarding its autonomy, commitment to transparency and accountability and disciplined policy execution in support of Botswana's economic prosperity.



Lesego Caster Moseki
GOVERNOR



03

BANK OF BOTSWANA STRATEGY

BANK OF BOTSWANA STRATEGY

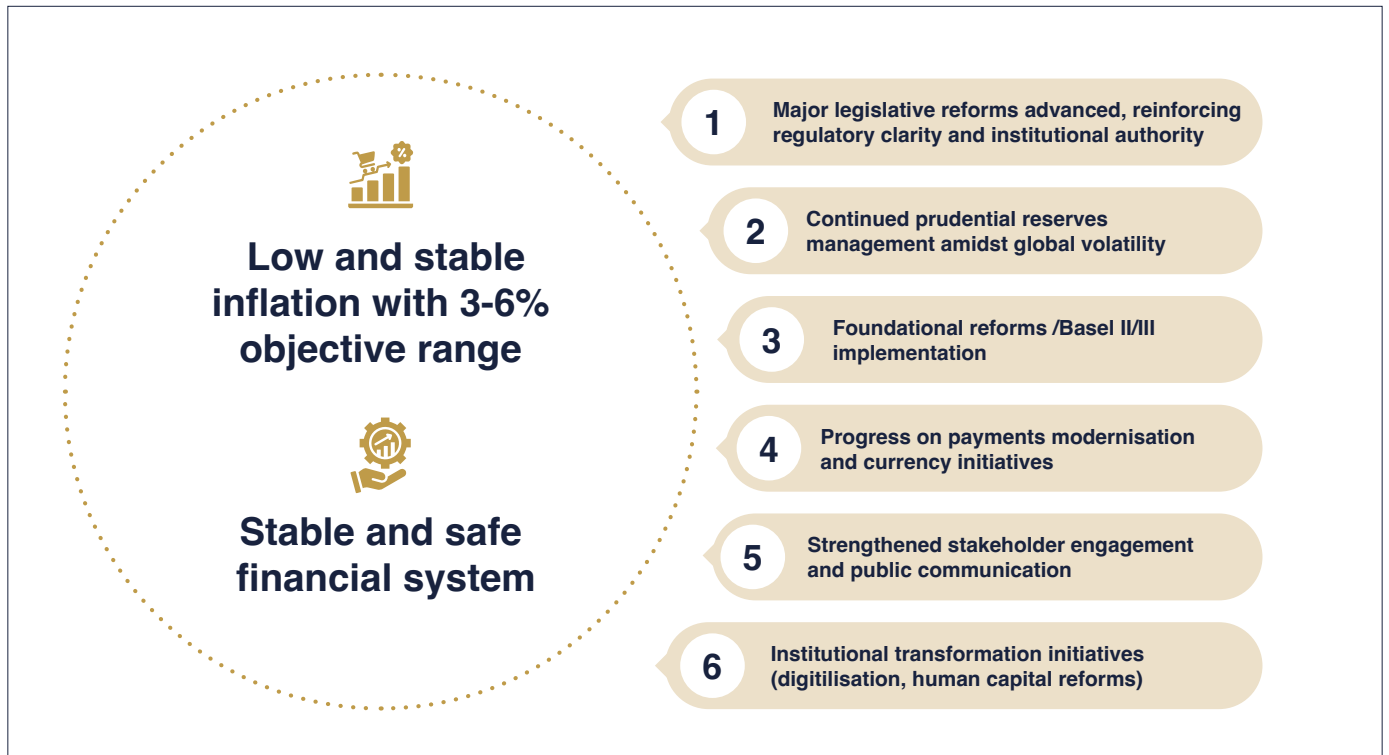
(a) Strategy and Objectives

The Strategy

The Bank’s rolling three-year Medium-term Plan (MTP) 2023 - 2025 guided its actions towards measurable outcomes. The MTP, updated annually, articulated the

Bank’s strategic priorities and desired outcomes in line with its statutory objectives, as outlined under Section 4(1) of the Bank of Botswana Act (CAP 55:01) as amended. The Plan was anchored on the theme “Evolving Mandate of Central Banks and Strategic Risk Management” and had six strategic focus areas (SFAs) (Figure 3.1).

Figure 3.1: Our Strategic Focus Areas (SFAs) and Performance 2025



In 2025, the Bank advanced the implementation of the Strategy, with performance assessed across the six SFAs. Overall, in 2025, there was notable progress in legislative reform and institutional reinvention, steady advancement in operations and reserves management and continued enhancement of stakeholder engagement. However, the modernisation of supervisory frameworks requires accelerated implementation to fully meet the Bank’s forward-looking regulatory objectives, and this will be facilitated by the reenacted Banking Act of 2023 which came into operation on 15 August 2025.





Looking Ahead

Amid an increasingly complex and interconnected global environment, the Bank is advancing with clear purpose and determination. For 2026 – 2028, the Bank will transition from a rolling Medium-Term Plan (MTP) to a fully integrated Strategic Plan, offering sharper focus and strengthened accountability. Guided by the 2026 – 2028 Strategic Intent — Building a Future-Ready Central Bank: Leading Stability in a Changing Global World, the Bank aims to continue to safeguard macro-financial stability while modernising institutional capabilities, deepening stakeholder trust and enabling sustainable economic development.

(b) 2026 - 2028 Strategic Focus Areas and Objectives

The four Strategic Focus Areas (SFAs) will concentrate efforts on critical priorities, translating the Bank’s mandate into decisive actions, measurable outcomes and lasting impact (Table 3.1).

Table 3.1: Strategic Focus Areas

SFA	Purpose	Strategic Objective
<p>1 Monetary and Financial Stability Leadership</p> 	Ensuring macroeconomic stability through sound monetary policy, effective financial sector oversight, and prudent foreign exchange reserves management.	<p>Objective 1: Maintain price stability through effective implementation and transmission of monetary policy.</p> <p>Objective 2: Enhance financial sector and payments system regulation, supervision and risk management.</p> <p>Objective 3: Enhance the Bank’s capacity for reliable economic analysis and forecasting to support evidence-based policy.</p> <p>Objective 4: Preserve capital and support the rebuilding of foreign exchange reserves.</p>
<p>2 Institutional Excellence and Operational Resilience</p> 	Building a high-performance, ethical, and digitally advanced Bank with strong governance.	<p>Objective 5: Foster a values-driven, high-performance culture that drives collaboration, innovation, and accountability.</p> <p>Objective 6: Strengthen governance, enterprise risk management (ERM) and internal control frameworks.</p> <p>Objective 7: Optimise data management and digital systems for agile decision-making.</p>
<p>3 Stakeholder Engagement and Public Confidence</p> 	Enhancing trust through transparent communication, financial literacy, and strategic partnerships.	<p>Objective 8: Enhance the clarity, accessibility and transparency of policy communication.</p> <p>Objective 9: Enhance public awareness and financial literacy to anchor trust in the Bank’s role.</p>
<p>4 Inclusive and Sustainable Economic Development</p> 	Promoting equitable growth through financial inclusion, Environmental, Social and Governance (ESG) integration, and payment innovations.	<p>Objective 10: Promote financial inclusion and payments efficiency.</p> <p>Objective 11: Integrate ESG and climate-related risks into financial sector monitoring and supervision.</p>



04

GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

(a) Corporate Governance Principles

Strong corporate governance remains fundamental to the Bank's ability to exercise effective oversight, uphold accountability and ensure transparency in fulfilling its mandate. Rooted in its mission and vision, the Bank's governance framework promotes independent, evidence-based decision-making, accountability, effective risk management, robust internal controls, ethical conduct and performance-aligned remuneration. Collectively, these principles support strong institutional leadership, safeguard monetary and financial stability, reinforce stakeholder confidence, and promote the Bank's long-term institutional credibility and sustainability.

(b) Our Board: Functions, Membership and Committees

The Board's principal role is to oversee and guide the Bank's strategic direction, policy formulation, and overall administration in accordance with the Bank of Botswana Act and the Bank of Botswana Bye-Laws. In fulfilling this mandate, the Board ensures that the policies, management capabilities, administrative systems, security measures, and financial controls required for the effective and efficient discharge of the Bank's statutory responsibilities are implemented. To this end, the Board establishes a comprehensive policy framework covering monetary, financial, banking, human capital, financial accounting, information technology, security, strategy, risk management and assurance, as well as general administration. This includes approving the Bank's staff establishment and









annual budget, monitoring financial and operational performance, and ensuring compliance with the Bank of Botswana Act and Bye-Laws.

The Board comprises nine members, including two ex-officio members, the Governor and the Permanent Secretary in the Ministry of Finance and seven members appointed by the Minister of Finance. Appointees must be individuals of good standing and experience in business, professional, or academic fields, with no more than two being public officers. From January to April 2025, the Board operated with eight members, therefore, with one vacancy. Following the departure of Ms Daphne Kgalaletso Briscoe in April 2025, a second vacancy arose, and a third vacancy occurred in August 2025 upon the expiry of Mr Bernard Mogajana Ditlhabi's term (Table 4.1).

Despite these vacancies, the Board and its Committees successfully executed their mandates, convening all scheduled and special meetings without interruption. The Board is required to meet at least once each quarter and, in 2025, held five ordinary meetings and one special meeting (see Table 4.1). The work of the Board is supported by three Committees, the Audit and Risk Committee (ARC), Human Resources Committee (HRC) and Governance and Ethics Committee (GEC), each chaired by non-executive members. These committees consider matters within their respective mandate, as defined in their terms of reference, and make recommendations to the Board for consideration and approval.



Table 4.1: Board Meetings and Attendance in 2025

	Meetings	SB 1/25 (25 & 26 Feb)	BB 1/25 (25 Mar)	BB 2/25 (13 Jun)	BB 3/25 (29 Aug)	BB 4/25 (31 Oct)	BB 5/25 (5 Dec)
	D K Briscoe (Interim Chairperson)	P P	x	–	–	–	–
	K Molosi (Chairman)	P P	P	P	P	P	P
	C K Dekop (Governor)	x x	P	P	P	P	–
	L C Moseki* (Governor)	–	–	–	–	–	P
	Dr T A Kganetsano (Ex-Officio)	P P	P	P	P	P	P
	B M Ditlhabi (Chairperson HRC)	P P	P	x	P	–	–
	K T Letsididi (Chairperson GEC)	P P	P	–	–	P	P
	L G Makepe (Chairperson ARC)	P x	x	P	P	P	P
	Dr L L Setlhare	P P	P	P	P	P	P

Source: Bank of Botswana

*Mr Lesego Caster Moseki was appointed Governor in November 2025

Key:

P	Attended
X	Did not attend
BB	Regular Board Meeting
SB	Special Board Meeting
–	Not a member

Board Members 2025



Kenneth Molosi
Board Chair



Cornelius K. Dekop
Governor



Dr Tshokologo A. Kganetsano#



Bernard M. Ditlhabi



Keketso Letsididi



Dr Lekgathamang Setlhare



Lipalesa G. Makepe

#Permanent Secretary, Ministry of Finance

Deputy Governors



Dr K. S. Masalila



L. C. Moseki

Advisor



S. M. Sealetsa
Advisor, Banking, Currency
and Digitisation

Heads of Department



J. Selwe
Director, Business Conduct and
Regulatory Compliance



G. N. Nyoni
Director, Information and
Communications Technology



G. Ngidi
Director, Prudential Authority and
Payments Oversight



C. S. G. Chepete
Director, Corporate Management
Services



M. M. Kgogothwane
Director, Protective Services



P. Gower
Director, Human Capital



Dr L. S. Senatla
Director, Statistics, Data Management
and Analytics



D. N. Loeto
Chief Financial Officer



B. M. Mmopelwa
Director, Financial Markets



I. Molalapata
Director, Research and Financial
Stability



A. B. Kgathola
Director, Strategic Planning and
Risk Management



G. S. Seganabeng
Director, Banking, Currency
and Settlement



K. M. Mothusi
Director, Internal Audit Services

(c) Executive Management, Committees and Organisational Structure

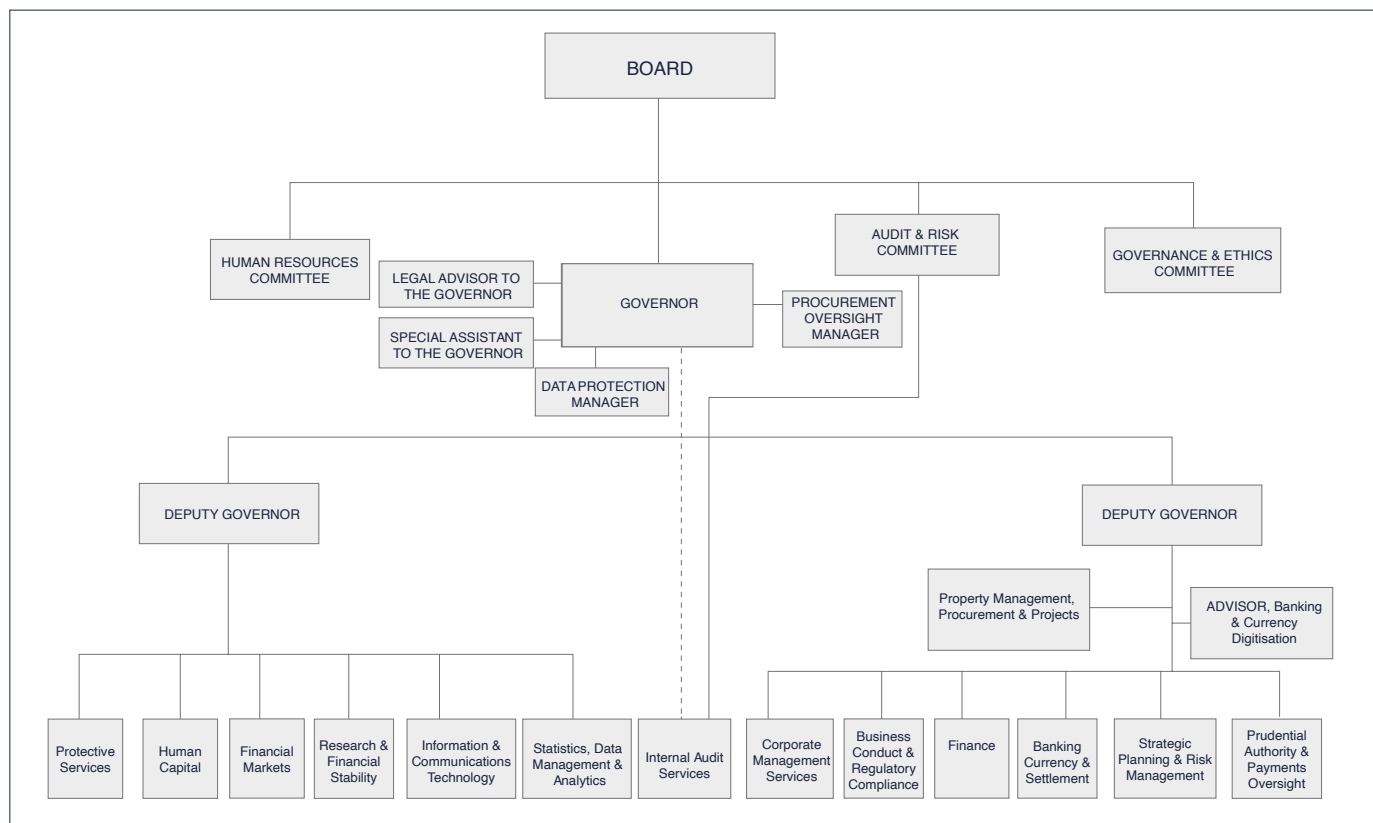
The Governor serves as the Chief Executive Officer of the Bank and is accountable to the Board for implementing its decisions, overseeing Bank policies and managing day-to-day operations. In line with statutory accountability requirements, the Governor submits the Annual Report and audited financial statements to the Minister of Finance within three months of year-end for tabling in Parliament, a month hence, and submits the Banking Supervision Annual Report annually by end of June. Transparency is further reinforced through the publication of the Bank’s monthly financial position in the Government Gazette.

The Governor chairs key statutory and management bodies, including the MPC, the Financial Stability Council (FSC), and various internal committees, and represents the Bank at national, regional and international fora, including as Botswana’s Governor to the IMF. The MPC, chaired by the Governor, is the apex monetary policy decision-making body, comprising Bank officials and external members appointed by the Minister of Finance. The FSC is an inter-agency body tasked with safeguarding domestic financial stability.

At the management level, the SLF, comprises the Governor (as chairman), Deputy Governors and Heads of Department/Division, Deputy Governors and Heads of Department/Division, with senior advisors co-opted as necessary. The SLF collectively advises the Governor on day-to-day administration, policy formulation, risk and financial management and overall governance, meeting at least twice monthly to monitor, coordinate, and review implementation of the Bank’s work programme and other developments.

The Bank’s organisational structure (Figure 4.1) supports effective delivery of its mandate through specialised functions. These include monetary policy and financial stability, prudential regulation and payments oversight, business conduct and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) supervision and financial markets operations. It also covers currency management and settlement systems, financial reporting, human capital administration and policies, information technology, security, strategic planning and risk management, corporate services, statistics and data analytics, protective/security services, internal audit and procurement and property management. Collectively, these governance and institutional arrangements underpin sound decision-making, accountability, resilience and long-term value creation.

Figure 4.1: The Bank’s Organisation Structure in 2025



(d) Remuneration

The Bank's remuneration framework is designed to attract, motivate and retain skilled professionals necessary to deliver on its mandate. Compensation and benefits are structured to ensure internal equity and external competitiveness while aligning individual performance with institutional objectives. A performance management system supports performance-based salary adjustments, subject to affordability and governance oversight.

The Bank periodically reviews its remuneration and performance management frameworks to ensure continued relevance and competitiveness. The process for reviewing the Performance Management System commenced in 2025.

The Bank of Botswana Defined Contribution Staff Pension Fund provides for accumulation and growth of retirement benefits. The Fund is governed by a Board of Trustees, which manages and administers staff retirement benefits in compliance with legal and governance requirements, as well as fund management rules prescribed by the Non-Bank Financial Institutions Regulatory Authority. Membership compulsory for permanent and pensionable with contributions of 4 percent and 16 percent of salary by staff and the Bank, respectively. The Bank also pays the Fund administration fees. Contract staff can opt to join the Fund, while ex-staff can also choose to remain as members of the Fund.

(e) Employee Wellness and Welfare

Employee wellness and welfare remain a central component of the Bank's people management philosophy. Since its establishment, the Bank has prioritised initiatives that support employee wellbeing and contribute to a healthy, safe and productive working environment. In its early years, employee support focused primarily on professional development and the provision of basic amenities such as staff housing and transport. Over time, these initiatives have evolved into a comprehensive employee value proposition that promotes the physical, psychological and social wellbeing of employees.

Preventive healthcare forms a key element of this framework. The Bank facilitates periodic medical examinations for all employees, with annual examinations conducted for Senior Management, Currency Examiners and employees aged 45 years and above, while employees below the age of 45 undergo medical examinations every two years. In addition, routine health checks and wellness initiatives, including flu vaccination programmes, are provided. Employees also benefit from comprehensive medical aid cover for

themselves and up to four dependants. These services are complemented by onsite healthcare provision through the Bank's Health and Wellness Centre, which is staffed by a full-time Occupational Health Officer and a Registered Nurse and supported by a contracted medical doctor who provides regular consultations.

The Bank also provides psychosocial support services delivered by qualified professionals to assist employees and their dependent family members in managing personal and work-related challenges. Physical wellbeing is promoted through access to a gymnasium, a sporting club and integrated sporting facilities available for employee use, while all Bank facilities are designated smoke-free zones. Employees also benefit from an in-house cafeteria offering subsidised healthy food options. In offices, the Bank provides ergonomic workstations designed to promote safe and healthy working conditions. Social wellbeing is encouraged through departmental team-building retreats and organised staff events that foster collaboration and inclusivity, while voluntary fellowship groups provide faith-based support to interested employees. In addition, the Bank conducts ongoing health awareness and education campaigns aimed at promoting healthy lifestyles, disease prevention, and overall wellbeing. Overall, these initiatives reflect the Bank's commitment to maintaining a healthy, supported, and resilient workforce, which is fundamental to sustaining organisational effectiveness and performance.

(f) Assurance, Legal, Compliance and Ethics*Assurance*

The Bank's internal audit function provides independent and objective assurance and advisory services to strengthen the Bank's governance, risk management, and internal controls. Adopting a risk-based approach, the function focuses audit activities on areas of highest risk and prepares an annual audit plan for Management review and Board approval through the Audit and Risk Committee. The function operates in accordance with the International Professional Practices Framework of the Institute of Internal Auditors and maintains a quality assurance and improvement programme, incorporating internal and external assessments to ensure continuous improvement and adherence to international best practice.

Legal and Compliance

The legal and compliance function manages the Bank's legal, compliance, and governance risks, overseeing all matters of a legal or regulatory nature. Its responsibilities include providing expert legal advice to Management and departments across the Bank, contract drafting and review,

legislative drafting and review, liaison with external legal counsel, and engagement with regulatory and international bodies. The function also ensures good governance at Board level, provides secretarial services to the Board, its Committees and the SLF, as well as administrative support to Management Committees.

Legislation and Governance

In 2025, the Bank advanced the review of the National Payments Law, submitting a layman’s draft to the Ministry for consideration and drafting into law. The Banking Act, 2023, came into effect on 15 August 2025, together with its subsidiary legislation: the Banking Regulations, 2025; Banking (Appeals Tribunal) Regulations, 2025; and Banking (Deposit-Taking Institutions) Regulations, 2025. The Bank progressed organisational and administrative arrangements for compliance with recent legislation, notably; the Data Protection Act, Public Procurement Act, and Declaration of Assets and Liabilities.

Risk Management

Risk management enables the Bank to achieve its mandate by identifying, assessing, monitoring, and mitigating risks

within approved risk appetite levels. Guided by ISO 31000 and other relevant international standards, the Bank’s risk management framework is overseen by the Board and Senior Management and embedded across the organisation through a four-lines-of-defence model. Key risk categories including mandate delivery, strategic, operational, ICT and cyber, legal and compliance, reputational, external and financial risks are actively managed to safeguard resilience, performance, and long-term value creation.

Risk Governance Structure

The Bank of Botswana operates a structured risk governance framework to ensure sound oversight and effective risk management. The Board provides overall guidance on risk appetite, policy, and strategic direction. Key committees including the ARC, GEC and HRC support the Board by monitoring operational, financial and strategic risks. This framework enables the Bank to integrate risk management into decision-making, among others, relating to policy formulation, regulation, business systems and administrative aspects, as well as to uphold stakeholder confidence using the four lines of defence model (Figure 4.2).

Figure 4.2: The 4 Lines of Defence Model



The Bank's Approach to Managing Risk

As a central bank, the Bank has traditionally been risk-averse in its decision-making, prioritising public value creation, financial stability and policy effectiveness. In an increasingly complex and volatile environment, however, the Bank seeks to balance prudence with operational agility by taking calculated risks. Accordingly, the Bank has shifted

from a purely risk-averse stance to a risk-aware approach, recognising that certain risks may present strategic opportunities that can be leveraged to its advantage (Table 4.2).

The Bank manages a portfolio of interconnected risks, (Figure 4.3), each with varying velocity and time horizon, to safeguard its mandate and ensure resilience.

Table 4.2: Bank of Botswana Risk Management Framework







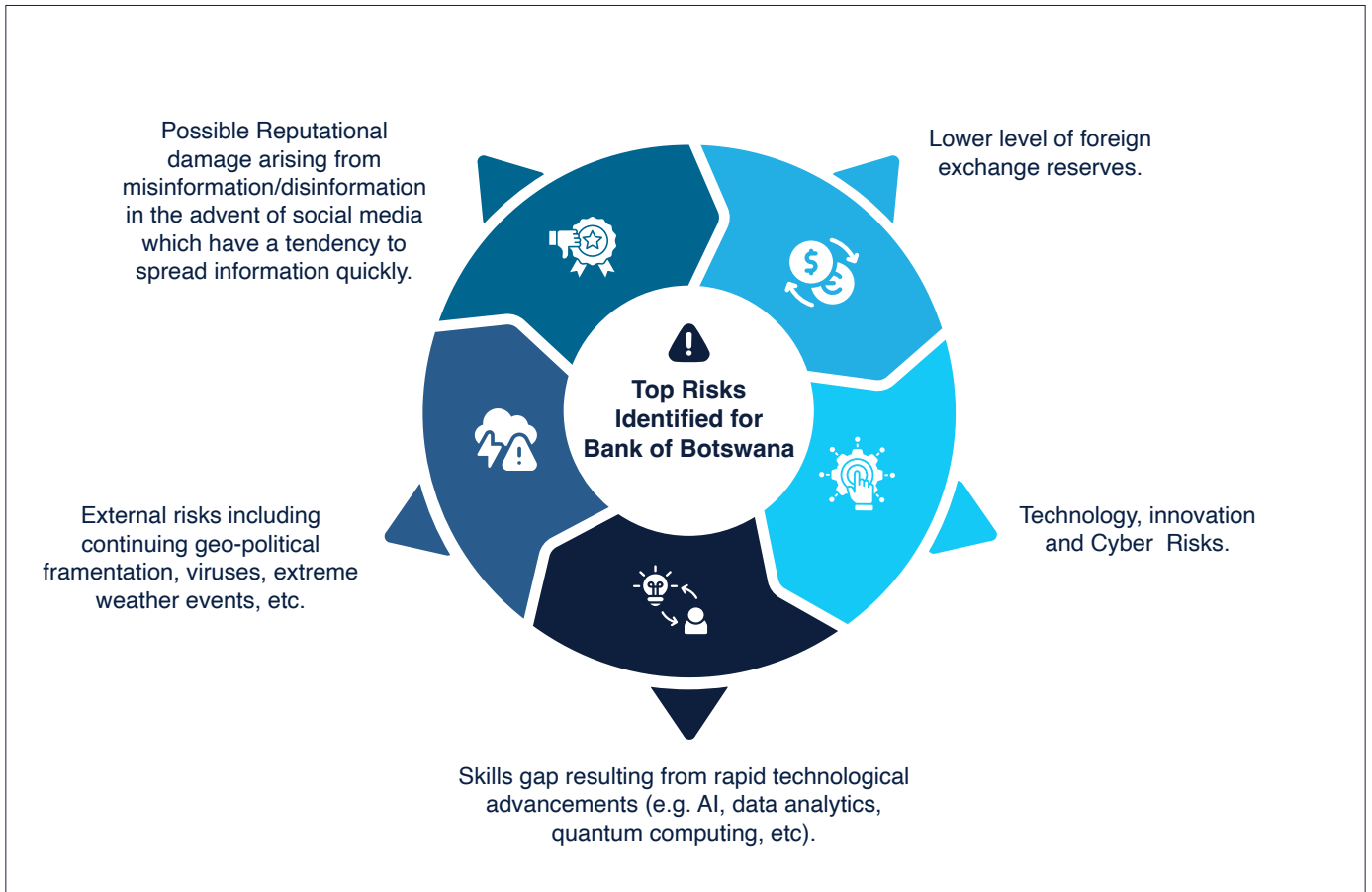
Risk Category	Appetite	Rationale
Mandate Delivery 	Cautious	Risks to price stability, financial stability, or payments system are managed conservatively with strong controls
Strategic 	Cautious to Moderate	Calculated risks accepted for strategic objectives (modernisation, capacity building) with Board oversight
Financial 	Cautious to Moderate	Balanced approach in foreign exchange reserves management: prioritise safety and liquidity, accept measured risk return trade-offs
Operational 	Moderate	Innovation and efficiency improvements encouraged within robust control environment
Cybersecurity and Technology 	Cautious	Low tolerance for cyber incidents; moderate appetite for technology investment and innovation
Climate and Environmental 	Cautious	Proactive management of physical and transition risks with medium-term horizon
Reputational 	Minimal	Very low appetite: reputation is a critical asset requiring protection
Compliance and Legal 	Zero Tolerance	No acceptance of non-compliance with laws, regulations, or ethical standards

Figure 4.3: Top Risks Identified for Bank of Botswana



Lower Level of Foreign Exchange Reserves

Foreign exchange reserves management, investment operations and market exposures may affect external sector sustainability, the exchange rate framework and the Bank’s ability to support macroeconomic stability. While the foreign exchange reserves remain adequate by international benchmarks, they have declined significantly compared to earlier periods, with increased short-term volatility. This trend is primarily driven by weak diamond export performance, resultant fiscal pressures and global economic headwinds. The Bank has implemented policy measures, including exchange rate adjustments and market interventions, to stabilise the foreign exchange reserves.

Reputational Risk Arising from Mis/disinformation

Reputational risk is a critical risk category for the Bank, as public trust and institutional credibility are fundamental to effective policy implementation, financial sector supervision and financial system stability. Reputational risk may arise from negative perceptions among stakeholders due to operational failures, policy missteps, regulatory

weaknesses, or external events, as well as suggestions of diminished autonomy and accountability. Misinformation and disinformation, especially through social media platforms, present a growing and complex challenge, given the speed and scale at which information, accurate or otherwise, can be disseminated. In an increasingly digital and transparent environment, reputational risk is amplified by rapid information dissemination, heightened stakeholder expectations, and increased scrutiny of central bank actions.

In a digital environment, managing these risks is essential to maintaining public trust, policy integrity, financial stability and institutional credibility. The Bank continually implements proactive, technology-enabled, and well-coordinated strategies to detect, respond to, and mitigate the impact of false information.

External Risks, Including Geopolitical Tensions, Viruses and Climate Risks

Geopolitical risks, including United States-Israel war on Iran, Russia/Ukraine war, trade tensions and increasing economic fragmentation, have triggered significant disruptions in

global economic activity and financial markets, international trade routes, and financial conditions. As a small, import-dependent economy, Botswana is particularly vulnerable to these shocks, which may directly affect the Bank's ability to maintain price stability, financial stability and external sector sustainability. Climate-related risks are becoming increasingly material to financial stability, policy formulation and overall macroeconomic performance. These risks have the potential to influence inflation dynamics, asset quality within the banking sector, systemic resilience, and long-term economic sustainability. The Bank addresses these risks through structured frameworks and continually assesses the risk landscape to identify emerging vulnerabilities and evolving challenges.

Skills Gap Resulting from Rapid Technological Advancements

The rapid advancement of technologies such as Artificial Intelligence (AI), data analytics, and quantum computing is fundamentally transforming the global banking landscape. Central banks, including the Bank, are increasingly required to adopt these technologies to enhance their ability to deliver on their mandate. However, these advancements may create significant skills gaps in technical competencies within the Bank. Accordingly, the Bank has implemented targeted frameworks and policies to manage potential skills

gaps and effectively leverage emerging technologies. Staff training at the Bank, implemented through its human capital strategy, fosters employee excellence, adaptability, and alignment with the Bank's mission as Botswana's central financial authority.

Technology, Innovation and Cyber Risks

The increasing digitalisation of financial systems has elevated the importance of managing technology risk, cyber risk, and innovation risk within central banks. For the Bank, these risks are becoming more pronounced due to the adoption of digital platforms, decision-making informed by data analytics, and the emergence of fintech ecosystems.

Technology risk arises from reliance on complex information and communications technology systems, cyber risk from evolving cyber threats, and innovation risk from the adoption of new and often untested technologies. These risks, if not effectively managed, may disrupt operations, compromise sensitive data, weaken financial stability oversight, and undermine public confidence. To safeguard operational resilience, data integrity and public confidence the Bank has adopted a balanced and prudent risk appetite, supported by investment in robust systems and the continuous strengthening of policies and governance frameworks to manage these risks effectively.



05

**VALUE CREATION
BUSINESS MODEL**

VALUE CREATION BUSINESS MODEL

(a) The Bank's Distinctive Value Chain – Bank of Botswana Value Streams and Capabilities

Bank of Botswana Business Model

The Bank's Business Model (Figure 5.1) sets out how it translates its legal mandate into sustained national value creation. It deploys policy instruments, institutional capabilities and stakeholder relationships to safeguard price stability, preserve financial system stability and strengthen public confidence.

Through disciplined policy decisions, regulatory oversight and financial and payments services, the Bank translates its mandate, expertise and resources into tangible outcomes, namely price stability, financial resilience and long-term economic value for Botswana.

The model also anchors the Bank's strategic direction. It defines core functions and capabilities, aligns performance with strategic priorities and underpins execution, accountability and institutional sustainability.

Figure 5.1: Bank of Botswana Business Model



(b) The Bank’s Value Creation Model






Building on the business model, the Bank’s value creation approach (Table 5.1) demonstrates how it deploys its resources and capabilities to deliver sustained national impact.

The Bank operates through an integrated model that leverages six forms of capital, namely human, financial, intellectual, manufactured, social and relationship, and natural capital. This model underpins the Bank’s value

proposition, which is anchored on maintaining low and stable inflation, ensuring safe and efficient payment systems, preserving a trusted national currency, prudently managing foreign exchange reserves, and promoting a resilient and well-regulated financial sector.

Through strong governance, disciplined risk management and effective resource allocation, the Bank strengthens institutional resilience, supports timely decision-making and creates long-term value for Botswana’s economy and society.

Table 5.1: Bank of Botswana Approach to Value Creation

Approach to Value Creation			
<p>The Bank’s mission defines its purpose: To enable achievement of the Bank’s core mandate by facilitating organisational resilience, innovation and performance-driven strategic planning.</p> <p>The Bank’s vision serves as a unifying and driving force that inspires, motivates us to push boundaries and make a lasting impact for the Botswana economy.</p>			
<p>Shaping the Bank’s Strategy</p> 	<p>The Bank considers its operating context, emerging trends, evolving market dynamics, and the broader economic landscape to inform its strategic decisions.</p>		
<p>Guiding the Bank’s Strategy</p> 	<p>The Bank assesses key challenges, anticipates future needs and aligns its goals with long term economic stability and growth. In an increasingly volatile, uncertain, complex, ambiguous (VUCA) and dynamic global environment, the Bank periodically reviews and recalibrates its strategic plan. The Bank reflects on previous accomplishments, identifies areas of growth and proactively addresses challenges and potential risks to attainment of its objectives.</p>		
<p>Organising the Bank’s Business</p> 	<p>The Bank’s business is structured around 13 departments and a stand-alone division, each focused on specific functions to drive efficiency, collaboration and innovation.</p>	<p>In terms of Governance, the Bank ensures transparency, accountability, and strategic alignment across all levels of decision making to support its mission and objectives.</p>	<p>The Bank’s people are at the heart of its success, guided by its conditions of service, promoting a culture of mutual trust, respect, professional growth and excellence.</p>
<p>Measuring the Bank’s Impact</p> 	<p>The Bank measures its impact through key performance indicators, stakeholder feedback and implementation of strategic initiatives/programmes/projects and actions.</p>		
<p>The Bank’s Approach to Sustainability</p> 	<p>The Bank embraces climate change considerations in its mandate and integrates sustainable practices into its operations, highlighted by initiatives such as the Pula Thebe Project (Redeveloped Bank of Botswana building) and the Bank’s six-star rated green headquarters as well as research on the impact of climate change. The Bank also envisages developing an ESG framework to further strengthen its sustainability efforts.</p>		

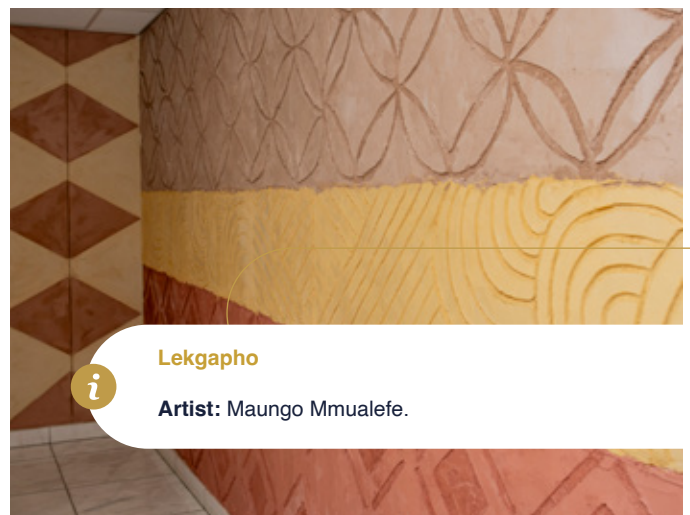
(c) Art, Community and Sustainability Initiatives

During the redevelopment of its Headquarters, the Bank strengthened its commitment to Environmental, Social and Governance (ESG) principles through a revitalised Art Programme and the integration of key sustainability features. The Art Programme builds on a 30-year legacy of cultural investment and continues to position the Bank as a leading patron of Botswana’s creative industries. It intentionally advances youth participation, women’s economic empowerment, and community inclusion.

Young artists contributed major public artworks, such as the Thebe Coin and the 3 metre Bronze Zebra sculptures, reinforcing opportunities for early-career creatives. Women artisans, led by the Oodi Weavers collective, produced the 16-metre Tlatlana tapestry, supporting intergenerational skills transfer and sustaining traditional craft practices. Indigenous cultural representation was incorporated through installations inspired by Tsodilo Hills rock art, produced in

collaboration with the Kuru Art Project, while the Lekgapho mural initiative enabled older women and younger artists to jointly preserve a diminishing traditional artform.

Environmentally, the Bank incorporated green-building features that include smart passive-design strategies, material reuse, and onsite solar power generation, contributing to reduced emissions and enhanced resource efficiency. The Headquarters redevelopment integrates solar infrastructure, which produced approximately 292 MWh in 2025, reinforcing the Bank’s commitment to national renewable-energy goals. Additional sustainability measures implemented by the Bank include the utilisation of borehole water for landscape irrigation for all Bank facilities. Overall, these integrated art, cultural and sustainability initiatives reaffirm the Bank’s leadership in promoting social inclusion, environmental responsibility, and sound governance, while enhancing its Headquarters as a national symbol of economic and cultural identity.



Lekgapho

Artist: Maungo Mmualefe.



Kuru Artworks



Artists: Pieter Brown, in collaboration with the Kuru Art Project artists, namely Thamae Kaashe, Jan Tcega John and Sobe Qaragae.



Thebe Coin Sculpture



Artists: Bilali Mwayeya and Tlotlo Malakaila, with fabrication and installation by John F. Marshall and Gareth Davids, and lead curation by Ora Loapi and Lerato Motshwarakgole.



Skills Exchange Project: Tapestry



Artists: Women of Oodi Weavers, most of whom are aged between 50 and 80 years, in collaboration with Thapong Visual Arts Centre and a collective of young weavers based in Mochudi.



Bronze Zebra Sculpture



Artist: Bilali Mweyeya, with fabrication and installation by Bronze Age Foundry.

OPERATING CONTEXT

- (a) Bank successfully navigated Botswana’s dynamic operating environment while maintaining its core mandate of price and financial stability
- (b) Foreign exchange reserves have declined due to unstable diamond exports, emphasising the need for continued prudent foreign exchange management for maintain external sector sustainability. By December 2025, foreign exchange reserves stabilised to approximately 5.5 months of import cover of goods and services
- (c) The Pula’s exchange rate mechanism continued to support export competitiveness
- (d) Inflation remained below the lower bound of the medium-term objective range for most of the year, before reverting to the range from September 2025 and averaged 2.7 percent for the year. The subdued inflation outcome was due to lower fuel prices, the reduction in water and electricity tariffs (for low-income households), as well as modest domestic demand with government spending adversely affected by weaker diamond receipts
- (e) The Ministry of Finance estimates the domestic economy to have contracted by 0.4 percent in 2025, an improvement from the sharper decline of 2.8 percent in 2024. The lower contraction is largely driven by improved performance in the mining sector (a lesser contraction) compared to the preceding year
- (f) The banking sector remained sound and well-capitalised, with low non-performing loans (NPLs)
- (g) Profitability and liquidity metrics reflected resilience, while digital transformation efforts by banks enhanced customer experience and operational efficiency
- (h) Overall financial stability was maintained, bolstered by effective macroprudential supervision. Stress testing results indicated robust buffers against systemic risks, and the regulatory framework was enhanced to address emerging risks like cyber threats

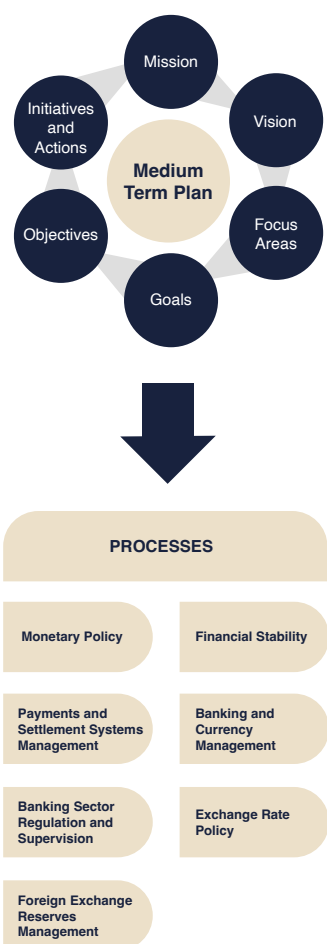
Our Capitals and Inputs

Human Capital – Our employees, their expertise and their commitment to growth form the foundation of our corporate culture and achievements. Their knowledge, skills, competencies and continuous development drive our excellence in central banking for Botswana.

Head Count 614	Permanent and Pensionable 596	Contract 18
Male / Female 278 / 336	Long-term training 16	Employee Engagement Score 62%
Turnover Rate 3.89%	Females in Senior Leadership Roles 22 females / 26 males	Internships 24

Intellectual Capital – Our intellectual capital stems from deep expertise, institutional knowledge and innovative capabilities. It empowers us to design effective policies, conduct rigorous research, and deliver forward looking solutions.

<p>Training in 2025</p> <ul style="list-style-type: none"> • 2 PhDs • 17 Master’s degrees 	<p>Innovation</p> <ul style="list-style-type: none"> • Botswana Fintech Landscape Mapping Portal Project • Launched a Fintech Regulatory Sandbox
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Outcomes

- Robust Analytical Reports
- Monetary Policy Reviews
- Thought leadership in macroeconomics and finance
- Reliable economic forecasts
- Policy Drafting
- Data driven communication with public and international bodies
- Good supervision of banks
- 32 New Hires
- 47 Promotions
- 155 Training interventions (short – term)
- Improved staff morale, wellness and productivity

Stakeholder Engagement

- High quality economic research
- Efficient regulatory oversight
- Effective policy Implementation

Economy

- Economic growth facilitating policies
- Inflation within 3 - 6% objective range
- Systemic Risks Mitigation

Our Capitals and Inputs



Financial Capital - Our financial capital forms the bedrock of our mandate, encompassing prudent reserves management, government banking services, and strategic Bank assets management. This includes prudent investment strategies, optimising returns and guaranteeing liquidity. Alongside disciplined internal budgeting and sustainable financial practices, we promote financial stability and the effective delivery of our central banking objectives.

Value of foreign Exchange Reserves BWP 47.4 billion	Import Cover 5.5 months	GIA BWP 846 million
BoB Budget BWP 1.49 billion	Distributable Net Income BWP 7.7 billion	
Total Assets BWP 56.6 billion	Total Liabilities BWP 24.1 billion	Shareholders' Funds BWP 32.5 billion



Manufactured Capital – Our manufactured capital comprises the physical, and technological infrastructure fundamental to achieving our mandate. These assets underpin our operations, operational excellence, resilience and adaptability in a dynamic and complex economic landscape. Key components include our physical infrastructure technological and cybersecurity systems and national payment infrastructure.

Buildings	Main Technological Systems / Structures
<ul style="list-style-type: none"> 6 Star Green HQ Building Secure Vault and Storage System (CMC) Francistown Branch Building Institutional Houses 	<ul style="list-style-type: none"> 1 Main data centre 1 Disaster Recovery Site and 3 supporting sites
Payments Infrastructure	Currency
<ul style="list-style-type: none"> Real Time Gross Settlement Systems (RTGS), SWIFT, BACH, Reuters 	<ul style="list-style-type: none"> Banknotes and Coin Currency Sorting Machines
Vehicles	Cybersecurity
<ul style="list-style-type: none"> Bullion Trucks Institutional vehicles 	<ul style="list-style-type: none"> Surveillance Systems



PROCESSES



Outcomes

- Stable and diversified Foreign Exchange Reserves
- Stable Monetary Policy Operations
- Stable REER
- Regulation of Liquidity in the Banking System
- Budget performance at 92%

Stakeholders

- Financial stability
- Botswana's ability to meet external obligations
- Public and investor confidence
- Increased stakeholder trust in BoB financial capital management and in Botswana financial institutions

Economy

- Support for Botswana's fiscal policy and fiscal management
- Stable economic environment
- Strengthened economic ecosystem
- Adequate import cover
- Exchange rate stability
- Support for national development

Employees

- Long-term service and organisational stability
- Engaged and productive staff
- Access to state of the art tools and safe and comfortable work environment
- Operational Excellence
- Crisis management
- Innovative Solutions

Suppliers

- Timely Payments and strong business relationships
- Investments in advanced infrastructure and technologies
- Support for innovation

Our Capitals and Inputs

Our Social and Relationship Capital - Our social and relational capital is built on the trust, collaboration and networks we develop with various stakeholders, including Government, financial institutions, businesses, and the public.

Stakeholder Engagement

- Collaboration with Government, financial institutions, and international organisations
- Engagement with the Public through media, briefings, publications and public outreach programmes

Reputation Management

- Maintaining reputation as a credible central bank
- Adherence to transparency and accountability
- Strong relationships built on sound monetary, financial and economic policies
- Staff welfare policies

Partnerships and Networks

- Participation in regional and global financial networks; forums, consultations, memberships and meetings

Natural Capital – Our natural capital encompasses the natural resources, energy and materials utilised in our operations, including both renewable and non-renewable resources. It also extends to the environmental impact of our activities on the ecosystems and communities we operate in.

Energy Usage

- Use of electricity and water
- Use of own borehole water for gardening
- Fuel for Bank Vehicles
- Use of solar panels
- Use of energy efficient systems
- Dry land gardens

Materials Consumption

- Paper for printing, documents, reports and currency production.

Infrastructure

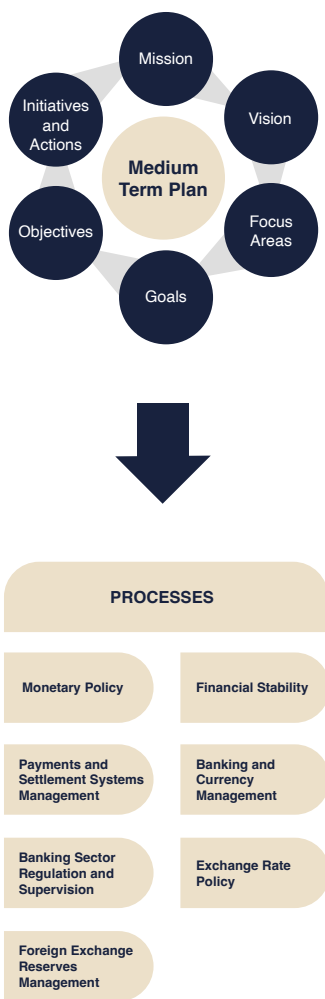
- Land owned by the Bank – Headquarters, Francistown and Sporting Facilities

Partnerships

- Promotion of Green Finance

Waste Management

- Sorting of waste
- Destruction of soiled currency



Outcomes (Social, Relationship and Natural)

Stakeholders

- Stronger relationships and effective collaboration with all stakeholders
- Stronger alignment with Bank policies by stakeholders
- Improved policy effectiveness from better informed decisions with stakeholder input
- Updates on the Bank’s sustainability practices
- Information on green finance options
- Encouragement on green investment opportunities through policies that support sustainable Finance
- Support for the adoption of environmental risk assessments in financial institutions portfolios

Economy

- Alignment of monetary policy with environmental sustainability goals
- Improved long-term growth through policies that balance economic development with environmental preservation
- Sustainable Economic Growth

Employees

- A positive work environment with enhanced cross-departmental relationships leading to higher retention rates
- Improved workplace sustainability through training and information sharing
- A work culture that values and embrace sustainability

Suppliers

- Long-term stable partnerships
- Collaboration with the Bank on sustainability; implementing green technologies
- Support for green innovation

(d) Our Commitment to Societal Well-being

The Bank of Botswana contributes to societal well-being primarily through the effective delivery of its mandate, maintaining price stability and promoting financial system stability, which underpins sustainable economic development, investment, and improved livelihoods. In addition, the Bank undertakes targeted initiatives that strengthen financial inclusion, human capital development, research capability, sustainability and community engagement.

The Bank’s contribution to society is, therefore, both direct, through targeted programmes, strategic partnerships and initiatives that enhance knowledge, inclusion, and national capacity, and indirect, through macroeconomic and financial stability.

Key Areas of Societal Contribution

To promote accountability and continuous improvement, the Bank tracks a defined set of output and outreach indicators across its societal initiatives (Table 5.2). These indicators focus on participation, coverage, partnerships, and programme delivery, providing a practical and proportionate view of how the Bank supports financial inclusion, human capital development, research, sustainability, and community engagement. Measurement approaches will be progressively strengthened over time as monitoring

frameworks and reporting practices continue to mature.

In 2025, the Bank expanded its societal contribution through several impactful initiatives delivered across the country. A notable achievement was the donation of used furniture to 26 primary and secondary schools nationwide, helping to improve the learning environment for thousands of students. Selected community and charity organisations also benefited from the donation of specialised equipment such as a rehabilitation bed and artworks. The Bank also continued to advance financial inclusion by conducting financial literacy presentations in schools, equipping learners with essential knowledge to make informed financial decisions from an early age.

In celebration of the Bank’s 50th Anniversary legacy, staff in collaboration with the Central Bank Union, contributed towards the purchase of a public address (PA) system, projector, screen, and laptops to support digital learning and school administration at Qangwa Primary School. Staff also donated second-hand clothing, while the Bank’s Sporting Club contributed a football kit. These initiatives, collectively reinforce the Bank’s culture of compassion, community engagement and voluntary giving.

As part of its annual support to the Non-Governmental Organisations (NGOs) and other key stakeholders, the Bank also supported several fundraising initiatives undertaken by these entities.



i As part of the Bank’s 50th Anniversary commemorations and in the spirit of inclusion the Bank invited and supported Qangwa Primary School participation at the event. The pupils are seen here performing, and the Guest Speaker, President Advocate Duma Boko, having a light moment with them.

Table 5.2: Social Development Initiatives

	<p>Financial Inclusion</p>	<ul style="list-style-type: none"> • Promote financial literacy and support access to banking services to underserved communities. • This informs financial decision-making, reduces vulnerability, and supports inclusive growth.
	<p>Sustainable Finance and Climate Resilience</p>	<ul style="list-style-type: none"> • Promote green finance frameworks and climate-risk awareness through research, policy dialogue and stakeholder engagement initiatives. • These support long-term investments in green technology and position the financial sector for meaningful contribution to environmental sustainability.
	<p>Community Outreach and Public Education</p>	<ul style="list-style-type: none"> • Forge strategic partnerships with educational institutions, non-profit organisations, civil society, and local stakeholders. • These strengthen understanding, trust, and responsiveness to the functions of the Bank and the broader financial system.
	<p>Research, Innovation and Knowledge Leadership</p>	<ul style="list-style-type: none"> • Invest in research and support responsible financial innovations advancing monetary and financial stability objectives nationally. • Strengthens evidence-based policymaking, understanding of Botswana’s economic landscape, and contributes to global central banking knowledge.
	<p>Corporate Social Responsibility</p>	<ul style="list-style-type: none"> • Deliver targeted programmes supporting health, education, and social welfare aligned with the Bank’s values and priorities. • These promote social wellbeing and shared prosperity, strengthening the Bank’s social licence and reinforcing sustained public confidence.
	<p>Policy Advocacy</p>	<ul style="list-style-type: none"> • Promote policy dialogue and inter-agency collaboration to advance stability, inclusion, and sustainable national development outcomes. • These supports coherent policy outcomes, strengthens long-term stability, and align national objectives with regional and international commitments.
	<p>Attachment and Internship Programme</p>	<ul style="list-style-type: none"> • Host internship and attachment programmes providing structured experience, professional development, and meaningful stakeholder outreach opportunities. • Builds essential national skills, improves understanding of central banking, and strengthens Botswana’s future financial sector talent pipeline.
	<p>Talent Development and National Capability Building</p>	<ul style="list-style-type: none"> • Offer structured internship programmes creating employment pathways for high-performing students in Bank-aligned priority disciplines. • These strengthen national human capital, developing skilled professionals for the financial sector and supporting long-term economic capability.

(e) Information Technology (IT) Roadmap

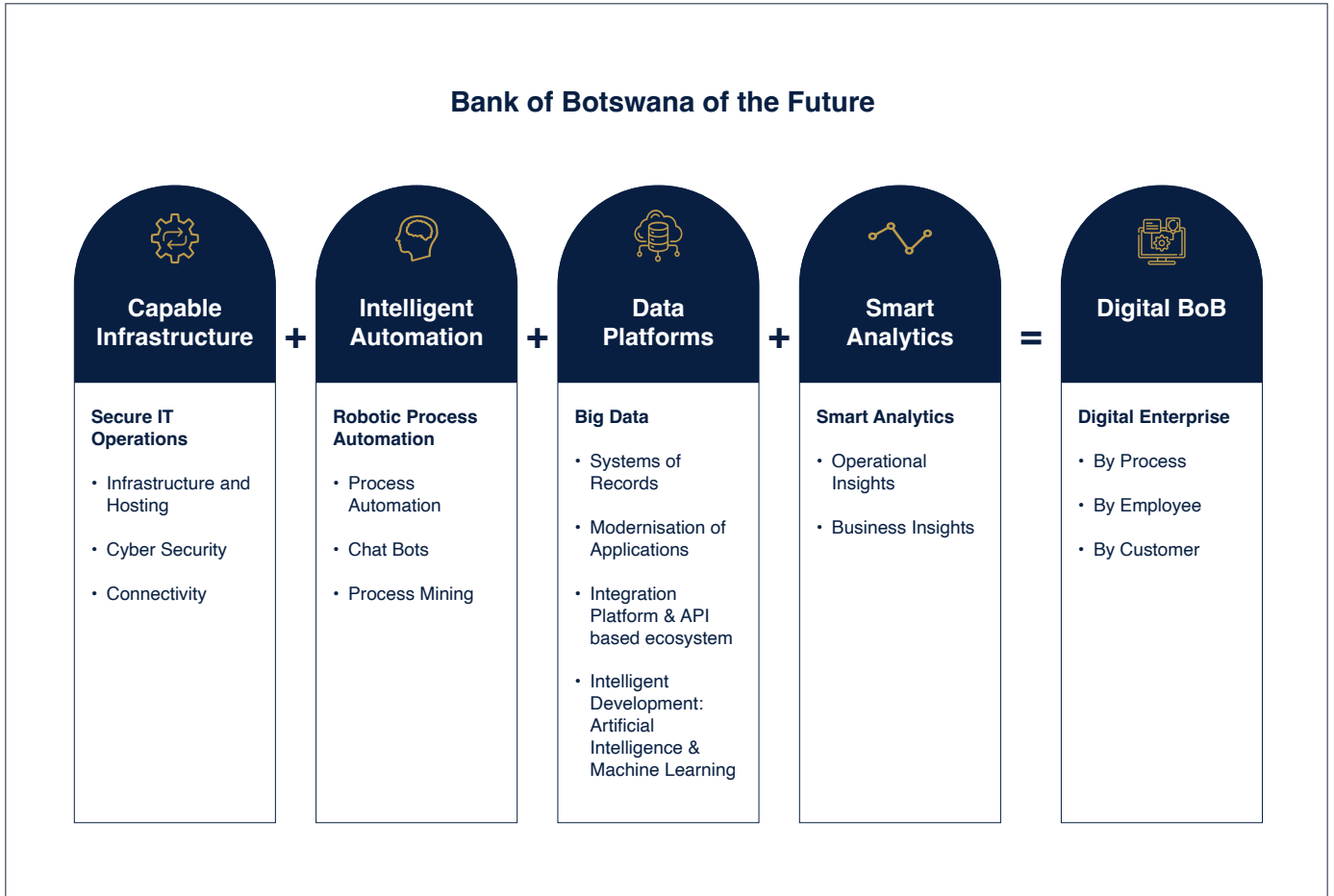
The Digital Transformation Strategy (Figure 5.2) demonstrates the Bank’s commitment to modernising its operations through four foundational pillars that drive resilience, efficiency and intelligent capability across the institution. It begins with capable infrastructure, which provides modernised systems, upgraded platforms and strengthened resilience as the foundation for all other initiatives. Intelligent automation streamlines processes, reducing manual effort and enhancing service delivery.

Data platforms elevate the Bank’s maturity by improving governance, compliance and building long-term digital capabilities through structured development programmes. Finally, smart analytics equip the Bank with deeper insights, enhanced cybersecurity analytics, and continuous learning to support evidence-based decision making. Together, these pillars form a cohesive and forward-looking transformation pathway that positions the Bank to operate securely, intelligently and efficiently in a rapidly evolving digital environment.

Figure 5.2: Digital Information Strategy



Figure 5.3: Bank of Botswana Digital Framework





06

ECONOMIC PERFORMANCE REVIEW

2025

Stable macroeconomic and financial sector fundamentals amid subdued economic growth

This section covers review of economic performance and also includes extended discussion of the Bank’s operations and their impact on economic activity and with reference to value creation. More specifically the operations include monetary policy; foreign exchange reserves management; currency management; banking sector performance; payments facilitation and regulation.

(a) Economic Review

(i) National Output

Real gross domestic product (GDP) grew by 0.1 percent in the twelve months to September 2025, marking a modest recovery from the 1.7 percent contraction in the corresponding period in 2024. The modest recovery was largely supported by continued expansion in non-mining activities, which partly offset persistent weakness in the mining sector. Non-mining GDP grew by 2.6 percent in the twelve months to September 2025, an improvement from

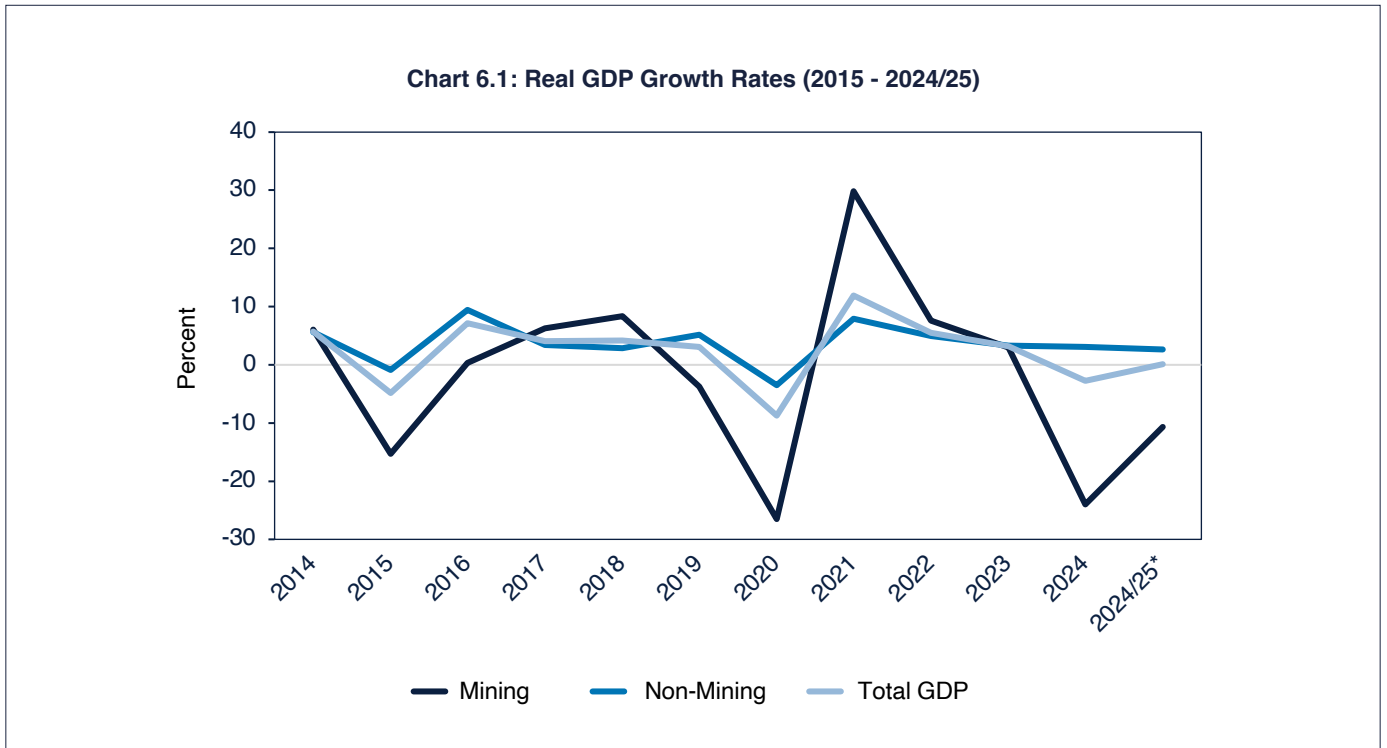
2.1 percent in the corresponding period in 2024. While most non-mining sectors registered growth, overall performance remained generally subdued. The moderate pace of expansion reflects structural constraints, including the slow and muted impact of the ongoing economic transformation initiatives, persistently low productivity growth, lingering effects of prior drought conditions and fiscal consolidation pressures arising from limited fiscal space. These factors continue to weigh down on private sector momentum and aggregate demand.



MPC Internal and External Members, from left to right: Dr Taufila Nyamadzabo, Mr Lesego C Moseki (Deputy Governor), Mr Innocent Molalapata (Director, Research and Financial Stability Department), Professor Patricia Makepe, Mr Cornelius K Dekop (Governor & Chairman), Dr Pinkie G Kebakile, Dr Kealeboga S Masalila (Deputy Governor), Dr Onkokame Mthobi, and Ms Baitshenotse N Mmopelwa (Director, Financial Markets Department).

Over the period 2015 to 2025, annual rates of economic expansion were generally low, with contractions in 2015, following a sharp decline in global commodity prices, and in 2020 due to the adverse impact of the COVID-19 pandemic (Chart 6.1). While both mining and non-mining components

of GDP exhibit broadly similar long-term growth patterns, mining output has remained significantly more volatile, reflecting Botswana’s structural dependence on diamond exports and vulnerability to external demand shocks.

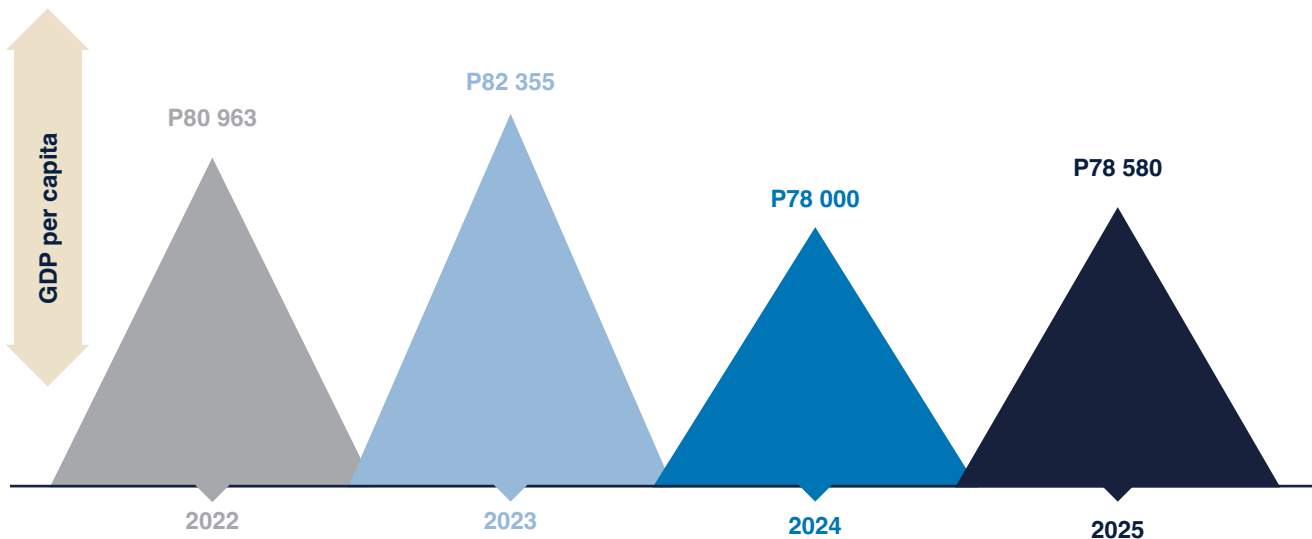


Source: Statistics Botswana

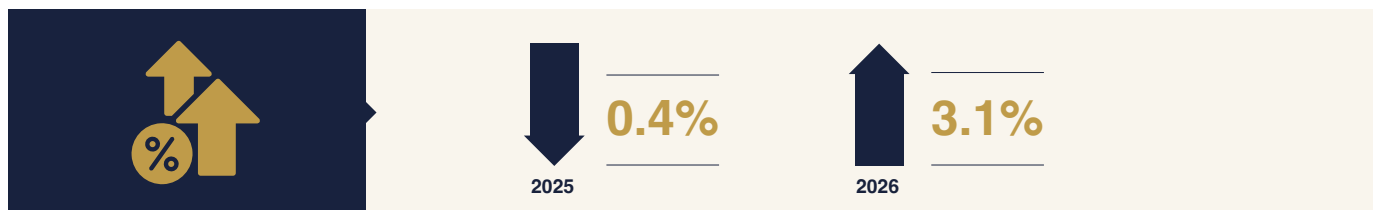
*Rolling twelve months to September 2025

Consistent with the subdued growth profile, GDP per capita increased by 12 percent to P78 580 in 2025, from P70 163 in 2015, reflecting the post-2015 recovery from the commodity price downturn and the rebound following the negative impact of the COVID-19 pandemic in 2020. However, between 2024 and 2025, GDP per capita declined marginally by 0.5 percent, from P78 875 to P78 580, largely due to the weakness in

mining output. Excluding the mining sector, GDP per capita increased by 2.2 percent. This suggests that non-mining economy had a positive impact on per capita incomes, despite the overall decline in GDP per capita driven by weaker mining activity. This divergence underscores the resilience of the non-mining economy and reinforces the importance of economic diversification.

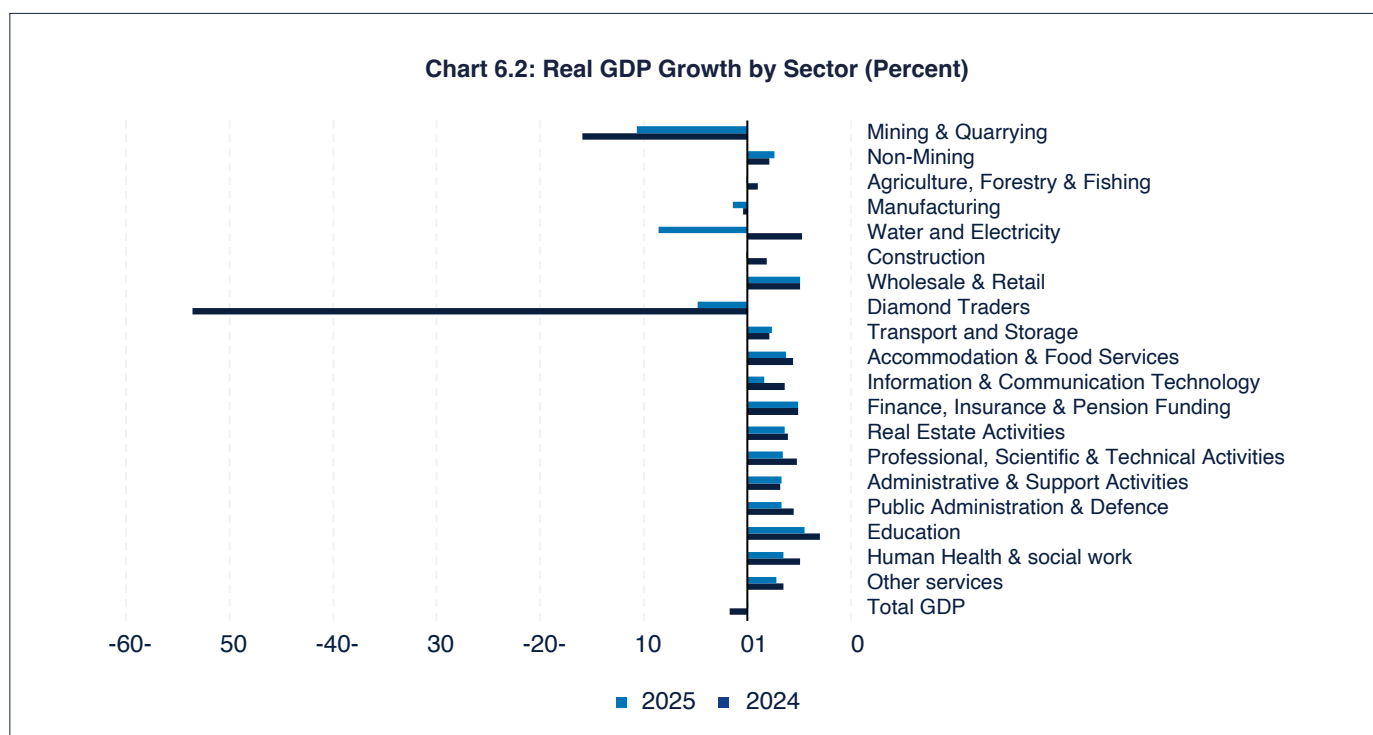


Domestic Economic Growth Prospects



In the year ending September 2025, most economic sectors experienced marginal deceleration in real economic activity growth compared to the previous year, consistent with the subdued aggregate growth outcome. Within the trade-related sectors, Diamond Trading registered a smaller contraction compared to the previous period, contributing to improved performance in non-mining activities in the twelve months to September 2025, relative to the corresponding period in 2024. This development suggests greater resilience in trade-related sectors, indicating that the adverse effects of earlier global headwinds may have moderated. In contrast, output for Manufacturing; Water and Electricity; Construction; and Agriculture, Forestry and Fishing sectors contracted compared

with in the previous year. The contraction in Manufacturing reflects subdued domestic and external demand conditions, while the decline in Construction activity mirrors effects of fiscal consolidation and weaker spending on public infrastructure. Performance in the Agricultural Sector continues to be influenced by climatic variability and structural capacity constraints. Mining and Quarrying output also declined, albeit at a slower rate than in the previous period, suggesting moderation in the pace of contraction but with activity still below recovery levels (Chart 6.2). Overall, sectoral developments highlight the economy’s ongoing adjustment to external shocks, constrained fiscal conditions, and the gradual, though still incomplete, transition towards a more diversified and resilient growth model.



Source: Statistics Botswana

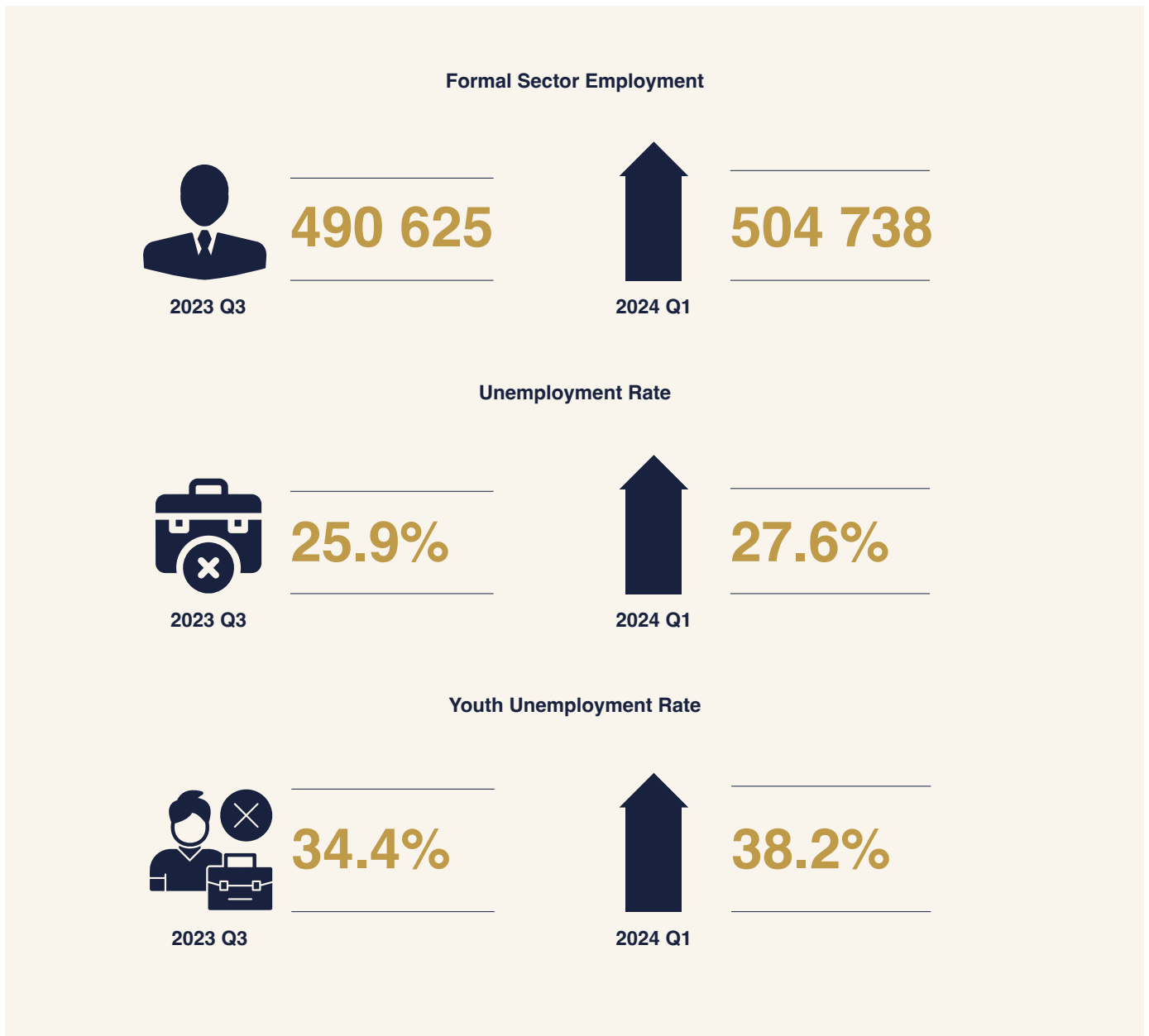
Notes

1. Percentage contribution to growth is measured by multiplying the current sector growth by the sector’s share of GDP in the previous year
2. Data for the two periods are for the twelve months ending September 2024 and 2025

(ii) *Employment*

According to the 2024 Q1 Multi-topic Survey by Statistics Botswana, total labour force declined by 2.1 percent to 1 041 204 in the first quarter of 2024, down from 1 063 776 in the third quarter of 2023. Unemployed persons increased by 4.3 percent to 287 059, from 275 159, while the employed persons decreased by 4.4 percent to 754 147, from 788 616 resulting in an increase in the unemployment rate by 1.7 percent to 27.6 percent from 25.9 percent. Youth unemployment increased to

38.2 percent, remaining broadly balanced by gender, with a slight female majority. Most unemployed individuals had secondary education, followed by those with tertiary qualifications. In addition, youth not in education, not in employment or training (NEET) also increased to 41.3 percent in the period under review. The concurrent rise in youth unemployment and NEET rate highlights deepening structural barriers to labour market entry for young people, particularly those with secondary and tertiary education, underscoring growing risks of long-term disengagement and skills mismatch.



(iii) Inflation

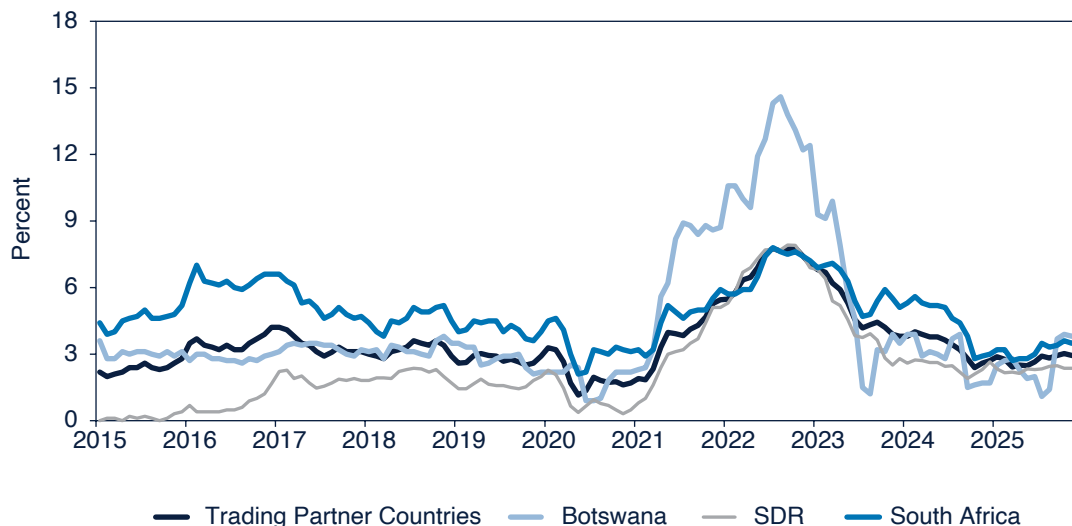
External Developments

In 2025, global inflation moderated further, decreasing from 5.8 percent in 2024 to 4.1 percent. Tapering inflationary pressures were mainly due to a slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as broad-based decrease in core inflation across regions. Furthermore, the moderation in global inflation was on account of lower international commodity prices, particularly food and oil. The price of the Organization of the Petroleum Exporting Countries (OPEC) reference crude oil basket, Brent crude and West Texas Intermediate (WTI) decreased by 12.8 percent, 14.4 percent and 14.5 percent, respectively, in 2025, averaging USD69.58 per barrel, USD69.03 per barrel and USD64.89 per barrel. The decrease in oil prices was driven by increased supply following the decision by OPEC and its allies to boost production, as well as concerns over a global economic slowdown fuelled by trade tensions. According to the

Food and Agriculture Organisation (FAO), the global food price index increased by 4.3 percent from an average of 122 points in 2024 to an average of 127.2 points in 2025. The increase primarily reflects tighter seasonal supply from some major commodity exporting countries, such as meat from Brazil and dairy products from New Zealand. Higher food prices were also attributable to the increase in vegetable oil prices, underpinned by biofuel mandates and harvest delays in the Black Sea.

Average Inflation for the SDR countries (the USA, euro area, China, Japan and the United Kingdom) fell from 2.4 percent in 2024 to 2.3 percent in 2025. Similarly, headline inflation in South Africa decreased from an average of 4.4 percent in 2024 to 3.2 percent in 2025, remaining slightly above the country's point target of 3 percent. Consequently, the trade-weighted average inflation for Botswana's trading partner countries decreased from 3.3 percent in 2024 to 2.8 percent in the same period (Chart 6.3), thus moderating the impact of imported inflation on domestic prices.

Chart 6.3: Botswana and Trading Partner Countries' Inflation



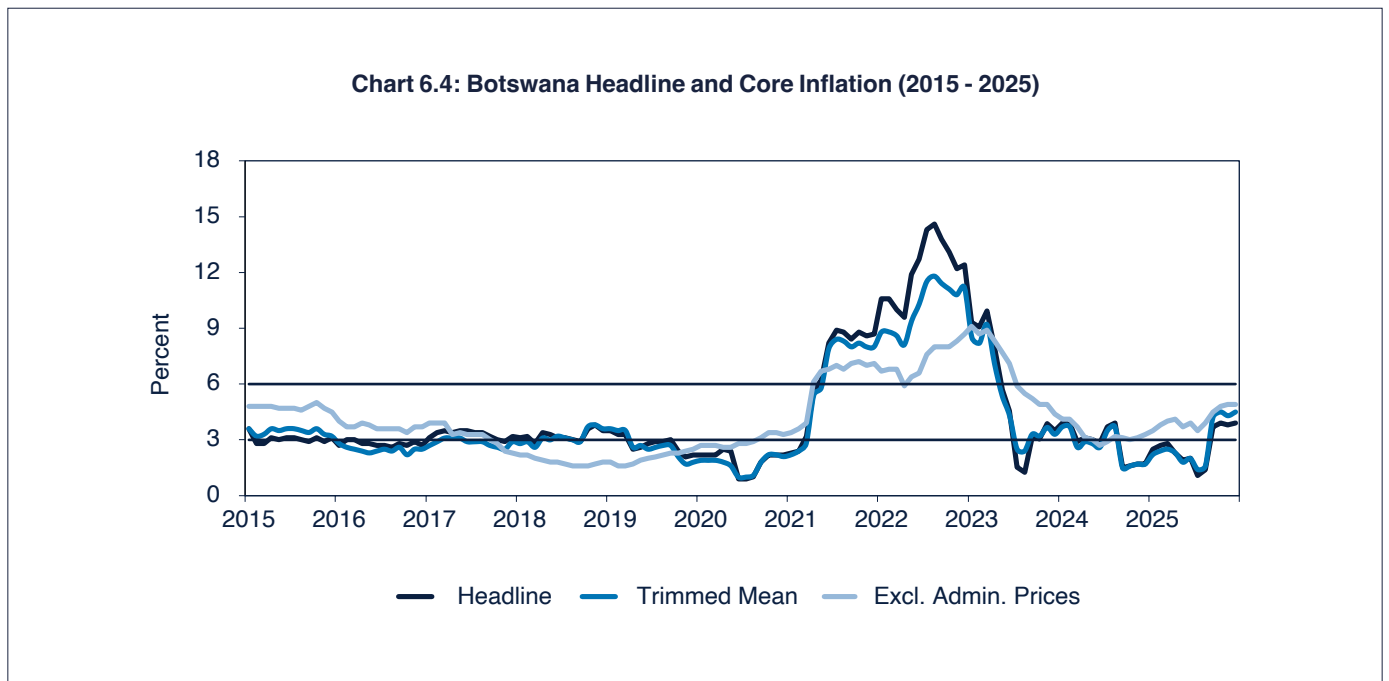
Source: Statistics Botswana, Bank of Botswana and Bloomberg

Domestic Developments

Domestic inflation decreased over the review period, from an average of 2.8 percent in 2024 to 2.7 percent in 2025 (Chart 6.4) in response to global and domestic developments. The decrease in inflation in 2025 was mainly on account of the decrease in water and electricity tariffs for low-consumption households. In addition, the decrease in inflation was due to subdued domestic and global economic activity, lower international commodity prices and lower trading partner countries' inflation. Food price inflation increased from 4.7 percent in December 2024 to 5.4 percent in December 2025, owing to a broad-based increase in price indices for fish; milk, cheese and milk products; fruits as

well as well as coffee, tea and cocoa sub-commodity groups.

Regarding core inflation measures, the trimmed mean inflation increased from an average of 2.7 percent in 2024 to an average of 2.8 percent in 2025, while inflation excluding administered prices increased from an average of 3.3 percent to 4.1 percent in the same period. The increase in core inflation excluding administered prices reflects stronger price pressures for a few selected categories, notably Food and Non-Alcoholic Beverages and Alcoholic Beverages and Tobacco, as well as acceleration in the price change for motor vehicles, partly reflecting exchange rate pass-through to prices following the adjustment of exchange rate parameters in July 2025.



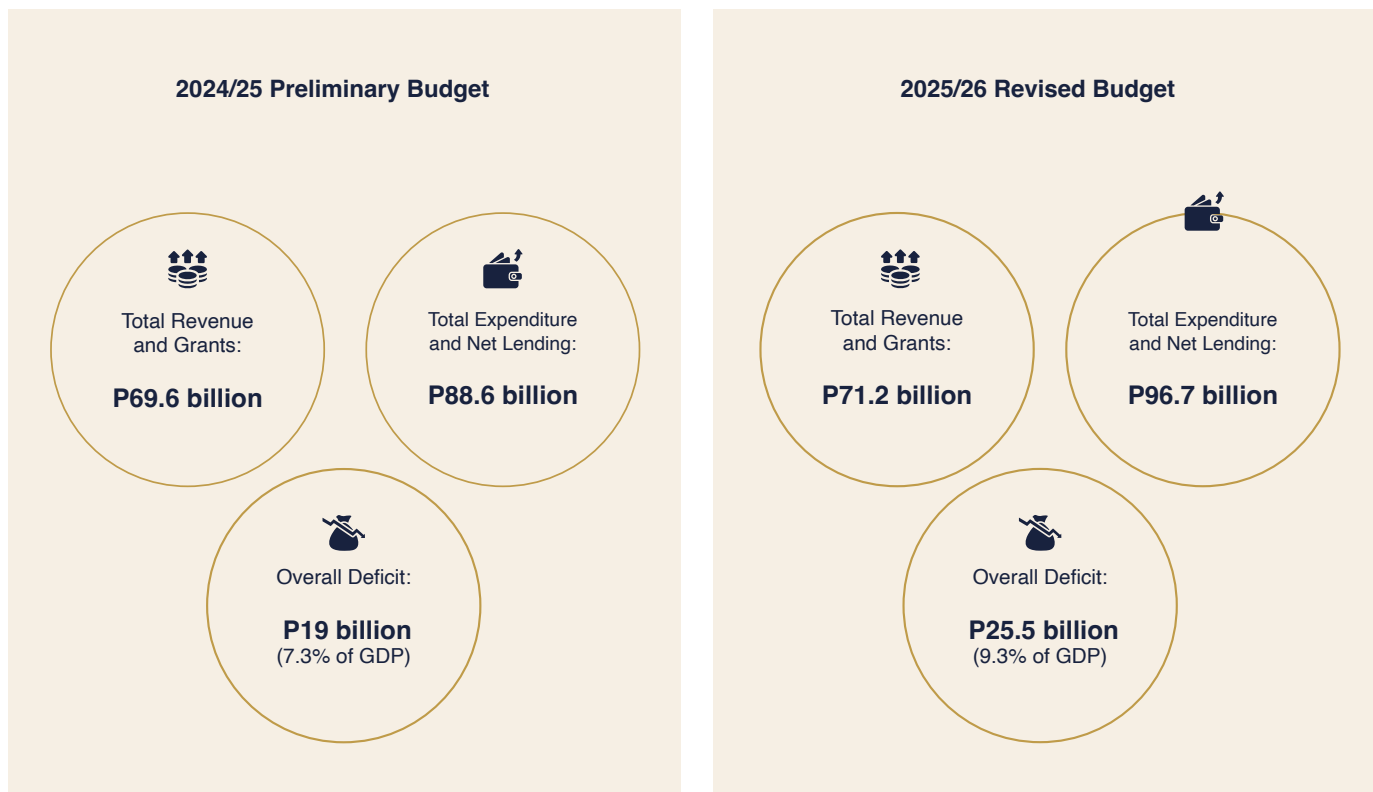
Source: Statistics Botswana

(iv) *Public Finance and the 2026/27 Budget*

The 2026/27 Budget, delivered under the theme “A New Era of Economic Transformation and Fiscal Prudence”, signals a deliberate transition from diagnosis to implementation as Government accelerates reforms to stabilise public finances, strengthen key institutions and drive a private sector-led, export-oriented and digitally enabled growth model. Anchored on National Development Plan 12 and Botswana Economic Transformation Plan (BETP), the Budget prioritises restoration of fiscal sustainability, improving public sector efficiency, strengthening of anti-corruption frameworks, modernising procurement and enhancing revenue mobilisation through comprehensive tax reforms.

The budget further advances structural transformation by intensifying economic diversification efforts across agriculture, energy, manufacturing, tourism, logistics and mining. These efforts are supported by targeted major infrastructure investments in water security, transport corridors, energy transmission, digital connectivity and land administration systems. Overall, the Budget reflects a strategic reorientation toward a disciplined, productivity-enhancing, innovation-driven and regionally integrated economy aimed at reducing dependence on diamonds and fostering sustainable employment and long-term resilience.

Figure 6.1: Government Budget Developments



Source: Bank of Botswana

2025/26 Revised Budget

The revised estimates for the 2025/26 fiscal year indicate lower revenue and grants of P71.2 billion, compared to P75.5 billion in the original budget (Table 6.1 and Figure 6.1), largely due to downward revisions in mineral revenue from P15.7 billion to P12.1 billion, amid a continued softness in the global diamond market. Similarly, total expenditure and net lending were moderately adjusted downward from the original estimate of P97.6 billion to P96.7 billion, indicating a recalibration of spending priorities and improved expenditure management. However, given the low mineral revenue, the overall deficit was revised upwards to P25.5 billion (9.3 percent of GDP), reflecting the continued structural mismatch between expenditure commitments and volatile revenue streams.

Revenue

The 2026/27 budget reflects a shift toward increased spending commitments compared to the 2025/26 revised estimates. This change is supported by a projected rise in total revenue and

grants from P71.2 billion in 2025/26 to P77.2 billion in 2026/27 (Table 6.1). Southern African Customs Union (SACU) receipts are also expected to increase by 7.6 percent from P24.9 billion to P26.8 billion, remaining the largest revenue source (accounting for 34.7 percent of total revenues). Non-mineral income tax is projected to increase by 21.1 percent from P16.3 billion to P19.8 billion, reflecting the effects of proposed 2.5 percentage points increase in personal income tax rate for individuals earning above P400 001 annually; and 3 percentage points increase in corporate income tax rate. Similarly, value added tax (VAT) revenue is forecast to grow by 10.1 percent from P13.7 billion to P15.1 billion, reflecting the effects of the proposed reductions in zero-rated items. Mineral revenue is anticipated to broadly remain the same at P12.2 billion, compared with the P12.1 billion for the 2025/26 revised estimates, reflecting continued softness in the diamond market conditions. While the revenue outlook reflects policy-driven mobilisation efforts, it remains exposed to SACU receipts volatility and mineral market uncertainty, underscoring the importance of broadening the domestic tax base and strengthening compliance.

Expenditure

Meanwhile, total expenditure and net lending are projected to increase by 7.1 percent from the 2025/26 revised estimate of P96.7 billion to P103.6 billion in 2026/27. Recurrent spending is expected to rise by 8.5 percent from P74 billion to P80.3 billion (accounting for 77.5 percent of total expenditure). The largest cost pressures stem from personal emoluments and pensions, which are projected to increase by 11.4 percent from P36.6 billion to P40.8 billion (accounting for 39.4 percent of recurrent spending). Development expenditure is also set to increase, albeit modestly, by 2.3 percent from P22.8 billion to P23.4 billion. The continued dominance of recurrent expenditure limits fiscal flexibility and constrains the pace of capital formation, highlighting the need for expenditure rationalisation and improved public sector productivity to enhance fiscal multipliers. For ministerial allocations, see Charts 6.5a and 6.5b.

Fiscal Balance

The fiscal outlook for 2026/2027 projects a wider budget deficit of P26.4 billion (8.9 percent of GDP), to be financed through a combination of domestic and external borrowing. Total financing requirements amount to P22.3 billion, of which P18.6 billion (6.3 percent of GDP) was unfunded at the time of the budget presentation. This situation highlights a structurally overstretched fiscal position in which spending commitments consistently exceed realistic revenue prospects. This potentially unsustainable trajectory over the medium-to-long term should be mitigated by Government's commitment and initiatives towards maintaining credible and disciplined fiscal planning.

Table 6.1: Government Budget 2024/25 - 2026/27 (P million)

	2024/25		2025/26		2026/27
	Revised	Preliminary	Original	Revised	Budget
Revenue	68 688	69 608	75 489	71 223	77 224
Mineral Revenue	8 702	6 500	15 747	12 060	12 207
Non-Mineral Revenue	59 986	63 108	59 742	59 163	
Expenditure and Net Lending	93 419	88 615	97 607	96 703	103 579
Recurrent Expenditure	69 940	70 397	73 998	73 998	80 325
Development Expenditure	23 573	18 294	23 749	22 846	23 376
Net Lending	-94	-75	-140	-140	-121
Fiscal Balance	-24 731	-19 007	-22 118	-25 481	-26 354

Source: Ministry of Finance

Chart 6.5a: 2026/27 Ministerial Allocation of Development Budget

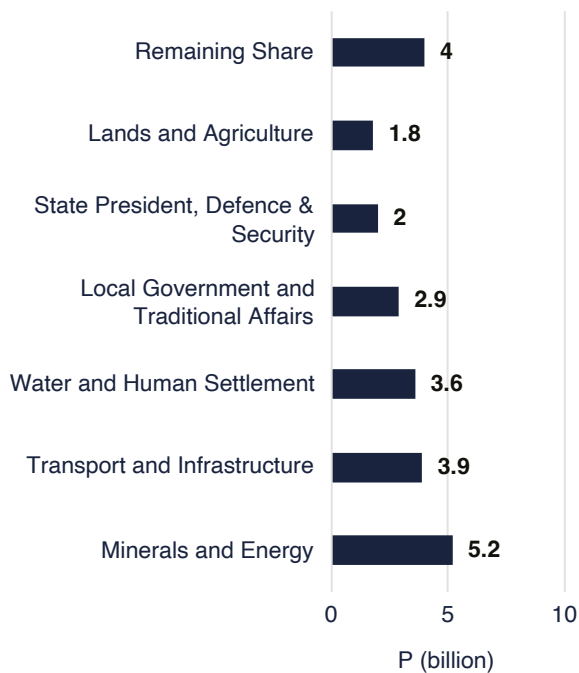
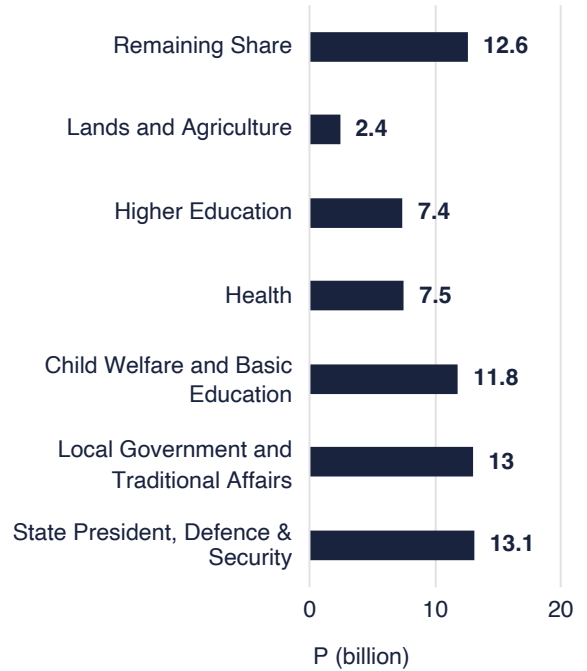


Chart 6.5b: 2026/27 Ministerial Allocation of Recurrent Budget



Source: Ministry of Finance

Debt Management

As of December 2025, total Government debt (including sovereign guarantees, Table 6.2) was estimated at P90 billion (33 percent of GDP), driven mainly by domestic debt at P56 billion (at 20.5 percent of GDP) and slightly breaching the domestic statutory limit of 20 percent), while external debt was at P34.1 billion (12.5 percent of GDP). Notably, this position may deteriorate further if the fiscal deficit continues to rise in the short-to-medium term, heightening the need to contain the risk of sovereign debt distress. Debt to GDP ratio is estimated to

reach 38.8 percent by end of 2025/26, and breach the 40 percent statutory debt limit by end of 2026/27 at 44.7 percent (Table 6.2). Meanwhile, debt sustainability continues to be challenged by revenue uncertainty, fragile mineral earnings and external shocks. Thus, the Government has reiterated its commitment to prudent debt management, enhanced monitoring of short-to-medium term debt risks maintaining capacity to meet its repayment obligations. Sustained fiscal consolidation, improved growth performance and structural diversification will be critical to stabilising the debt path over the medium term.

Table 6.2: Government Debt and Guarantees 2024/25 – 2026/27 (P million)

	2024/25	2025/26	2026/27
	Actual	Projection	Projection
<i>External Debt</i>	36 874	36 150	48 600
<i>External Guarantees</i>	4 588	4 496	4 406
Total External Debt	41 462	40 647	53 006
<i>Internal</i>			
<i>Internal Debt</i>	46 079	61 050	75 165
<i>Internal Guarantees</i>	4 085	4 004	3 924
Total Internal Debt	50 164	65 054	79 089
Grand Total	91 627	105 700	132 095
GDP for FY	262 030	272 636	295 788
Percent of GDP			
<i>External Debt & Guarantees</i>	15.8	14.9	17.9
<i>Internal Debt & Guarantees</i>	19.1	23.9	26.7
Total Debt & Guarantees	35.0	38.8	44.7

Source: Ministry of Finance

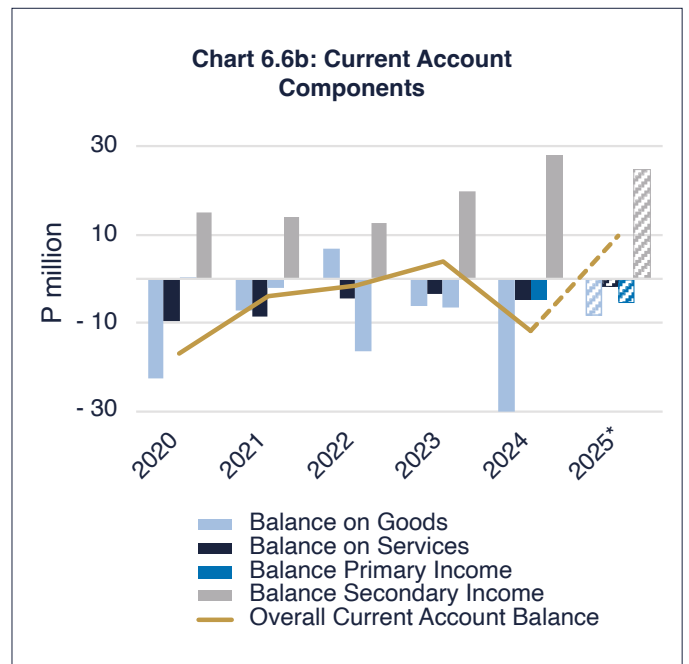
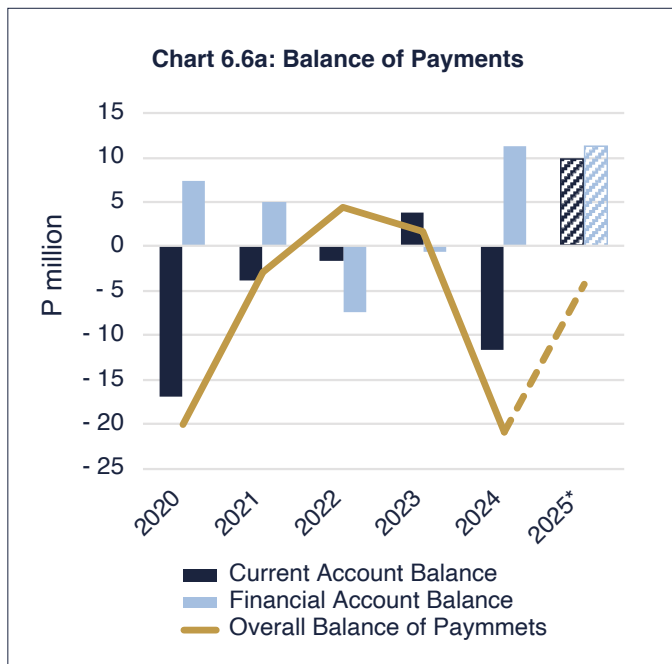
(v) External Sector Overview

Botswana's overall balance of payments was in a deficit of P4.3 billion in 2025, narrowing significantly from P20.9 billion in 2024 (Chart 6.6a). The improvement mainly reflected increased inflows from external borrowing by the Government, particularly loan disbursements from the African Development Bank and the OPEC Fund for International Development.

The current account recorded a surplus of P9.7 billion in 2025 marking a turnaround from a revised deficit of P11.7 billion in 2024 (Chart 6.6b). The improvement was largely driven by the reduction in the trade balance deficit, supported by an increase in total exports, from P63.5 billion to P74.4 billion (17.2 percent) against a decline in imports, from P93.6 billion to P82.5 billion (11.9 percent). The goods account, which registered a deficit of P8 billion in 2025 from a revised deficit of P30.1 billion in 2024, continued to be driven by diamond trade, with diamond exports rising from P44 billion to P53.9 billion during the period.

The services account recorded deficits of P4.8 billion in 2024 and P1.7 billion in 2025. The improvement was mainly attributed to higher receipts, particularly from other business services, including engineering, mining and exploration services. The primary income account recorded deficits of P4.8 billion and P5.2 billion during the same period, primarily reflecting a larger decline in investment income receipts (23.3 percent), compared with a more moderate decline in investment income payments to non-residents (10.3 percent). Dividends payments and retained earnings¹ were the major drivers of investment income. The secondary income account, largely driven by SACU receipts, continued to register surpluses, with P24.5 billion recorded in 2025. The financial account registered a net outflow of P11.4 billion, mainly due to portfolio investment flows, which comprised offshore investments in equity and debt securities by the local pension funds (Chart 6.4b) as well as loan repayments by direct investment enterprises. Despite remaining the main driver of the financial account, portfolio investment moderated from P4.8 billion in 2024 to P3.7 billion in 2025.

¹ Retained earnings by foreign-owned businesses are an imputed outflow in the income account, matched by an offsetting inflow of foreign direct investment referred to as reinvestment of earnings.

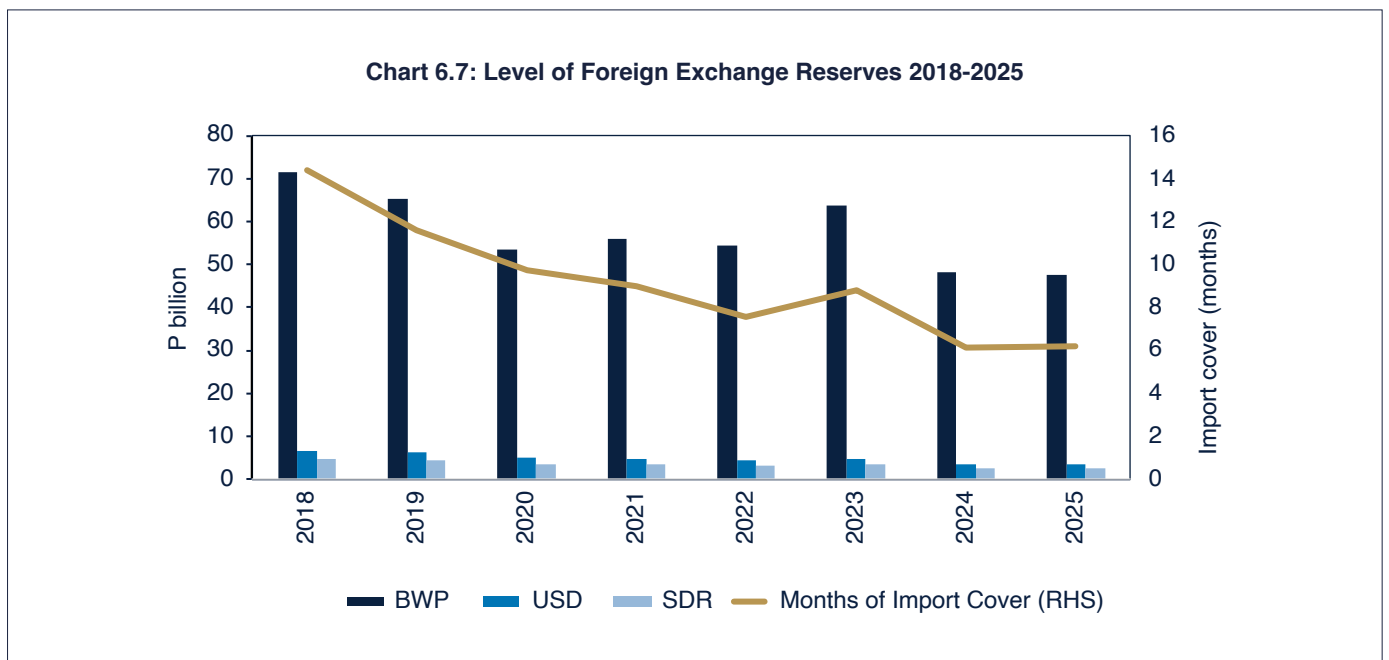


Source: Bank of Botswana

Foreign Exchange Reserves

Despite pressures from reduced export earnings, the foreign exchange reserves only declined marginally by 1.4 percent from P48.1 billion in 2024 to P47.4 billion in 2025 (Chart 6.7). The relative stabilisation of the foreign exchange reserves levels reflected a combination of measures, such as external borrowing

and policy actions such as adjustments to the exchange rate parameters to promote exports and contain imports, thereby reducing the pressure on the reserves. SACU revenues also helped to mitigate the drawdown in reserves. Import cover remained relatively stable at around 5.5 months in both 2024 and 2025.



Source: Bank of Botswana

International Investment Position (IIP)

Preliminary estimates indicate that Botswana maintained a positive net international investment position which increasing by 22.6 percent from a revised net position of P43 billion in 2024 to P52.7 billion in 2025. Foreign assets increased marginally to P198.5 billion from P195.8 billion. In contrast the stock of liabilities declined significantly to P145.8 billion from P152.8 billion largely reflecting a fall in foreign direct investment (FDI).

Composition and Diversification of External Assets

Portfolio investments held abroad increased by 4.2 percent to P91.5 billion and remained the largest component of foreign assets, accounting for 46.1 percent in 2025. These investments mainly comprise equity, debt and alternative assets held by pension funds, reflecting continued diversification across global markets. The phased implementation of revised pension fund offshore limits had a negligible impact during the year. The official foreign exchange reserves, which accounted for 23.9 percent of foreign assets, declined by 1.5 percent to P47.4 billion. Other investment assets, accounting for 25.1 percent of foreign assets, also declined due to a decrease in deposits and loan assets abroad. The stock of direct investment abroad remained unchanged at P9.8 billion during the period.

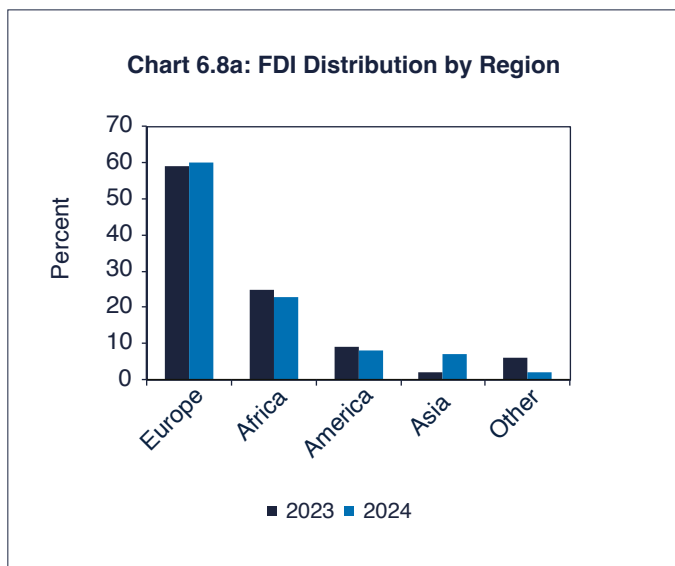
Foreign Liabilities and External Exposure

Although foreign direct investment remained the dominant component of foreign liabilities at 61.2 percent, it declined from P98 billion to P89.2 billion in 2025. The decline reflected a contraction in debt instruments, primarily due to loan repayments by direct investment enterprises. Other investment followed closely, accounting for 37.8 percent of foreign liabilities. This category, which mainly comprises foreign loans and deposits,

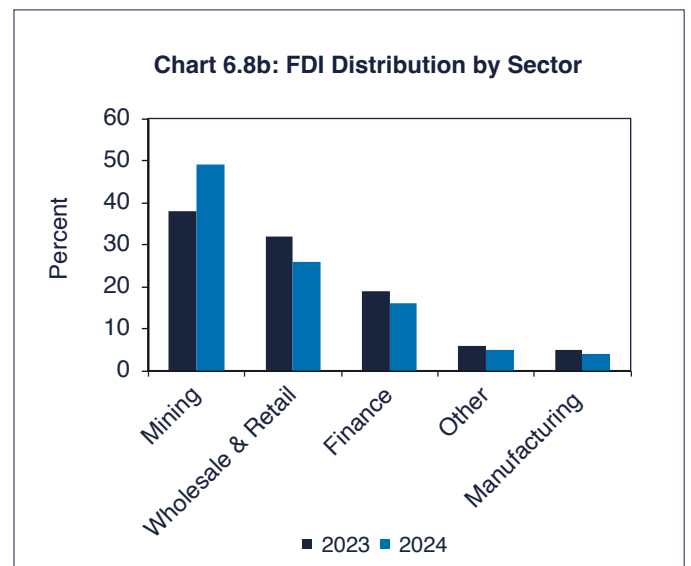
increased from P53.3 billion in 2024 to P55.1 billion in 2025. Portfolio investment and financial derivatives remained relatively insignificant components of liabilities at P1.5 billion and P12 million in 2025, respectively.

Foreign Direct Investment Stock by Geography and Industry in 2023 and 2024

Botswana’s stock of FDI increased by 12.3 percent from P87.2 billion in 2023 to P98 billion in 2024 largely reflecting growth in equity. Europe, predominantly led by the United Kingdom, remained the dominant source of FDI, accounting for about 60 percent in both periods (Chart 6.8a). From a sectoral perspective, FDI was highly concentrated in the mining sector, particularly diamond mining. Historically, the mining sector has attracted the largest share of FDI in Botswana (Chart 6.8b). In 2023 Mining accounted for 38 percent and increased to 48.8 percent in 2024. This growth was mainly attributable to capital injections associated with an expansion in mining activities. The dominance of the mining sector is further reflected in the wholesale and retail sector where diamond sorting and sales account for a substantial portion of investment. Consequently, the wholesale and retail industry were the second largest recipient of FDI, accounting for 32 percent and 26.3 percent of total investments in 2023 and 2024 respectively. Africa, primarily led by South Africa, was the second-largest source of FDI, contributing 25 percent of total FDI stock in 2023 and 23.3 percent in 2024. Investments from the region were largely concentrated in the finance and wholesale and retail sectors. The finance sector, comprising financial intermediaries and insurance companies, accounted for 19 percent of FDI in 2023 and 15.7 percent in 2024, while the manufacturing sector accounted for about 5 percent and 4 percent of FDI in 2023 and 2024, respectively. America, Asia and all other regions collectively accounted for 15 percent of total FDI, and this was spread across various industries.



Source: Ministry of Finance



Risk Considerations and Value Creation

While Botswana maintained a strong net international investment position and diversified external asset base, the decline in foreign exchange reserves in 2025 underscores rising external and fiscal vulnerabilities. Continued prudent management of foreign exchange reserves, diversification of investment portfolios, and sustained inflows of stable foreign direct investment remain critical to preserving external resilience and supporting long-term economic value creation.

(vi) *Monetary Aggregates*

Broad money supply (M2) grew by 2.9 percent in 2025, lower than the 4.8 percent recorded in the corresponding period in 2024 (Table 6.3). The expansion in money supply was mainly driven

by increased credit to the private sector, indicating continued banking sector support for economic activity, alongside a decline in both net foreign assets and government deposits at the Bank of Botswana. By component, current account (transferable) deposits and interest-bearing deposits rose by 7 percent and 1.6 percent, respectively, in 2025. Meanwhile, the ratio of money supply to GDP, a measure of financial deepening, increased slightly to 44.4 percent in the year to September 2025 from 44.2 percent in 2024, signalling a marginal improvement in financial intermediation, consistent with increased credit extension to the private and parastatal sectors.

Table 6.3: Aggregate Indicators of Depository Corporations

	Annual percentage change				
	2025	2024	2023	2022	2021
M2/GDP Financial Deepening)	44.4*	44.2	41.7	40.0	45.3
Net foreign assets	-1.1	-14.9	7.7	0.9	3.8
Net credit to government	51.7	-348.9	168.3	-4 404	84.1
Credit to private and parastatal sectors	2.4	7.9	7.5	5.7	5.0
Other items net	-3.3	-56.0	-15.6	-16.3	52.4
M1	5.8	7.9	24.5	2.0	3.8
M2	2.3	4.8	9.2	6.8	5.0
Government deposits	-55.5	-47.9	-36.8	54.7	53.8
of which at BoB	-59.3	-48.8	-37.5	55.1	54.6

Note: *As at September 2025

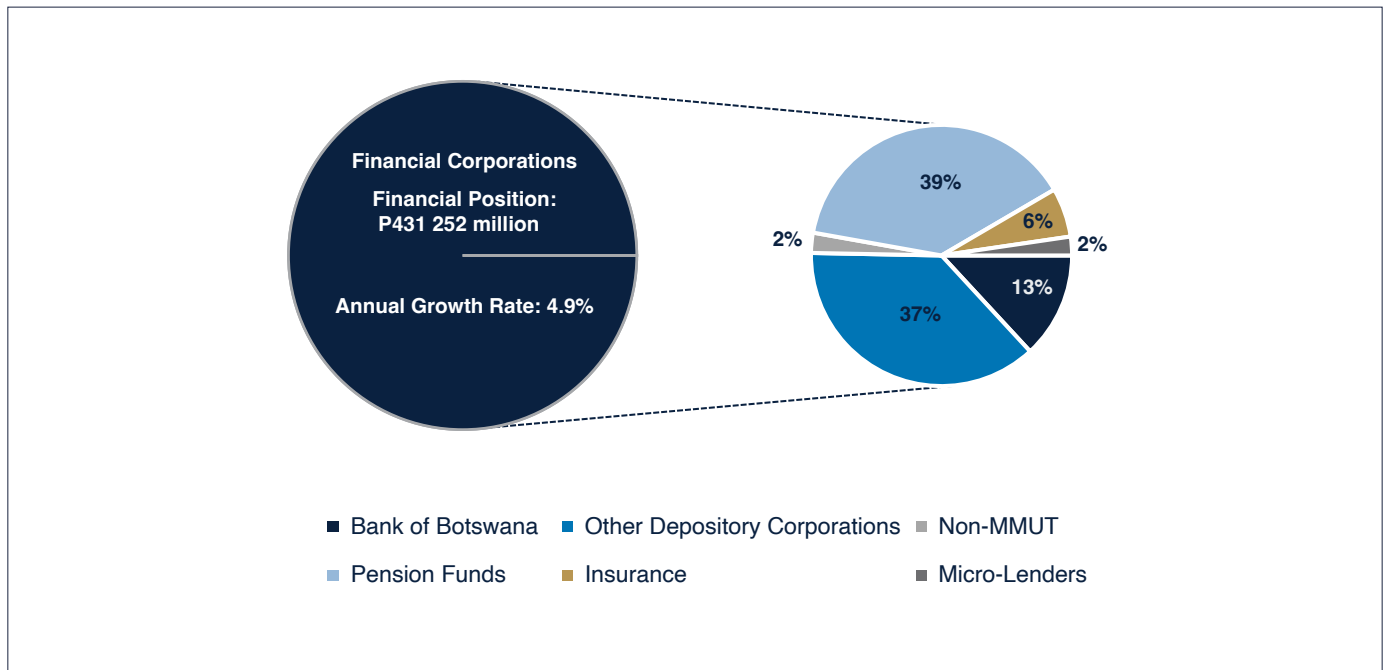
Source: Bank of Botswana and other depository corporations

Financial Corporations

The statement of financial position of the financial sector expanded by 4.9 percent, from P410.9 billion in December 2024 to P431.3 billion in 2025. The ratio of total financial sector assets

to GDP increased to 159.9 percent in September 2025, from 158.4 percent in the corresponding period of 2024, reflecting a modest deepening of the financial sector and its size relative to the overall economy (Figure 6.2).

Figure 6.2: Share of Depository Corporations and Other Financial Corporations in the Financial Sector



Source: Bank of Botswana

Depository Corporations

Total assets and liabilities of the Bank of Botswana increased by 4.5 percent, from P54.2 billion in December 2024 to P56.6 billion in December 2025. The expansion in the Bank’s statement of financial position was mainly driven by growth in the liquidity portfolio and assets held at the IMF, which increased by 235.2 percent and 3 percent, respectively. On the liability side, Bank of Botswana Certificates (BoBCs) held by banks rose by 17.5 percent, while commercial bank deposits declined by 9.1 percent, from P2.4 billion in December 2024 to P2.2 billion in December 2025.

The statement of financial position of commercial banks expanded by 1.8 percent, from P144 billion in December 2024 to P146 billion in December 2025. On the asset side, gross loans and advances, the largest component, accounting for 59.3 percent of total assets, increased by 3 percent. Holdings of BoBCs, Government treasury bills and balances in the Bank of Botswana operating account also rose by 34.1 percent, 39.5

percent and 81.3 percent, respectively. On the liability side, deposits at commercial banks and capital and reserves grew by 3.2 percent and 12.6 percent, respectively. Wholesale business deposits remained the dominant funding source, accounting for 75.4 percent of total deposits. Meanwhile, the ratio of commercial bank credit to GDP stood at 55.1 percent in September 2025, underscoring the sector’s continued role in financing economic activity.

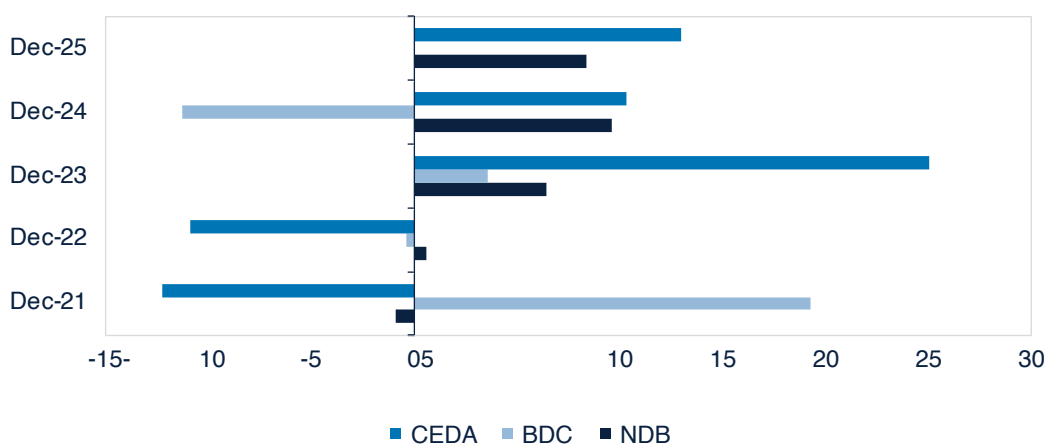
Other Financial Corporations

The statement of financial position of other financial corporations (OFCs) grew by 8 percent, from P198 billion in December 2024 to P214 billion in December 2025 (Chart 6.9). Pension funds, which account for the largest share of OFCs at 78 percent, contributed 6.2 percentage points to the annual growth, while insurance companies added 1 percentage point, and both microlenders and non-money market unit trusts (non-MMUTs) contributed 0.4 percentage points each, reflecting broad-based expansion across the sector.

The statement of financial position of the National Development Bank increased by 8.4 percent to P1.6 billion in December 2025, compared to a 9.6 percent increase in 2024, when it rose from P1.3 billion to P1.4 billion. The growth in 2025 was driven by a 14.4 percent rise in capital and reserves on the liabilities side and a 20.1 percent increase in liquid assets on the asset side. Meanwhile, the Citizen Entrepreneurial Development Agency

(CEDA) recorded stronger expansion, with its financial position rising by 13 percent to P2 billion in December 2025, from P1.2 billion in 2024. This increase was supported by a 100.7 percent rise in investments in related companies and a 20.9 percent increase in capital and reserves.

Chart 6.9: Other Financial Corporations' Annual Growth Rate



*Note: Data for BDC as at December 2025 is not available
Source: Bank of Botswana

The BSE posted strong performance in 2025. The domestic companies index rose by 9.8 percent to 11 030. Market capitalisation of domestic firms expanded by 10.7 percent to P59.8 billion, supported by broad-based share price gains. Meanwhile, the foreign companies index advanced by 15.6 percent to 3 276, reinforcing continued inflation-beating performance across listed foreign companies.

(vii) Monetary Policy Developments

Consistent with the prevailing macroeconomic environment, the Bank adopted an accommodative monetary policy stance. The Monetary Policy Rate (MoPR) was maintained at 1.9 percent at the first four MPC meetings of 2025, following a cumulative 50-basis points reduction in 2024. During the year, however, monetary policy implementation was tested by an unprecedented and persistent liquidity squeeze, underscoring the evolving challenges of policy transmission in Botswana's financial system. The liquidity shortfall was largely driven by a slowdown in government spending, reflecting the downturn in diamond revenue, following persistently weak diamond sales since the fourth quarter of 2024. Liquidity constraints

led commercial banks to compete aggressively for deposits, and wholesale deposit rates rose markedly and pushed up the prime lending rates (PLRs), thus creating a disconnect between monetary policy intentions and market outcomes.

In response, the MPC increased the MoPR by 160 basis points to 3.5 percent, while directing commercial banks not to raise their PLRs in response, to preserve credit affordability and avoid an excessive tightening of financial conditions. The policy adjustment was, therefore, a recalibration to reinforce monetary policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity. Furthermore, the policy decision complemented the adjustment of exchange rate parameters effected in July 2025, which were intended to preserve the official foreign exchange reserves and external balance.

(viii) Monetary Operations

Open market operations (OMOs) remained the primary liquidity management tool and the main instrument for implementing MPC decisions (Table 6.4). BoBCs were used to absorb excess

liquidity and maintain short-term interest rates consistent with the monetary policy stance. In 2025, OMOs were conducted in an environment of relatively low excess liquidity, driven by foreign exchange outflows and slower government spending amid weak diamond revenue.

Despite these tighter conditions compared to previous years, the banking sector remained resilient, supported by adequate capital buffers and sound asset quality. Outstanding BoBCs increased to P2.51 billion in December 2025 (Chart 6.10) from P1.2 billion in December 2024.

However, commercial banks' funding sources remained unevenly distributed and highly concentrated in large, and often volatile, corporate and asset manager deposits. This intensified competition for wholesale funding, contributed to higher deposit interest rates and increased overall funding costs. Commercial banks raised prime lending rates by a range between 75 to 175 basis points in 2025, reflecting higher funding costs. Consequently, the average PLR increased from 6.01 percent in December 2024 to 7.22 percent in December 2025.

In response to rising funding costs and persistent liquidity pressures, the MPC progressively extended repurchase

agreements (repos) maturities from overnight to seven days, then one month and, ultimately, up to three months. This was aimed at supporting commercial banks in better aligning the maturity structure of their liabilities and assets, thereby reducing rollover risk and mitigating short-term liquidity pressures. Longer-dated repos were positively received as a more cost-effective and predictable funding option.

In addition, the MPC reduced the Credit Facility (CF) rate from 9.9 percent (800 basis points above the MoPR) to 6.5 percent (300 basis points above the MoPR) to discourage precautionary liquidity holding and encourage interbank activity.

Commercial banks utilisation of the CFs declined significantly to P30.5 million in December 2025 compared to P230 million in December 2024. Outstanding repos decreased to P507 million at the end of December 2025 compared to P4.148 billion at the end of December 2024, indicating an improvement in liquidity. Meanwhile, balance held in the Standing Deposit Facility (SDF) declined to P1.954 billion at the end of December 2025 compared to P2.344 billion the prior year.

Table 6.4: Open Market Operations Performance

2025 OMO instrument position/usage	Relative to 2024
Outstanding BoBCs	↑
Total CFs accessed	↓
Repos accessed	↓
Outstanding SDF	↓

Source: Bank of Botswana

(ix) *Government Securities*

The Government Bond Programme remained an important alternative source of funding amid the constrained fiscal environment. In the first half of 2025, demand for Government securities was subdued, as investors required relatively high yields owing to tight market liquidity and elevated funding costs. Auctions were undersubscribed resulting in low allocations, and the inaugural inflation-linked bond auction in March

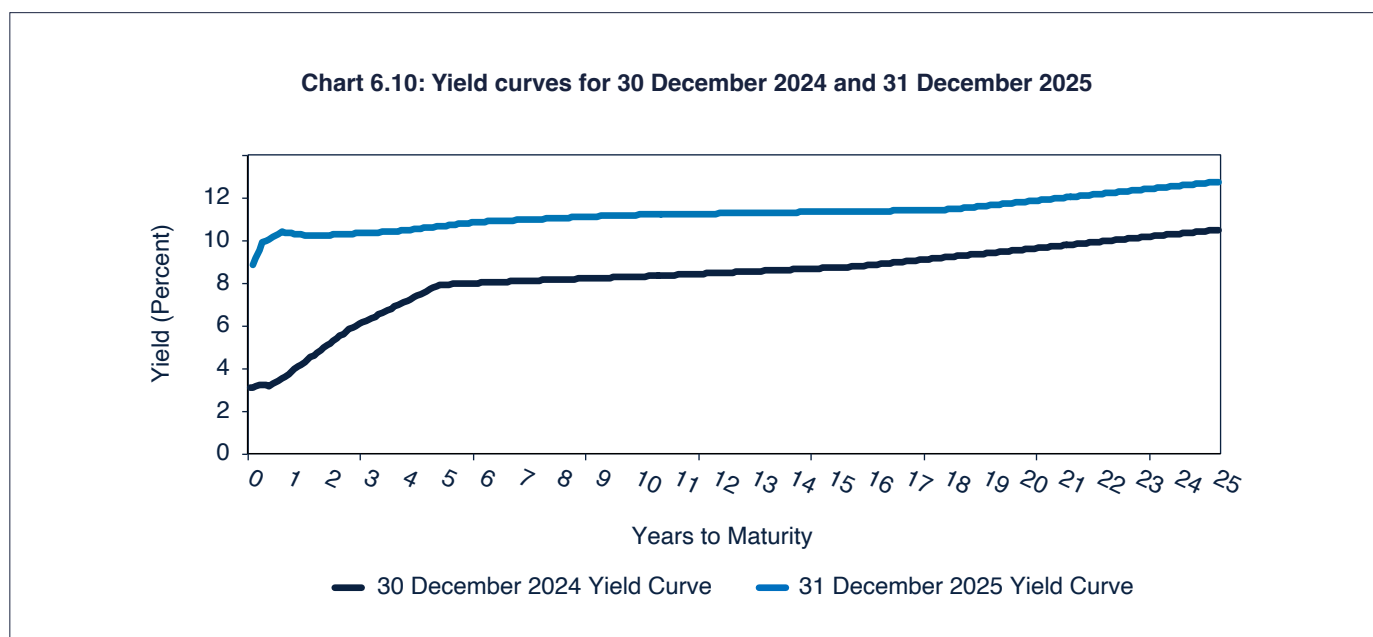
2025 was unsuccessful. In response, the Ministry of Finance and the Bank of Botswana engaged stakeholders to improve uptake and enhance transparency in debt management. An inaugural domestic investor roadshow was held in September 2025 to strengthen dialogue on macroeconomic developments, public finances, debt strategy, monetary policy, and the bond programme, with the aim of boosting investor confidence and deepening domestic financial markets.



Subsequently, auctions outcomes improved markedly, with stronger demand, and yields increasing across the maturity spectrum. The October 2025 auction introduced a new 25-year benchmark, which attracted robust investor demand. Outstanding Government bonds and T-Bills increased to P45.69 billion by the end of 2025, from P41.2 billion in December 2024, equivalent to 16.79 percent of GDP. At year-end, Primary Dealers held P19.32 billion (42.28 percent) and their customers held P26.37 billion (57.72 percent) of total Government securities.

in December 2024. The chart indicates a broad upward shift of the entire curve over the review period, with yields increasing across both the short and long ends, and a modest steepening at longer maturities. Yields at the short end increased more sharply, reflecting tighter domestic liquidity conditions, higher marginal funding costs for banks, and the sustained reliance on wholesale and volatile corporate deposits as primary funding sources. At the long end of the curve, yields increased more gradually, reflecting a combination of higher term premia and a higher liquidity premium demanded by investors in an environment of constrained market liquidity.

Chart 6.10 compares the yield curves for Treasury Bills and Government bonds as of December 2025 with those prevailing



Source: Bank of Botswana

(x) *Monetary Policy Authority*

The MPC operates under Section 19A of the Bank of Botswana (Amendment) Act, 2022, and is responsible for formulation of monetary policy, implementation of exchange rate policy,

and issuance of monetary policy instruments. The Committee comprises nine members and meets six times annually. Its decisions are communicated through public press releases, reinforcing transparency and accountability.

Table 6.5: MPC Meetings

MPC Members	MPC Meeting Date	MPC Decision	Post meeting Publications
<i>Internal Members</i>	20 February 2025	The MPC maintained the MoPR at 1.9 percent.	Press Release Monetary Policy Statement
Mr Cornelius K Dekop (Governor & Chairman) Dr Kealeboga S Masalila (Deputy Governor) Mr Lesego C Moseki* (Deputy Governor)	17 April 2025	The MPC maintained the MoPR at 1.9 percent.	Press Release Monetary Policy Report (MPR)
Ms Baitshenotse N Mmopelwa (Director, Financial Markets Department) Mr Innocent Molalapata Director, (Research and Financial Stability Department)	19 June 2025	The MPC The MPC maintained the MoPR at 1.9 percent.	Press Release
	21 August 2025	The MPC maintained the MoPR at 1.9 percent.	Press Release MPR
<i>External Members</i>	30 October 2025	The MPC increased the MoPR by 160 basis points to 3.5 percent.	Press Release MPR
Dr Pinkie G Kebakile Dr Onkokame Mthobi Dr Taufila Nyamadzabo Professor Patricia Makepe	4 December 2025	The MPC maintained the MoPR at 3.5 percent.	Press Release

*Mr Lesego Caster Moseki was appointed Governor in November 2025

(xi) *Investment Grading*

Botswana continues to show resilience in its macroeconomic and institutional framework, with sovereign ratings remaining firmly within the investment grade category. In 2025, Moody's adjusted the rating downwards to Baa1 and S&P to BBB, both with negative outlook, while affirming strong short-term ratings.

The revisions mainly reflect pressures from the diamond sector. However, Botswana's disciplined policies, strong institutions and commitment to diversification continue to anchor stability looking ahead. Improved traction in fiscal consolidation and economic transformation, together with a recovery in diamond markets, could support a strengthening of the sovereign credit profile.

(b) Economic Prospects and Monetary Policy Stance

(i) Economic Growth Prospects

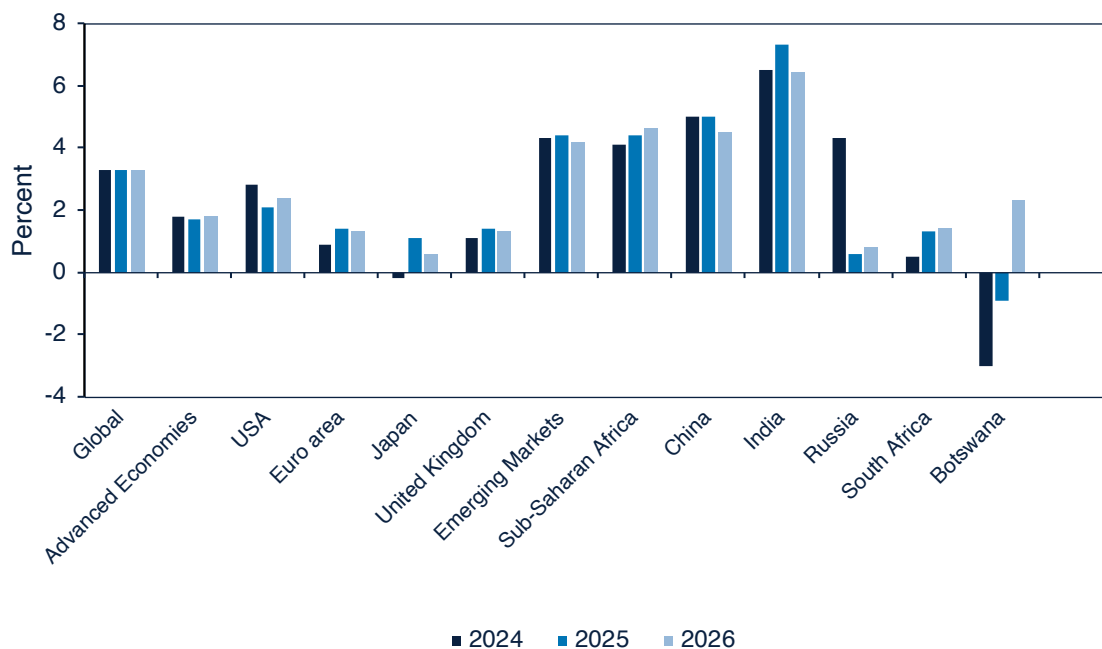
Global economic growth is forecast to remain subdued at 3.3 percent in 2026, unchanged from 2025 (Chart 6.11). The modest outlook reflects policy uncertainty, geopolitical fragmentation and sluggish global trade, which may disrupt supply chains and weaken efficiency gains associated with international economic integration. In addition, elevated public and private debt levels, together with weak productivity growth, are likely to constrain consumption and dampen investment across both advanced and emerging market economies.

Growth in advanced economies is projected to increase marginally from 1.7 percent in 2025 to 1.8 percent in 2026. Meanwhile, growth in the United States is forecast to increase from 2.1 percent in 2025 to 2.4 percent in 2026, supported by lower effective tariff rates, fiscal expansion and easing financial conditions. For the United Kingdom, economic activity is expected to moderate from 1.4 percent in 2025 to 1.3 percent in 2026, owing to tight fiscal policies and weak business investment. In the euro area, growth

is expected to slow down from 1.4 percent in 2025 to 1.3 percent in 2026, influenced mainly by elevated uncertainty and higher tariffs.

For emerging markets and developing economies, growth is expected to decrease slightly from 4.4 percent in 2025 to 4.2 percent in 2026. Annual GDP growth in China is expected to moderate from 5 percent in 2025 to 4.8 percent in 2026 against the backdrop of trade policy uncertainty and structural headwinds. Meanwhile, in India, GDP growth is forecast to moderate from 7.3 percent in 2025 to 6.4 percent in 2026, with exports expected to face headwinds from US tariffs and sluggish global demand. Overall, risks to the global economic outlook are assessed to be on the downside. These include, prolonged policy uncertainty, which could hamper consumption and investment, and further escalation of protectionist measures which could disrupt supply chains and stifle productivity. In addition, worsening fiscal vulnerabilities and financial markets fragilities could threaten financial stability. Notably, the global growth forecast for 2026 remains below the historical (2000 – 2019) annual average of 3.7 percent.

Chart 6.11: Global Growth Estimates and Forecasts 2024 - 2026



Source: IMF WEO Update January 2026

Domestically, the Ministry of Finance projects real GDP growth to rebound to 3.1 percent in 2026 (IMF projects 2.3 percent), from an estimated contraction of 0.4 percent in 2025. The anticipated recovery reflects expected improvement in diamond market conditions and the gradual impact of structural reforms. Nonetheless, growth is projected to remain below estimated potential in the near term, underscoring the need to accelerate productivity-enhancing reforms and private sector development.

(ii) Inflation Prospects

Global inflationary pressures are projected to moderate further in 2026, in response to the slower pace of monetary policy easing implemented in 2024, which kept interest rates at relatively high levels, as well as the anticipated lower food and oil prices. In addition, the expected decrease in inflation is due to the anticipated broad-based decrease in core inflation across regions. Thus, inflation for advanced economies is forecast to ease from 2.5 percent in 2025 to 2.2 percent in 2026, while for emerging market economies, it is forecast to decrease from 5.2 percent to 4.8 percent in the same period. Consequently, global inflation is expected to ease from 4.1 percent in 2025 to 3.8 percent in 2026.

Domestic Inflation Dynamics

Inflation Outlook



Headline inflation in Botswana is expected to remain within the inflation objective range of 3 – 6 percent over the medium term. However, upside risks persist, mainly from rising global commodity prices, supply-side constraints and potential increases in administered prices. Conversely, downside risks arise from weaker domestic and global economic activity, as well as a fall in international commodity prices.

Inflation is projected to be within the objective range of 3 - 6 percent in the medium term

Domestic inflation is forecast to rise in the near term but remain within the 3 – 6 percent objective range into the medium term, supported by stabilising exchange rate dynamics and prudent monetary policy management. The anticipated increase is due

to a combination of cost-push pressures, second-round effects and base effects associated with adjustments in administered prices. The earlier adjustment of exchange rate parameters is also assessed to contribute marginally to the expected increase in inflation, given the high import intensity of the Botswana economy, although the direct market response to that adjustment is considered to have largely been absorbed.

The projection also considers the maintenance of the Pula currency basket weights and the downward rate of crawl of 2.76 percent for 2026, as well as the relatively low projections for trading partner countries' inflation and international commodity prices. According to the December 2025 Business Expectations Survey, firms expect inflation to remain within the objective range in 2026, implying that inflation expectations are well anchored. These developments provide policy space to maintain a supportive monetary policy stance, ensuring that price stability is preserved, while facilitating economic activity and competitiveness under the ongoing economic transformation agenda.

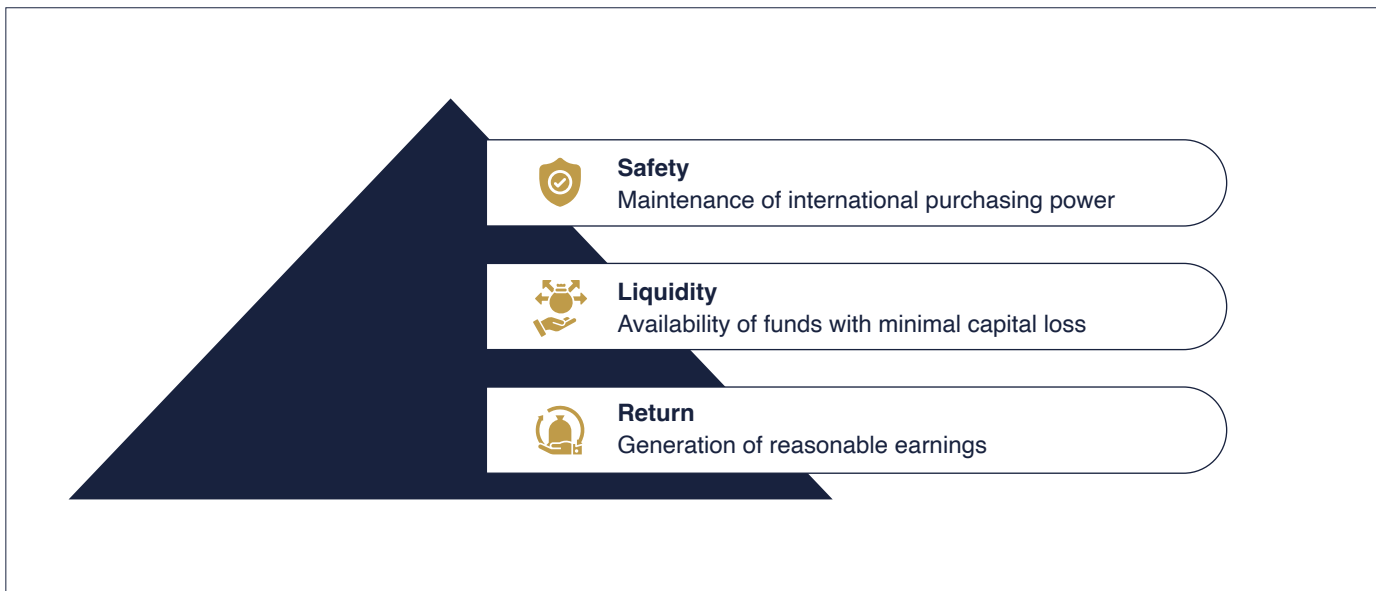
Outlook and Value Creation

The accommodative monetary policy stance and liquidity support measures implemented in 2025 are expected to bolster economic recovery, support the transmission of monetary policy, and enhance financial system stability. The Bank will continue to respond proactively to changes in banking system liquidity conditions using relevant instruments, thereby guiding the determination of market interest rates to ensure effective transmission of the monetary policy stance. It will also support the development and functioning of the interbank market to address individual banks' liquidity positions. Furthermore, the Bank will continue to promote financial stability through prudential and market conduct supervision of commercial and statutory banks, as well as through coordinated regulation of the broader financial system. These measures, alongside prudent management and productive allocation of financial resources are designed to facilitate growth-supporting financial intermediation, while safeguarding the resilience of the banking sector. This outlook underscores the need for a carefully calibrated monetary policy stance that balances support for economic recovery with the maintenance of price and financial stability.

(c) Foreign Exchange Reserves Management

The investment objectives for the management of foreign exchange reserves are clearly articulated in the Foreign

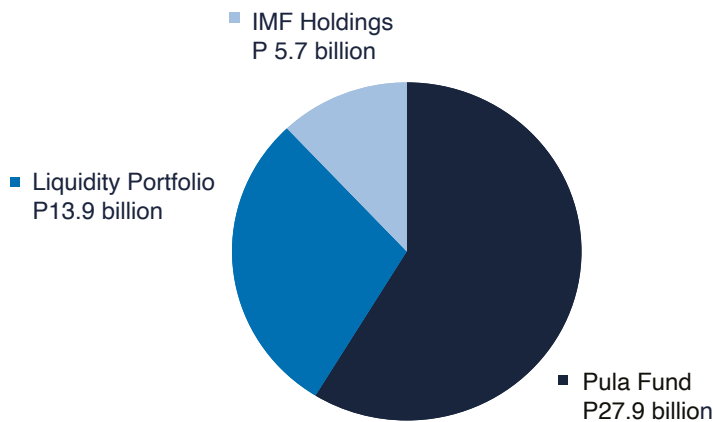
Exchange Reserves Management Policy as approved by the Board. These objectives are defined as safety, liquidity and return.



The foreign exchange reserves are tranchised into two portfolios, the Liquidity Portfolio (LP) and the long-term portfolio, Pula Fund (PF). The LP is further divided into the Liquidity Investment Tranche (LIT) and Transaction Balances Tranche (TBT).

These tranches are managed prudently, with investments in a diversified pool of high-quality financial instruments traded in liquid and developed global markets (Chart 6.12).

Chart 6.12: Foreign Exchange Reserves Tranche

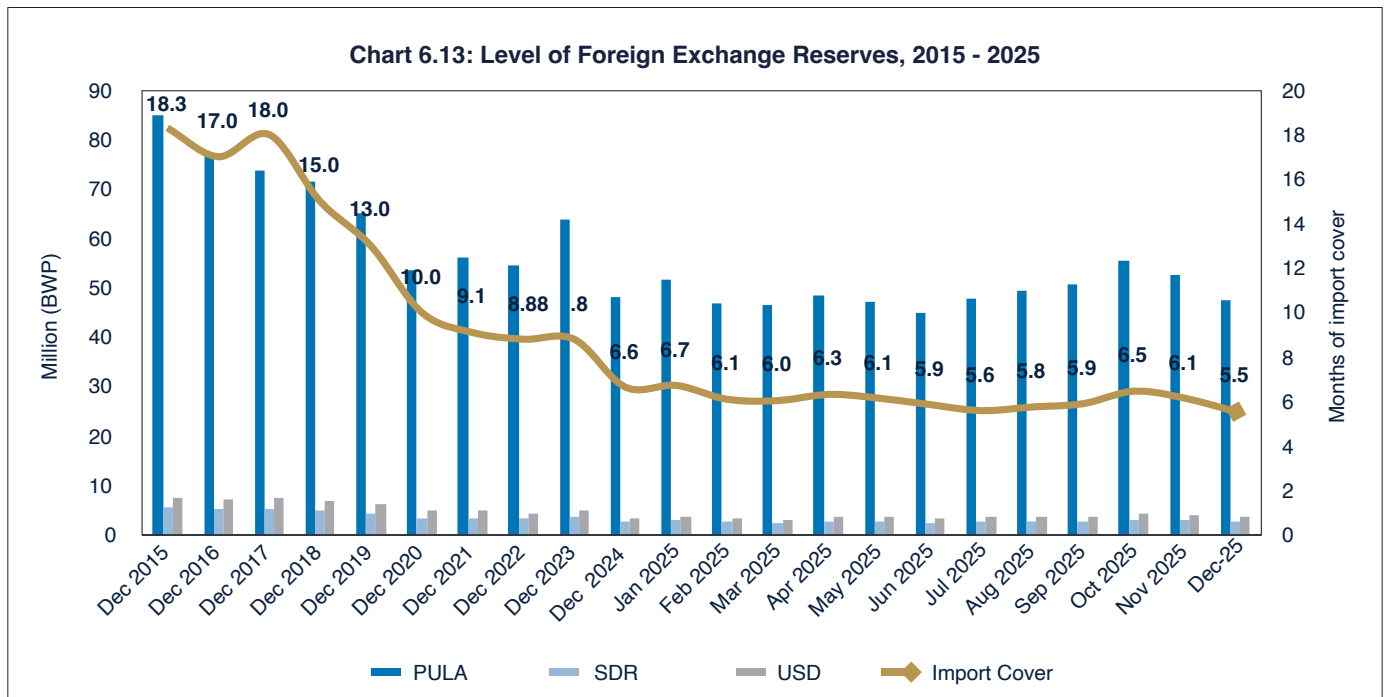


The approved strategic asset allocation (SAA) in the LIT is 35:55:10 for equities, bonds and high yield. The PF has its SAA as 60:20:10:10 across equities, bonds, high-yield and unlisted infrastructure. However, during the year, implementation of the investment policy continued to be disrupted by the significant and frequent drawdown from the TBT, which shifted the strategic focus towards liquidity management.

Trends in the Level of Foreign Exchange Reserves

The level of foreign exchange reserves decreased by P0.7 billion from P48.1 billion in December 2024 to P47.4 billion in December 2025, translating into 5.5 months of import cover (Chart 6.13). The reduction was mostly driven by elevated outflows, which outpaced inflows. The increase in outflows were driven by the

need to meet import payments (sales to commercial banks to meet customer demand and possibly for their own account) and foreign exchange requirements by the Government. Inflows on the other hand, were supported by SACU receipts, whereas diamond revenue remained subdued, albeit increasing somewhat compared to 2024. Additionally, the Government embarked on external borrowing for budget support. During the year, withdrawals were made from the long-term fund, the PF, to replenish balances in the LP. Consequently, the level of foreign exchange reserves in the PF fell from P37.4 billion in December 2024 to P27.9 in December 2025. In terms of market returns, the two portfolios performed positively, reflecting strong financial markets performance during the year. Total investments in both the LP and PF generated market return of 11.3 percent in 2025.



Source: Bank of Botswana

The PF, which is invested in high return assets recorded strong market gain of 14.3 percent, mainly reflecting robust equity market performance during the year. Bond markets also recorded strong returns during the year, although below those of equity markets. Overall, equity portfolios within the PF returned 23.2 percent while bond portfolios increased by 6 percent.

Global overview

The Global economy was resilient in 2025. The IMF estimated growth of 3.3 percent for 2025 and projected the same pace of growth to be sustained in 2026. Business investment in the technology sector, especially AI and support from fiscal and monetary policies were anticipated to compensate for the economic drag brought about by shifting trade policies and

elevated geopolitical risks. Global equities delivered double digits returns in 2025, with the MSCI world index increasing by 21.1 percent, buoyed by robust corporate earnings and investment in AI. Global bond markets performance was, similarly, robust, supported by the disinflation environment that enabled a round of interest rate cuts by central banks. Bloomberg Global Government and Aggregate bond indices rose 6.8 percent and 8.0 percent, respectively.

North America

The US economy is estimated to have grown by 2.1 percent in 2025, mainly supported by AI-driven technology investments and strong consumer spending. This trend is broadly expected to continue into 2026, despite headwinds from uncertain tariff

and foreign policies. The dominant driver of US equities has been the technology sector, supported by optimism around AI productivity gains. The US equity index, S&P 500 increased by 16.4 percent, while those of Canada and Mexico grew by 29.4 percent and 29.5 percent, respectively. Both Mexico and Canada faced challenging macro-economic backdrop during the year, mainly reflecting trade tariffs uncertainty. Bond markets also delivered strong market gains during the year as the Fed cut interest rates, amidst a softening labour market, although inflation showed signs of stickiness.

Europe

European economies remained resilient in 2025 supported by stronger-than-expected consumer demand, business investment and higher government spending despite uncertainty from trade tariffs and the protracted conflict between Russia and Ukraine. Growth was mainly driven by the services sector, underpinned by resilient demand and improving real wages. The flagship equity index, STOXX 600 index, grew by 16.8 percent while European bonds also benefitted from a disinflationary background and easing monetary policy by the European Central Bank (ECB).

Asia/Pacific and emerging markets

Asian economies performed strongly during the year, albeit with notable divergence. Beneficiaries of supply-chain relocation, especially Southeast Asia and India offset softer performance in some commodity-reliant economies. China grew by 5 percent, achieving its growth target for the year. The main reason for this resilience has been the front-loading of exports, with exporters accelerating shipments before implementation of trade tariffs by the US. The MSCI index for emerging markets increased by 30.6 percent, outperforming the developed markets.

In terms of international currency markets, the US dollar (USD) experienced a broad-based depreciation, which was triggered by the abrupt change in US trade policy towards almost all its trading partners. The introduction of global trade tariffs in April 2025, threatened global growth and weakened the appeal of the USD, with the USD index (DXY)² falling by 9.2 percent during the year. Nonetheless, this USD decline provided broad support to emerging market currencies and respective assets.

Overall, developments in foreign exchange reserves reflect ongoing external sector pressures, underscoring the importance of continued prudent reserve management and supportive macroeconomic policies.

(d) Financial Stability

In 2025, Botswana's financial system remained resilient, sound, and capable of supporting economic growth, underpinned by strong capital, liquidity buffers, and profitability in banks, alongside accommodative macroeconomic conditions. However, risks increased amid persistent domestic and global pressures persist. Domestic economic activity remained subdued. Real GDP grew by 0.1 percent in the 12 months to September 2025 and is estimated to have contracted by 0.4 percent in 2025, mainly due to the prolonged downturn in the diamond industry. To address fiscal challenges, the Government has introduced austerity measures, such as travel and overtime restrictions, centralised procurement, and wage bill controls, while advancing the BETP to diversify into tourism, agriculture, manufacturing and digitalisation. These steps are critical for long-term resilience and highlight the need for a financial system that can withstand shocks and support economic transformation.



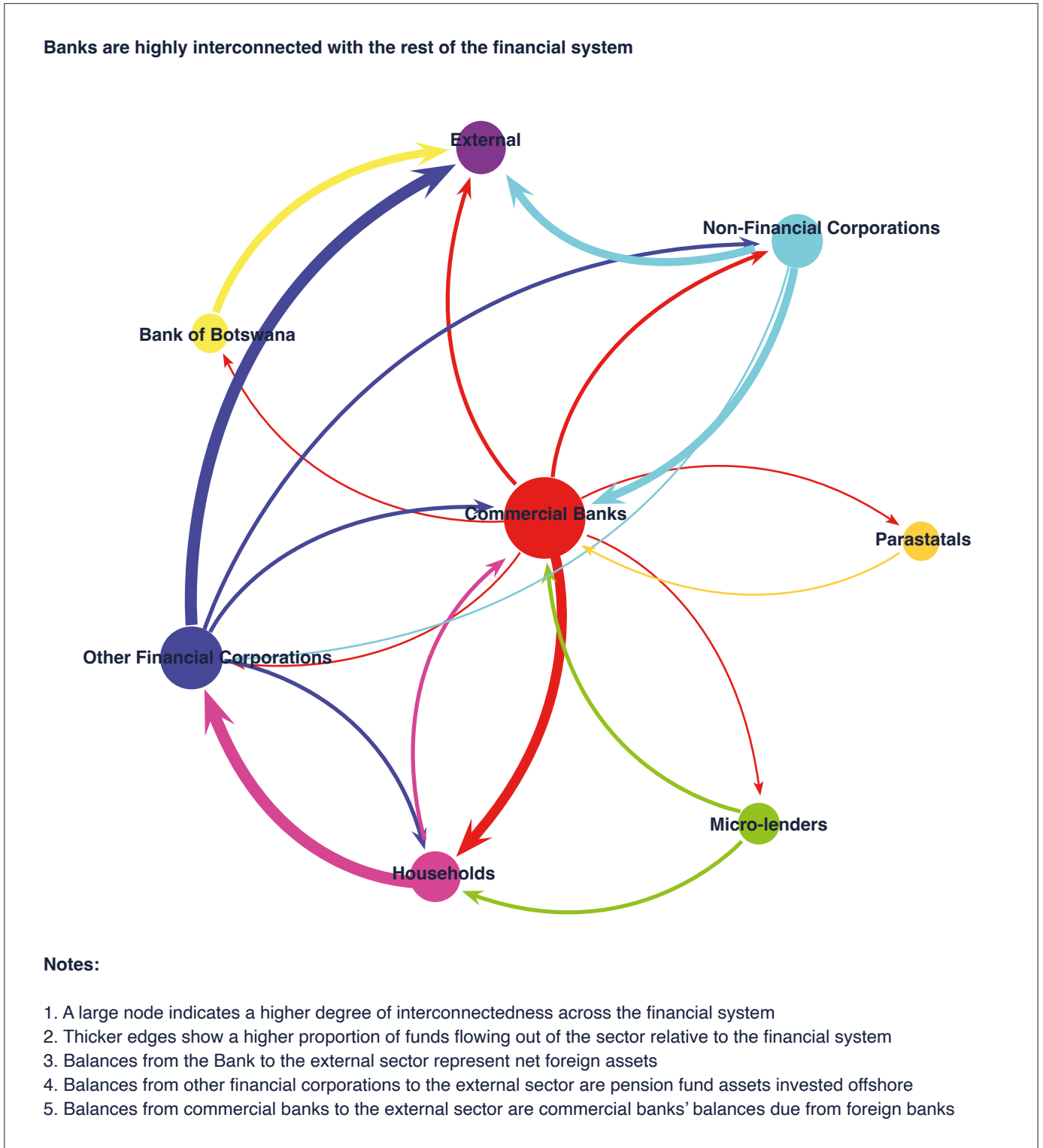
A financial system refers to a set of institutions and practices that facilitate and allow for the exchange of funds between borrowers, lenders and investors. These include commercial banks; NBFIs, such as microlenders, insurance companies, stockbrokers, fund managers; and related

The Bank collaborates and shares information on policy and other related issues with other institutions through the FSC to strengthen the financial system, mitigate financial stability risks, and enable timely responses to emerging systemic vulnerabilities.

In 2025, vulnerabilities in Botswana's financial system increased, reflecting rising sovereign and fiscal risks, subdued economic growth, reduced external buffers, and continued weakness in the diamond market. The FSC highlighted that constrained fiscal space, liquidity distribution challenges, and pressure on foreign-exchange reserves have tightened financial conditions and elevated macro-financial risks. Stress in the mining sector compounded these pressures, contributing to weaker government revenues and amplifying risks for financial institutions with concentrated exposures. In addition, the FSC noted heightened sectoral vulnerabilities and strong interlinkages across banks and non-bank financial institutions, increasing the potential for contagion risk to transmit across the sectors, amplifying systemwide vulnerabilities (Figure 6.3).

² The DXY is an index that tracks how the USD performs against six major currencies. These include the EUR, JPY, GBP, CAD, SEK and CHF.

Figure 6.3: Financial Sector Inter-linkages (December 2025)



Source: Bank of Botswana

Despite these headwinds, the overall financial system remained sound and resilient, supported by adequate capital buffers, sufficient liquidity, and sustained profitability in both the banking and non-bank sectors. Macroprudential indicators, including a low non-performing loan ratio and a negative credit-to-GDP gap,

continued to signal contained systemic risk. Consequently, no macroprudential policy interventions were deemed necessary, although continued vigilance and strengthened supervisory oversight remain essential.

Financial Stability Council

The FSC, established under the Bank of Botswana (Amendment) Act, 2022, is the apex body overseeing financial stability in the country. It comprises five members (Ministry of Finance, Bank of Botswana, Non-Bank Financial Institutions Regulatory Authority, Financial Intelligence Agency and Deposit Insurance Scheme of Botswana), chaired by the Governor, with the CEO of the Botswana Stock Exchange (BSE) as a non-voting observer. The FSC meets biannually, or more often if needed, to monitor systemic risks, coordinate policy responses, manage crises, and issue recommendations or warnings to regulatory bodies to preserve financial system stability.

Following each meeting of the FSC, a press release is issued, the Council's assessment of domestic financial stability and is complemented by the publication of the Financial Stability Report.

(e) Exchange Rate Policy

Exchange Rate Developments

The exchange rate policy continued to support the competitiveness of domestic industries by maintaining a stable real effective exchange rate (REER) of the Pula against a basket of currencies of major trading partner countries. In 2025, the Bank's implementation of the exchange rate policy entailed the revision of the Pula basket weight to equal weights of 50 percent each for the South African rand (ZAR) and the IMF's SDR, reflecting Botswana's trade pattern and financial linkages with the external sector, compared to the previous weights of 45 percent for the rand and 55 percent for the SDR, which had been in place since January 2017.

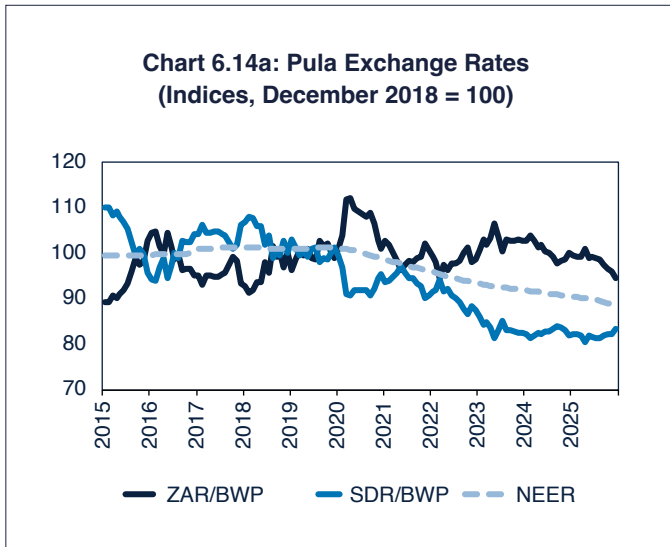
Consistent with the objective of preserving REER stability, an annual downward rate of crawl of 1.51 percent was maintained in January 2025, followed by a further adjustment to an annual downward rate of crawl of 2.76 percent effected on 11 July 2025, to enhance domestic industry competitiveness. Furthermore, the Pula trading margins between the buy and sell rates were widened from ± 0.125 per cent to ± 0.5 per cent, effective January 2025, to enhance currency flexibility. Effective 11 July 2025, the Pula trading margins were further widened from ± 0.5 per cent to ± 7.5 percent to encourage the development of an active interbank foreign exchange market and to reduce commercial banks' reliance on the Bank for foreign currency

transactions, thereby helping to preserve the foreign exchange reserves held by the Bank.

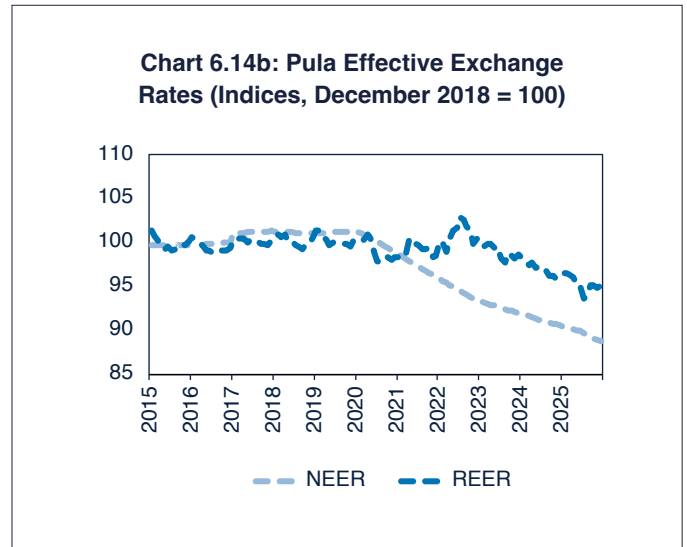
Performance and Outcomes

The NEER depreciated by 2.1 percent in line with the policy crawl. Bilaterally, the Pula depreciated against most major international currencies, including the SDR, British pound, euro, US dollar, and Chinese renminbi, while appreciating against the South African rand and the Japanese yen. The movement of the Pula against the SDR constituent currencies largely mirrored the performance of the South African rand against the SDR constituent currencies. The South African rand performed strongly against the SDR constituent currencies in 2025, supported by its investor linked demand as gold and other precious metals prices increased amid escalating geopolitical tensions and heightened global trade uncertainty.

In real terms (using headline inflation), the Pula exchange rate depreciated by 5.4 percent against the South African rand and appreciated by 3.3 percent against the SDR in the year to December 2025. The REER depreciated by 1.1 percent in the review period, as the depreciation of the NEER more than offset the slightly higher inflation in Botswana relative to its trading partner countries. This outcome suggests marginal improvement in the international competitiveness of domestic firms, by this measure (Charts 6.14a and 6.14b).



Source: Bank of Botswana



Sustainability Considerations and Resilience

Central to the operationalisation of the exchange rate framework is the availability of adequate foreign exchange reserves. These reserves serve as a critical buffer, enabling the Bank to absorb external shocks and maintain exchange rate stability. The reserve position, however, has been deteriorating over time, reflecting subdued export earnings and limited diversification of the export base, thus posing a challenge to the sustainability of the country’s exchange rate framework. Since 2023, diamond exports have been adversely affected by weak global demand, particularly from China, together with structural changes in the global diamond market, including the growing adoption of lab-grown diamonds. These factors underscore the importance of maintaining a flexible and rules-based exchange rate framework that supports macroeconomic stability while absorbing external shocks.

Outlook and Value Creation

While exchange rate adjustments contributed to modest gains in external competitiveness, sustainable improvements in competitiveness depend primarily on productivity enhancements and structural reforms that support efficiency, innovation, and cost containment. Continued alignment of exchange rate policy with inflation and productivity dynamics remains essential for long-term value creation and price stability.

(f) Currency Management

Strategic Purpose and Context

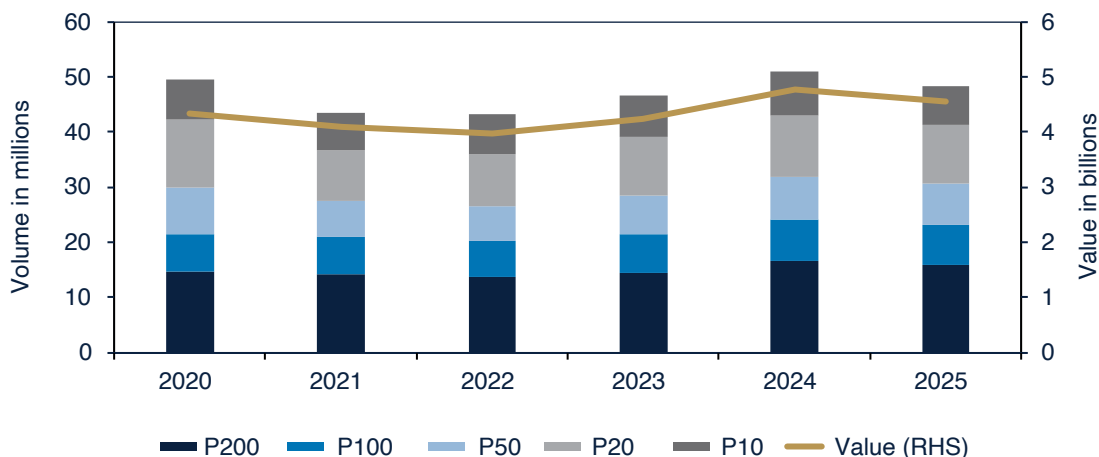
Currency management ensures the continuous availability of high-quality banknotes and coin, and support efficient payments, economic activity, and public confidence in the national currency. The integrity of the Pula and Thebe remains central to trust in the monetary system and smooth circulation of cash within the economy.

During the year, the Bank fulfilled its statutory mandate of issuing and maintaining the national currency, ensuring adequate supply, quality and public confidence. This was achieved through automated and advanced currency processing systems that ensure compliance with the Clean Banknotes and Coin Policy.

Currency Issuance and Circulation

The number of banknotes in circulation decreased by 5.4 percent from 51 million in December 2024 to 48.3 million in December 2025. Consequently, the total value of banknotes in circulation decreased by 4 percent from P4.8 billion to P4.6 billion in the same period. The net issuance of the P200, P100, P50, and P20 denominations increased by 1.2 percent, 1.7 percent, 2.7 percent and 0.5 percent, respectively, while net issuance with respect to the P10 denomination decreased by 7.4 percent. Overall, there was a decrease in the use of cash for payments in 2025 compared to 2024. The P200 denomination continued to have the highest share of total issuance at 33 percent, followed by P20 (22.2 percent), P50 (15.5 percent) P100 (14.7 percent) and P10 (14.3 percent) (Chart 6.15).

Chart 6.15: Volume and Value of Banknotes in Circulation 2020 - 2025

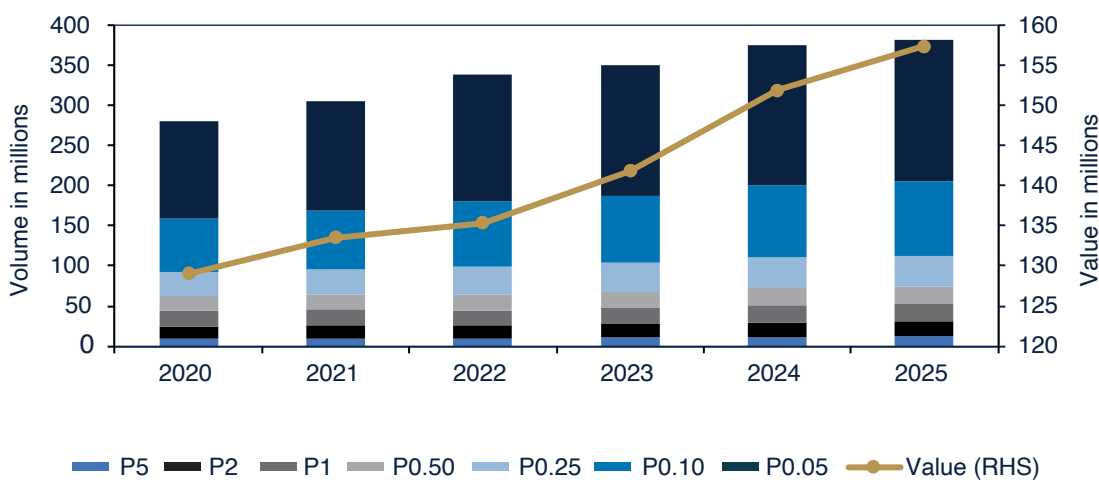


Source: Bank of Botswana

The total net issuance of coin denominations increased by 1.5 percent from P375 million in 2024 to P381 million in 2025. This led to a 3.6 percent increase of the value of coin in circulation from P152 million to P157 million in 2025. The 5 thebe and 10

thebe denominations had the highest share of total coin net issuance at 46.1 percent and 24.5 percent, respectively (Chart 6.16).

Chart 6.16: Volume and Value of Coin in Circulation 2020 - 2025



Source: Bank of Botswana

Operational Performance and Outcomes

During the year, the Bank ensured an adequate supply of banknotes and coin to meet transactional demand. This was achieved through effective forecasting, inventory management, and adherence to established re-order stock and minimum stock levels in line with the Bank’s currency management formula. These measures ensured uninterrupted access to cash across the economy. The Bank continued to withdraw soiled and damaged currency from circulation and replaced it with banknotes and coin of acceptable quality, thereby maintaining high standards of currency fitness and usability.

Risk Management and Governance

Robust standards and controls were applied across the design, production, storage, distribution, and destruction of currency to safeguard integrity and mitigate counterfeiting risks. These controls ensured accountability, security, and compliance with established policies and procedures.

Value Creation and Public Confidence

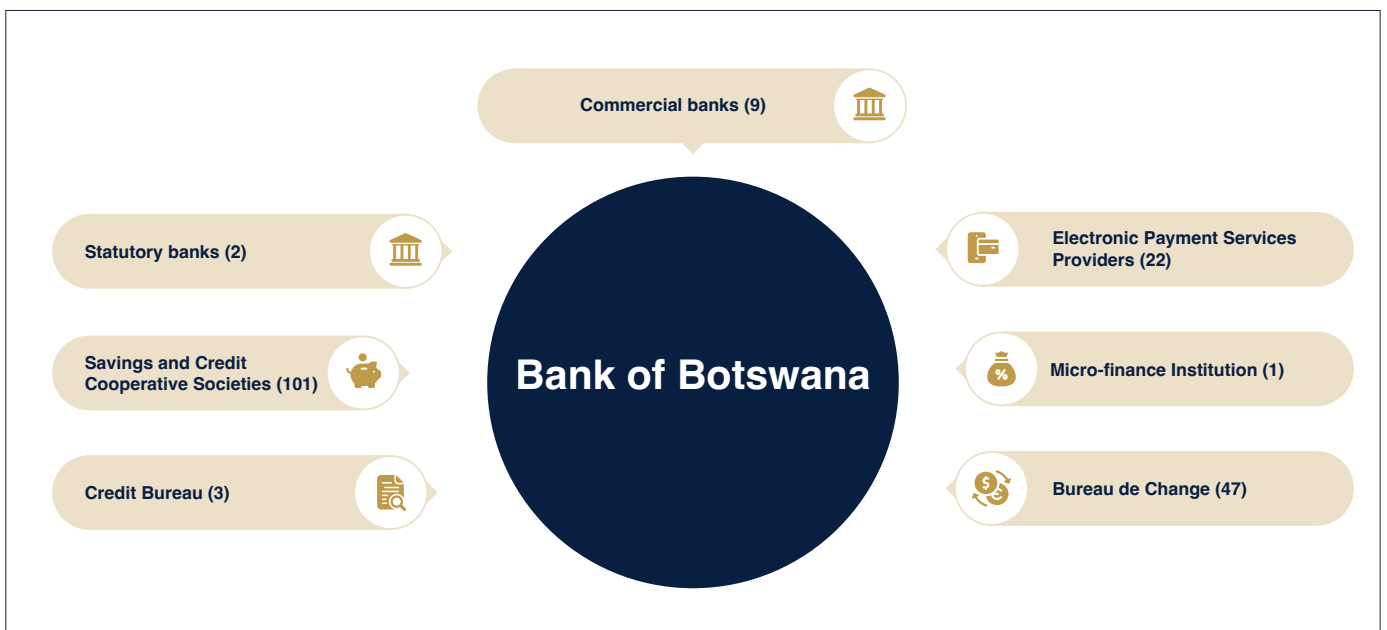
Effective currency management supported the smooth functioning of payment systems, facilitated economic transactions, and reinforced public confidence in Pula and Thebe. By ensuring the availability of secure, high-quality currency, the Bank contributed to financial stability, economic efficiency, and sustained trust in the national monetary system.

(g) Banking Sector and Payments System - Oversight and Regulation

The Bank promotes financial stability within the banking system through the regulation and supervision of banks and other financial institutions (Figure 6.4) under its mandate, as well as through the oversight of financial market infrastructures (FMIs) and electronic payment service providers (EPSPs). These functions collectively support the development of an efficient, sound, secure and reliable banking system and national payment system (NPS).

In addition, the Bank sets licensing requirements, establishes prudential and oversight policies, and conducts both on-site and off-site supervision to identify, monitor, and mitigate risks within regulated institutions and payment systems. The Bank also publishes the Annual Banking Supervision Report and coordinates, through the Regulatory Policy Committee, the development of regulatory policies and guidelines. Through these combined efforts, the Bank contributes to a stable, resilient, inclusive and innovative financial system that supports sustainable economic growth in Botswana.

Figure 6.4: Institutions Regulated by the Bank of Botswana



Legislative Reform

The Banking Act, 2023 and the associated Banking Regulations, Banking (Deposit-taking Institutions) Regulations, and Banking (Appeals Tribunal) Regulations commenced on 15 August 2025. The Banking Act 2023 was the result of the revision of

the Banking Act, 1995 (Cap. 46:04) to align it with the evolving developments in the domestic and global financial systems, including compliance with minimum international standards for effective banking supervision and fostering financial stability. Its commencement simultaneously repealed the Banking Act, 1995.

Guidelines issued in 2025

The Liquidity Coverage Ratio (LCR) was issued to banks on 1 May 2025, for implementation on 1 December 2025. The LCR helps to increase short-term resilience of a bank's liquidity, by ensuring that a bank has enough unencumbered, high-quality

liquid assets (HQLAs) to withstand a substantial stress scenario that lasts for 30 calendar days.

Efforts to incorporate climate risks in the supervisory frameworks has begun; the Bank is in the process of drafting guidelines on climate-related financial risks for issuance to the banking sector.

(i) Banking Sector Performance

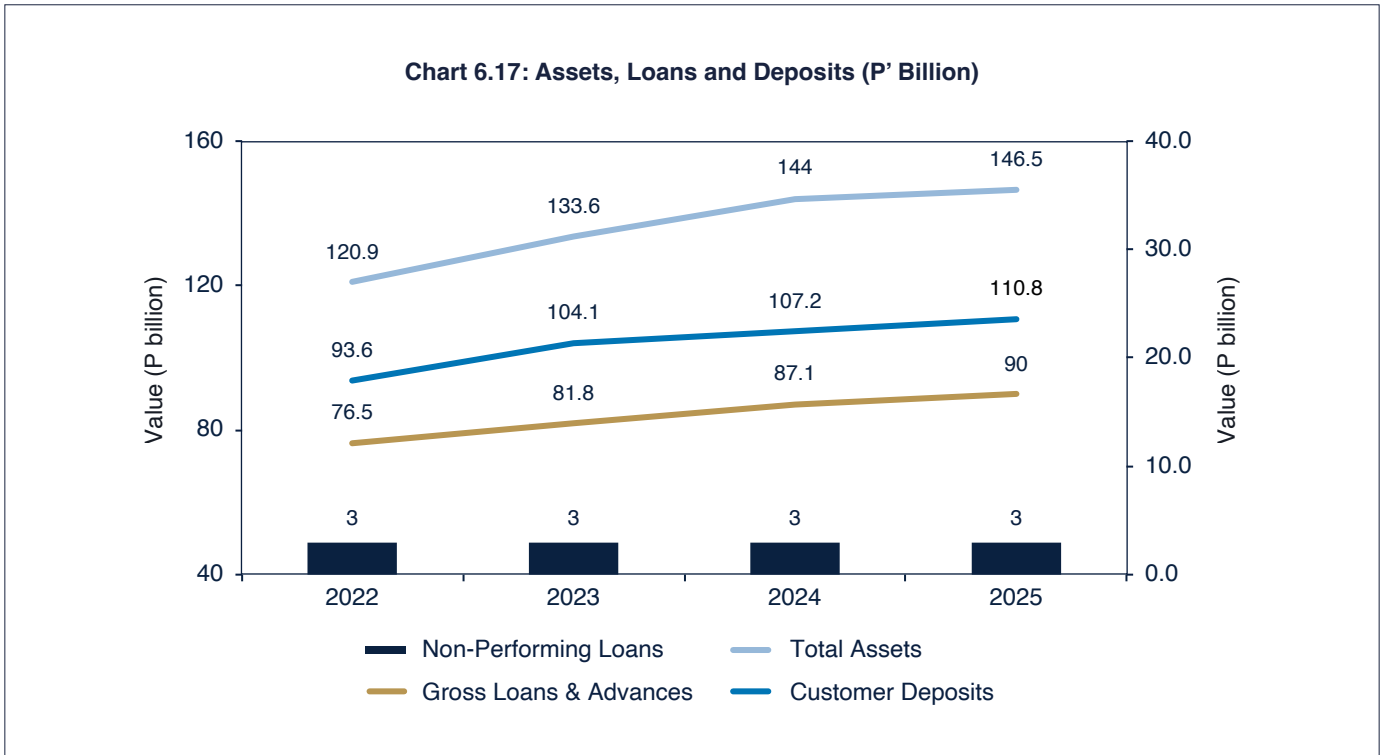
In fulfilling its regulatory mandate over financial institutions, the Bank operates within a robust legal and regulatory framework guided by the Bank of Botswana Act, Cap. 55:01 (as amended); Banking Act, 2023 and the Banking Regulations 2025, National Clearance and Settlement Systems Act (Cap. 46:06), National Clearance and Settlement Systems Regulations, 2005, Electronic Payments Services Regulations, 2019, Licensing Policy, and the National Payments System Oversight Policy, as well as relevant directives, policies and guidelines.

During 2025, the Bank continued to monitor the performance of nine commercial banks and two statutory banks through established supervisory structures and processes, such as off-site and on-site examination for adherence to prudential and statutory requirements. Overall, the banking sector was

assessed to be safe and sound in 2025.

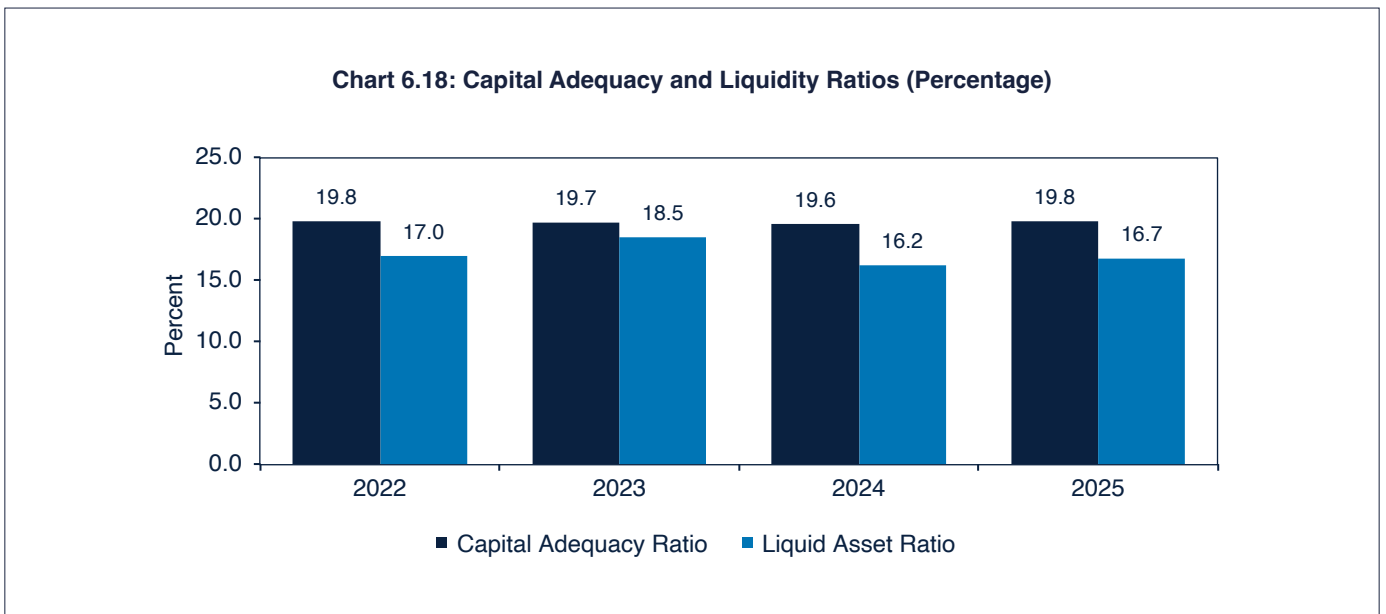
Commercial Banks

The commercial banking industry grew moderately and remained stable in 2025. Total assets increased by 1.8 percent to P146.5 billion, supported by growth in gross loans and advances. Customer deposits, as the primary source of funding, increased by 3.3 percent during the year. The asset quality of the banking sector remains satisfactory, with marginal improvement observed over the review period. NPLs were unchanged at P3 billion over the past four consecutive years while the ratio of NPLs to gross loans and advances declined marginally from 3.4 percent in December 2024 to 3.3 percent in December 2025 (Chart 6.17).



Source: Bank of Botswana

The average capital adequacy ratio (CAR) and liquid asset ratio (LAR) for commercial banks were 19.8 percent and 16.7 percent, respectively, in 2025. Both ratios were higher than the statutory minimum limits of 12.5 percent and 10 percent, indicating that the industry was adequately capitalised and liquid (Chart 6.18).



Source: Bank of Botswana

In 2025, commercial banks made an after-tax profit of P3.7 billion, representing a 10.1 percent decrease from P4.1 billion in 2024. The decrease in after-tax profit was attributable to a 10.4 percent decline in net interest income in the same period on account of an increased cost of funding. Notwithstanding, non-interest income, including banking fees and commission, increased by 33.7 percent to P5.2 billion over the same period.

Statutory Banks

Total assets held by statutory banks amounted to P6.6 billion in 2025, a 2.3 percent decrease from P6.7 billion reported in 2024. The decrease in total assets was mainly attributable to a 6.4 percent decrease in gross loans and advances. The asset quality of statutory banks deteriorated as reflected in an increase of 9.3 percent in NPLs.

Further, the ratio of NPLs to gross loans and advances for statutory banks was 6.7 percent in 2025, an increase from 5.7 percent in 2024. Regarding liquidity, statutory banks were adequately liquid during the review period and had a LAR of 24.9 percent, which was above the 10 percent minimum prudential limit.

Statutory banks made an after-tax profit of P135.6 million in 2025, reflecting an increase of 145 percent from P55.3 million in 2024.

(ii) Savings and Credit Cooperative Societies

Strategic Role and Context

Effective 15 August 2025, the mandate of the Bank was expanded to include the prudential supervision of Savings and Credit Cooperative Societies (SACCOS) pursuant to the Banking Act, 2023. Under this mandate, the Bank is empowered to regulate and oversee SACCOS by establishing and enforcing prudential standards, conducting supervisory examination, and implementing appropriate safeguards to promote their safety, soundness, and long-term financial stability.

Development of a Supervisory Framework

In 2025, the Bank prioritised the development of a comprehensive supervisory framework for SACCOS. The framework focuses on key prudential areas, including governance, capital management, liquidity risk management, credit risk management, and financial reporting and transparency. Completion of the framework is scheduled for 2026.

Overall, the banking sector remains well-positioned to support economic activity, although emerging risks related to funding costs, asset quality pressures, and macroeconomic conditions

warrant continued supervisory vigilance.

(iii) Market Entry and Exit of Bureaux de Change

During 2025, the Bank processed nine licence applications for bureaux de change, one of which had been received in 2024. Of these, four applicants were issued licences, although one bureau de change had not yet commenced operations. The remaining five applicants were advised to invite the Bank to conduct pre-operation inspections within six months. In addition, five bureaux de change voluntarily surrendered their licences, reportedly due to lack of business, while one licence was revoked for failure to comply with the Bank of Botswana (Bureau de Change) Regulations. Consequently, the number of licensed bureaux de change declined from 49 in December 2024 to 47 as at 31 December 2025.

Licensing of Credit Bureaux

In accordance with Section 8 of the Credit Information Act, 2021 (Act), the Bank issued credit bureau licences to three credit bureaux, for purposes of credit information sharing, being:

- (i) Transunion Proprietary Limited;
- (ii) Micro-Finance Credit Bureau Proprietary Limited; and
- (iii) Credbase Credit Bureau

A licence issued to a credit bureau authorises the holder to:

- (i) obtain and receive consumer information;
- (ii) process, store, update, manage, and disseminate the information of data subjects in accordance with the Act;
- (iii) compile and maintain files of relevant information on data subjects from which credit reports shall be generated;
- (iv) develop a credit rating system;
- (v) provide information to the public relating to its activities;
- (vi) carry out market and statistical research relating to matters set out in the Act; and
- (vii) carry out any other activity as may be prescribed.

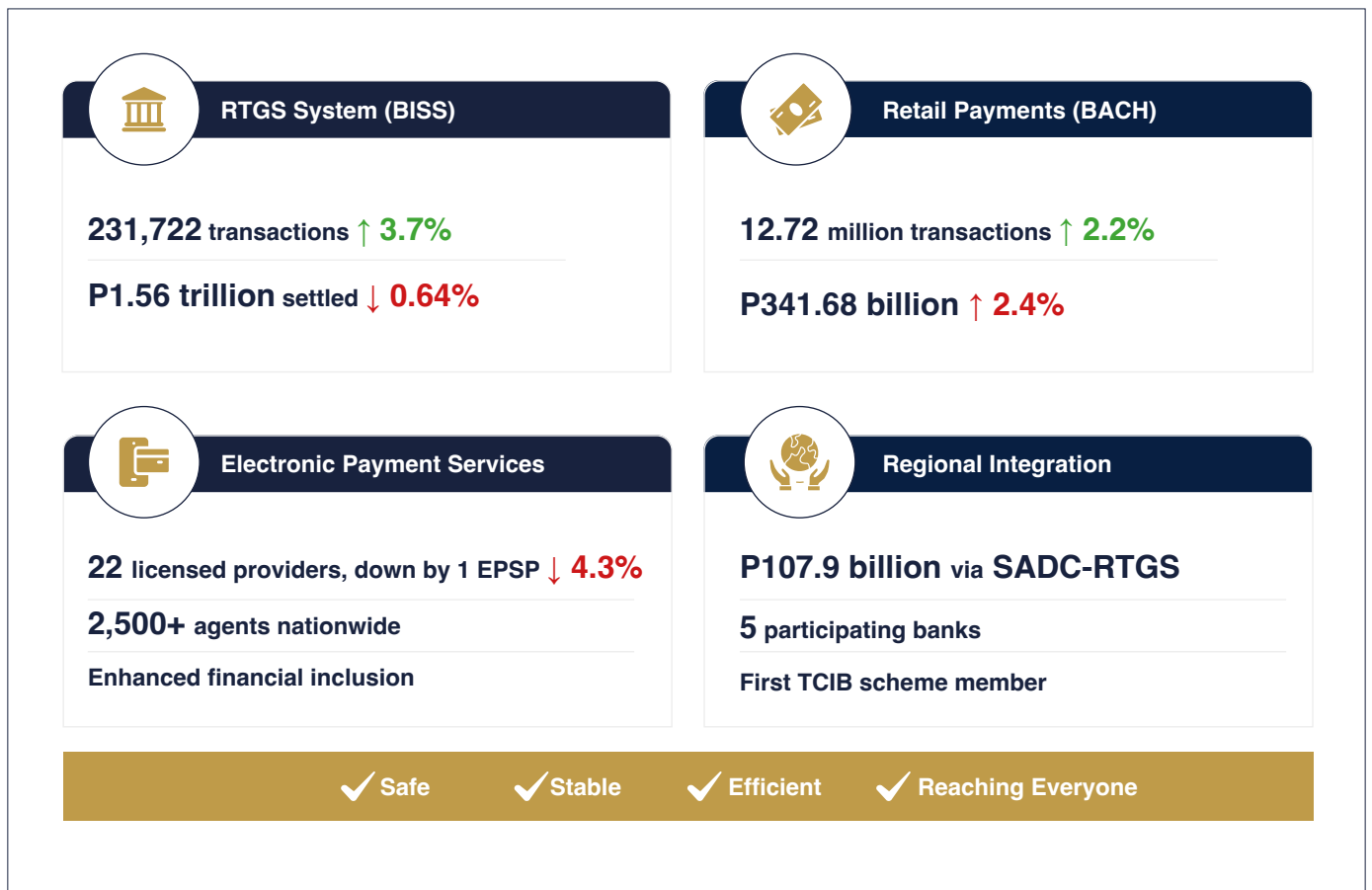
Licensed credit bureaux are required to comply with both the Credit Information Act, 2021 and the Data Protection Act, 2024. As the regulator, the Bank expects all licensees to implement appropriate technical and organisational measures to ensure the security of data and the protection of data subject rights, in line with applicable legislation.

(h) Payment Systems

The national payment system (NPS) serves as a critical economic infrastructure, enabling trade, consumption, investment, and government operations across Botswana’s economy. By facilitating the safe, reliable and efficient transfer of value, the NPS contributes directly to GDP activity, financial intermediation, and monetary policy transmission. During 2025, the NPS continued to deliver efficiency gains, speed, certainty and transaction cost reduction, thereby

supporting overall economic performance and financial stability (Figure 6.5). The Bank’s oversight framework, aligned with the Committee on Payments and Market Infrastructures (CPMI) and International Organisation of Securities Commissions (IOSCO) Principles for Financial Market Infrastructures (PFMIs), ensured that systemically important payment systems remained resilient and operated according to international best practice.

Figure 6.5: National Payment System 2025 Performance Snapshot



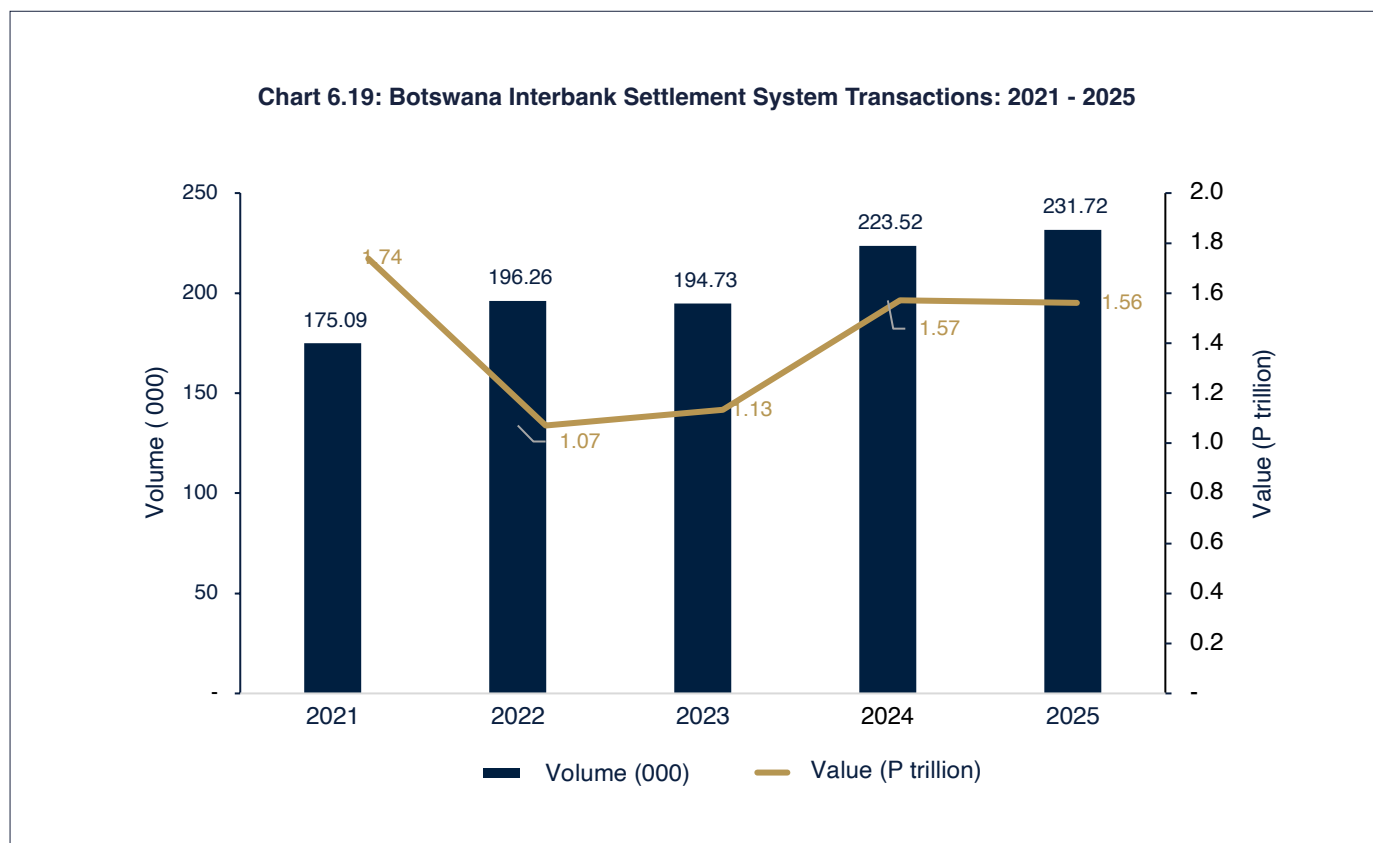
The developments in Figure 6.5 support household consumption, reduce transaction costs for businesses, particularly small and medium-sized enterprises, enhance the efficiency and velocity of money circulation in the economy, and contribute to the formalisation of economic activity.

Large-Value Payments and Financial Stability

Large-value and time-critical transactions continued to be settled through the Real-Time Gross Settlement (RTGS) system, the Botswana Interbank Settlement System (BISS), which remained robust throughout the year. Transaction volumes increased by 3.7 percent to 231 722 transactions in 2025, reflecting sustained interbank and wholesale payment activity. Although total value settled declined marginally by 0.6 percent to P1.56 trillion (Chart 6.19), settlement values remained significantly high, underscoring BISS's central role in supporting liquidity management, interbank market operations, and monetary policy implementation. The continued reliability of BISS supported financial stability and confidence in systemically important payment infrastructures.

Retail Payments, Economic Efficiency and Inclusion

Retail payment activity recorded steady growth during 2025. Electronic funds transfer (EFT) transactions processed through the Botswana Automated Clearing House (BACH) increased by 2.2 percent in volume to 12.72 million transactions, while transaction values rose by 2.4 percent to P341.68 billion (Chart 6.20). The five-year trend demonstrates consistent expansion in retail electronic payments, reflecting increased economic participation, improved access to formal payment channels, and growing acceptance of digital payment instruments.

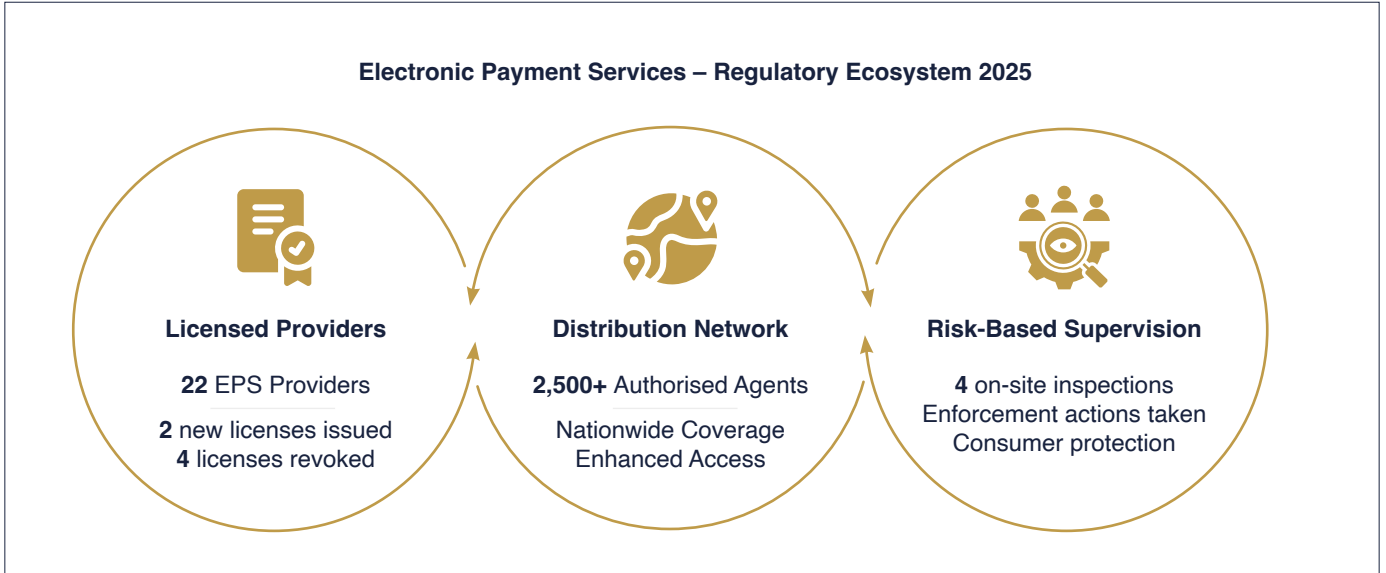


Source: Bank of Botswana

The electronic payments ecosystem (Figure 6.6) continued to evolve, supported by a regulated and supervised framework that promotes innovation while safeguarding system integrity. As at the end of 2025, 22 licensed electronic payment-service providers were operating in the market, supported by a nationwide distribution network of over 2 500 authorised agents.

During the year, two licences were issued and four licences revoked, reflecting the Bank's commitment to facilitating orderly market entry and exit. Risk-based supervision, including on-site inspections, addressed non-compliance through enforcement actions such as administrative fines and licence suspensions.

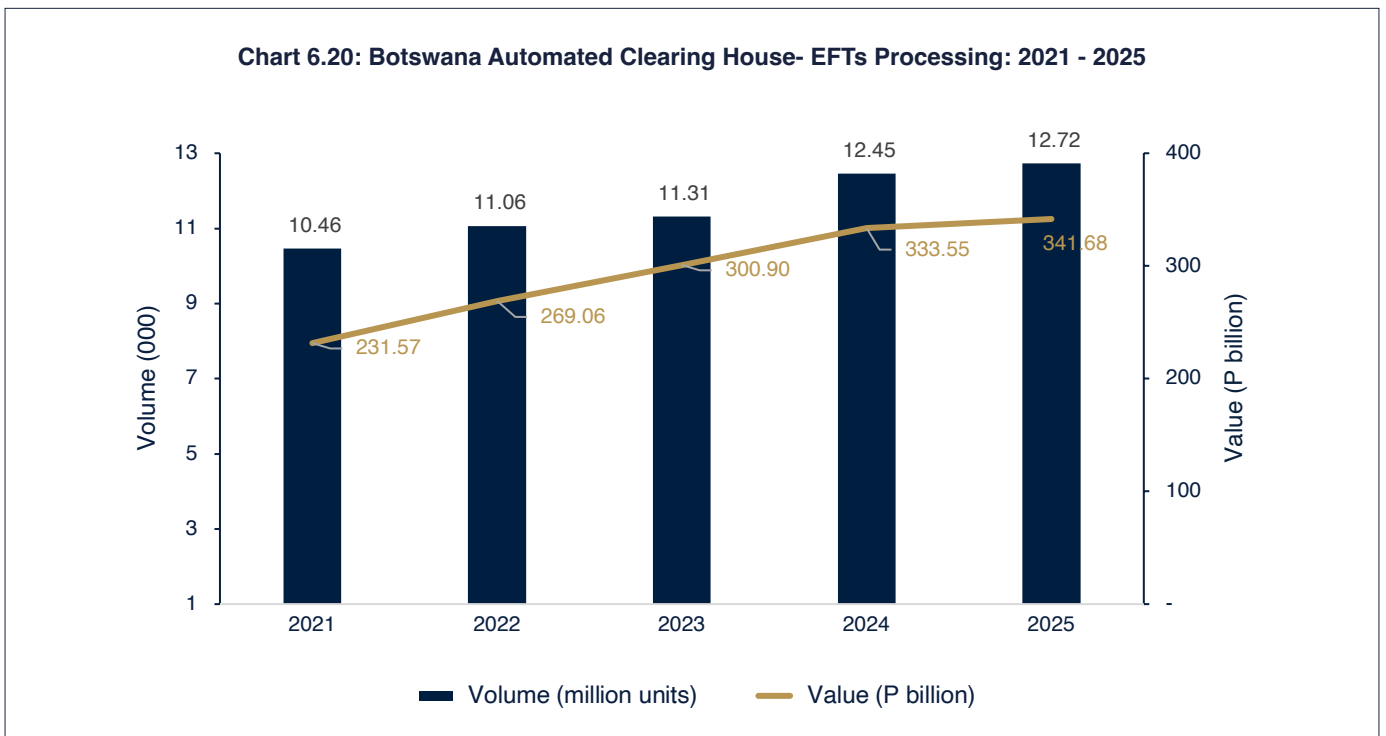
Figure 6.6: Electronic Payment Systems



Regional Payments Integration and Cross-Border Efficiency

Progress in regional payments integration enhanced the efficiency of cross-border transactions and supported Botswana’s participation in regional trade. Botswana-based commercial banks settled P107.9 billion through the SADC-RTGS system in 2025, representing an 8.4 percent decline from P117.7 billion in 2024. Despite the year-on-year decline,

participation in regional payment infrastructures strengthened cross-border settlement capabilities and supported trade and financial linkages within the Southern African Development Community (SADC). Five Botswana banks now participate in SADC-RTGS, with two additional banks in final onboarding stages. Additionally, one bank became the first Botswana participant in the SADC Transactions Cleared on an Immediate Basis (TCIB) instant payments scheme.



Source: Bank of Botswana

Modernisation of Banking Services and Digitalisation of Government Payments

The Bank discharged its obligations of providing efficient and reliable banking and settlement services to the public, Botswana Government, commercial banks, Botswana Unified Revenue Service (BURS), and other customers. In this regard, the Bank processed both domestic and cross-border transactions and operated critical financial infrastructure, including the SWIFT system, BISS, core banking system (T24), and the Aperta platform.

The Bank advanced the digitalisation of Government revenue collection under its “Digital BoB2024” initiative. The programme focuses on implementing modern digital cash handling and management solutions to improve efficiency, reduce manual processes, and enable real-time processing. Key interventions include teller-assisted machines in banking halls and other technology-driven platforms to revolutionise Government revenue collection services. In its facilitative role, the Bank continued to lead the development of a suitable National Retail Payments Switch (NRPS) model for the Botswana market, aligned with the Fintech Development Pillar of the National Payment System Vision and Strategy, 2020 – 2024, which seeks to leverage fintech to broaden access to financial services, promote financial inclusion and payments efficiency. Industry engagements pertaining to the gathering of market requirements for a suitable NRPS model were undertaken, involving key market stakeholders, and were concluded in October 2023. This informed the Business and Technical Specifications for a Botswana-centric switch that were finalised in 2024. A special purpose vehicle was incorporated in the name of Kamogano Switch Limited in November 2025 to deliver the NRPS.

The mandatory Swift migration to the ISO 20022 Messaging Standard for Cross Border Payments and Reporting Plus (CBPR+) went live in November 2025 and this global shift marked an era of enhanced speed, transparency and data

quality in payments. Botswana’s financial sector has largely complied, with some institutions including the Bank, still using message translation solutions where legacy systems are still being upgraded. The Bank will achieve full compliance with ISO 20022 message standard in the second quarter of 2026 upon completion of the back-office upgrade. That notwithstanding, a significant milestone was achieved in 2024 with the local banking community successfully migrating domestic payments to ISO 20022 standard ahead of the mandatory migration timeline. Adoption of the standard marked a significant achievement in the modernisation of the country’s payments system.

For advancing financial market infrastructure and deepening system efficiency, the Bank in collaboration with Botswana Stock Exchange Limited (BSEL) has resumed implementation of the second phase of the establishment of the Single Central Securities Depository (SCSD). The phase entails migration of custodial services of Government bonds to the Central Securities Depository (CSD) system. The project is at the User Acceptance Testing stage between Bank of Botswana and CSD Botswana.

Botswana Pula Onboarding as SADC-RTGS Settlement Currency

The on-boarding of the Botswana Pula as a settlement currency in the SADC-RTGS system marks a transformative milestone for regional financial integration (Figure 6.7). This strategic initiative enables participating banks to conduct cross-border transactions directly in Pula and positions the Pula as a key instrument for regional economic integration while reducing systemic risks and enhancing financial stability across the SADC region. Locally, further modernisation of the payment ecosystem will be enhanced through initiatives under the BETP (Figure 6.8). Additionally, the Bank continues to strengthen the NPS by leveraging opportunities while maintaining robust risk management (Figure 6.9).

Figure 6.7: Strategic Impact: Botswana Pula as a SADC-RTGS Settlement Currency



Figure 6.8: Payment System Reforms Supporting Economic Transformation

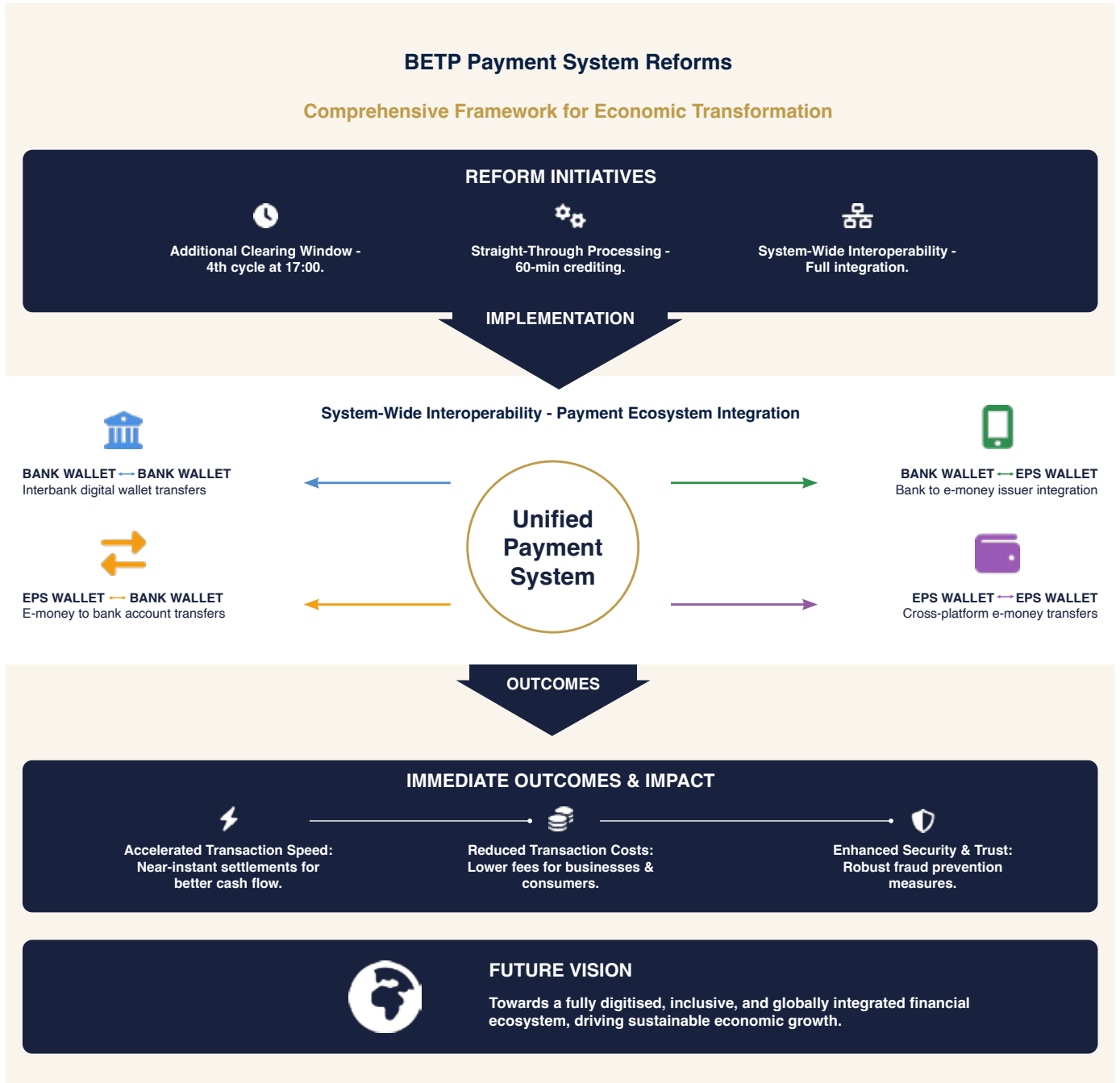


Figure 6.9: NPS Landscape: Growth Drivers and Risk Management



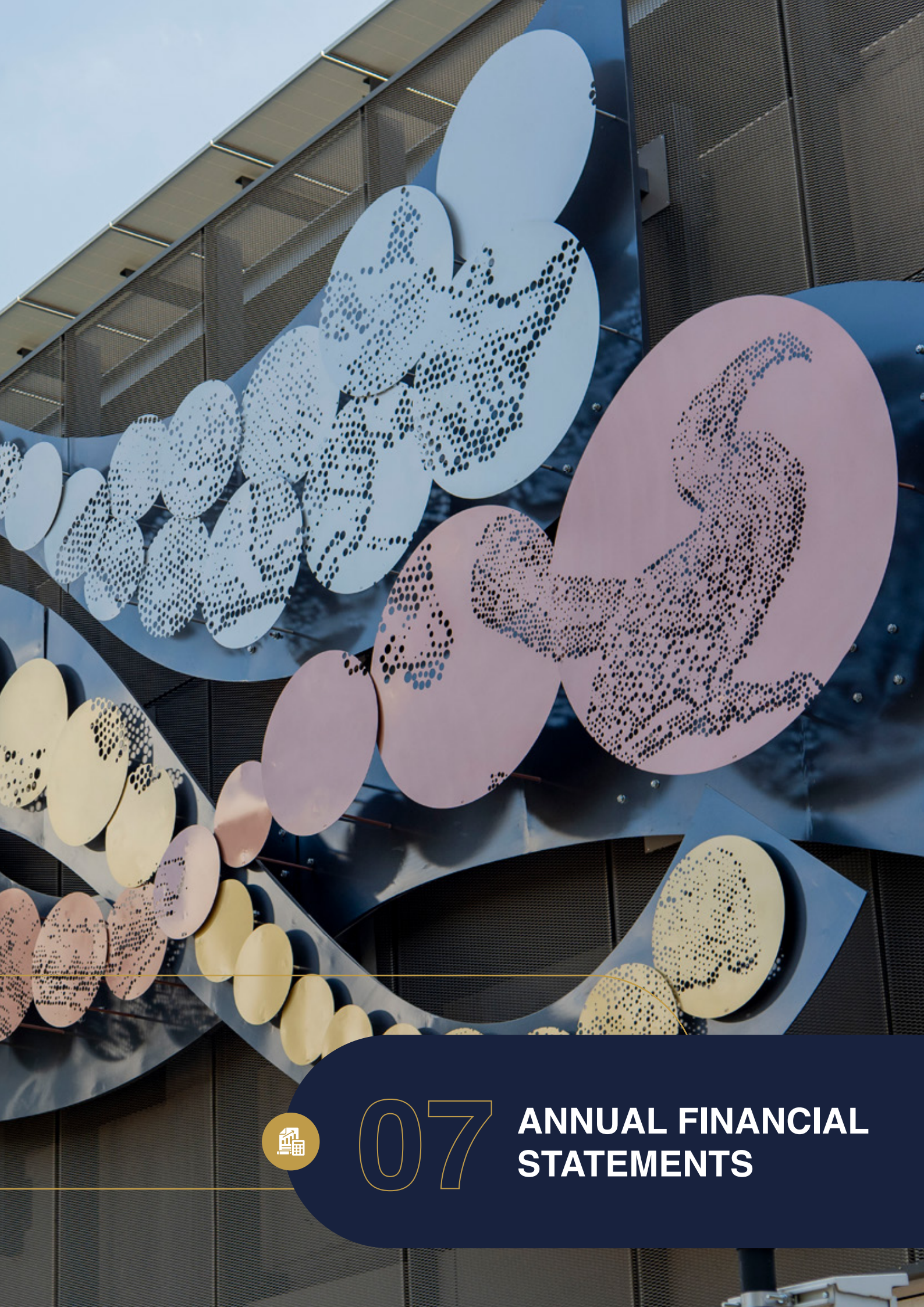
Bank of Botswana Fintech Regulatory Sandbox

The Bank of Botswana launched a Financial Technology (Fintech) Regulatory Sandbox on 1 December 2025, as a key enabler for the achievement of Government financial inclusion objectives and the digitalisation agenda. The primary purpose of the Bank’s Regulatory Sandbox is to foster innovation in the financial sector by enabling live experimentation within a controlled environment and defined parameters wherein both startups and licensed firms can test new financial products, services, and business models under relaxed regulatory requirements and close supervision prior to introduction into the market at scale. The goal of the Bank’s Sandbox Framework is to balance the need for an innovation-friendly environment with the necessity to safeguard the stability, safety, and soundness of the financial system as well as consumer protection. Key objectives of the Sandbox are to:



- (a) Encourage Innovation, Entrepreneurship, and Competition** by promoting the development of new technologies and lowering barriers to market entry for fintech startups, resulting in more choices for consumers and inclusion for small, medium and micro enterprises (SMMEs);
- (b) Maintain Regulatory Oversight and Safety** - by ensuring that tests occur within appropriate safeguards to contain risks, maintain financial stability and integrity, and protect consumers;
- (c) Reduce Regulatory Uncertainty and Time-to-Market** - through provision of guidance on navigation of the regulatory landscape, lowering compliance costs, and enabling faster, safer launches of new services; and
- (d) Enhance Regulatory Learning** - by enabling the Bank to gain insights into emerging fintech driven products, services and business models, facilitating evidence-based initiation of changes to existing legal and regulatory frameworks and/or the drafting of new legal and regulatory frameworks before introduction into the market at scale.

The Bank has opened for applications for entry into the Sandbox under the theme **“Unlocking an Inclusive Digital Economy through Digital Banks, Inclusive Payments, and Interoperability Solutions”**. This cohort will comprise innovations that improve accessibility, affordability, and participation in the digital economy for both underserved communities and SMMEs; solutions that enable seamless connectivity and open sharing of data across payment platforms, products, and payment instruments; and digital banks that deliver secure, scalable channels that complement traditional banks. The cohort is expected to graduate by the end of 2026.



07

ANNUAL FINANCIAL
STATEMENTS

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Statement of Responsibility of the Board and Approval of the Annual Financial Statements

The members of the Board are responsible for the preparation of the annual financial statements of the Bank of Botswana (“the Bank”) comprising the Statement of Financial Position at 31 December 2025, Statement of Profit or Loss and Other Comprehensive Income, Statement of Distribution, Statement of Cash Flows and Statement of Changes in Shareholder’s Funds for the year then ended.

These financial statements include a summary of material accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Botswana Act.

The Board members are also responsible for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board members have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the Bank will not be a going concern in the year ahead as provided in Note 38 of these financial statements.

The independent external auditor is responsible for reporting on whether the annual financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the Annual Financial Statements

The annual financial statements of the Bank, as identified in the first paragraph, were approved by the Board on 27 March 2026 and signed on behalf of the Board by:



Lesego C Moseki
Governor



Lipalesa Makepe
Board Member and Chairman
(Audit and Risk Committee)



Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
PO Box 41015
Gaborone, Botswana

Tel: +267 397 4078 / 365 4000
Fax: +267 397 4079
Email: eybotswana@za.ey.com
Partnership registered in Botswana
Registration No: 10829
VAT No: PO3625401112
www.ey.com

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF BANK OF BOTSWANA
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Opinion

We have audited the financial statements of Bank of Botswana ("the Bank") set out on pages 8 to 48, which comprise the statement of financial position as at 31 December 2025, and the statement of profit or loss and other comprehensive income, the statement of changes in shareholder's funds and statement of cash flows for the year then ended, and notes to the financial statements including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Bank of Botswana as at 31 December 2025, and of its financial performance and of its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code, as applicable to audits of financial statements of public interest entities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
<p data-bbox="260 465 695 497">Valuation of Level 1 Financial Assets</p> <p data-bbox="260 528 738 618">The disclosures associated with the financial assets are set out in the financial statements:</p> <ul data-bbox="304 631 738 954" style="list-style-type: none"> • Significant Accounting Policies - Financial Instruments • Note 1.1 - Liquidity Portfolio • Note 1.2 - Pula Fund • Note 15 - Categories of Financial Instruments • Note 31 - Risk Management in Respect of Financial Instruments • Note 32 - Fair Value of Financial Instruments <p data-bbox="260 994 738 1384">Level 1 financial assets amounted to P28.9 billion in 2025, compared to P37.3 billion in the previous year. Considerable auditor attention was devoted to the valuation of these Level 1 financial assets, given both the substantial volume of instruments involved and the sourcing of observable inputs which required the assistance of EY specialists in assessing market-consistent methodologies, as well as quantifying deviations between external market prices and those applied by the Bank.</p> <p data-bbox="260 1420 738 1536">The components which make up the financial assets balance required significant auditor attention and effort in performing audit procedures.</p>	<p data-bbox="769 465 1380 524">Our audit procedures included the following, amongst others:</p> <ul data-bbox="855 564 1380 1747" style="list-style-type: none"> • We updated our understanding, evaluated the design, implementation and tested the operating effectiveness of the key internal controls over financial assets. • We obtained an understanding of management's valuation processes for the fair value of the level 1 financial assets in line with IFRS 13 - Fair Value Measurement. • We assessed the reasonability of the exchange rates used in translating asset values into the Bank's reporting currency and for compliance with the Bank's approved methodology. • We compared the pricing inputs used by management to external data sources and assessed the inputs into the reported fund manager and custodian positions. This was performed with the assistance of the EY specialists. • We evaluated the appropriateness of the valuation approaches and methodologies used by Management's specialists against IFRS requirements and generally accepted market practice (price quotation convention) to evaluate the appropriateness of the methodologies applied under the varying circumstances. With the assistance of the EY specialists, we also reperformed the fair value calculations using independent pricing sources. • We assessed the adequacy and completeness of the disclosures regarding the financial assets in the financial statements to determine they were in accordance with IFRS 13 - Fair value measurement and IFRS 7 - Financial instruments disclosures.



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Other Information

Other information comprises the information included in the 48-page document titled "Bank of Botswana Annual Financial Statements for the year ended 31 December 2025" which includes the Statement of Responsibility of the Board and Approval of the Annual Financial Statements and the Statement of Distribution, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The Board members are responsible for the other information. Other information does not include the financial statements and our auditor's report thereon.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board Members for the Financial Statements

The Board Members are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Botswana Act (CAP. 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 and for such internal control as the Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board Members are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Boards' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board Members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board Members, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other Legal and Regulatory Requirements

In accordance with the Bank of Botswana Act (CAP. 55:01) as amended by the Bank of Botswana (Amendment) Act, 2022 ("the Act), we confirm:

- We have received all the information and explanations which, to the best of our knowledge and belief were necessary for the performance of our duties as auditors.
- The accounts and related records of the Bank have been kept in a reasonable state; and
- The Bank has complied with all the financial provisions of the Act.

A handwritten signature in black ink, appearing to read 'Ernst & Young', is written over the printed name of the firm.

Ernst & Young
Firm of Certified Auditors
Practicing member: Thomas Chitambo (CAP 0011 2026)
Gaborone

27 March 2026

BANK OF BOTSWANA
STATEMENT OF FINANCIAL POSITION
As at 31 December 2025

	Notes	2025 P'000	2024 P'000
ASSETS			
Foreign Assets			
Liquidity Portfolio	1.1	13 861 232	4 135 365
Investment in bonds		2 022 042	1 880 035
Cash and cash equivalents		11 839 190	2 255 330
Pula Fund	1.2	27 865 155	38 460 469
Investment in equities		13 871 818	25 147 452
Investment in bonds		13 002 563	12 179 251
Short-term deposits		990 774	1 133 766
International Monetary Fund (IMF)			
Reserve Tranche	2.1	925 821	904 322
Holdings of Special Drawing Rights (SDR)	2.2	4 747 433	4 602 496
General Subsidy Account	2.3	28 259	27 579
Total Foreign Assets		47 427 900	48 130 231
Domestic Assets			
Repurchase Agreements	3	3 744 875	4 149 431
Advances to Government	4	3 200 000	-
Receivables and Other Assets	5	840 611	495 009
Property, Plant and Equipment and Intangible Assets	6	1 396 942	1 418 908
Total Domestic Assets		9 182 428	6 063 348
TOTAL ASSETS		56 610 328	54 193 579
LIABILITIES AND SHAREHOLDER'S FUNDS			
Foreign Liabilities			
Allocation of IMF Special Drawing Rights	7	4 578 378	4 468 271
Liabilities to Government (IMF Reserve Tranche)	8	426 774	405 275
Total Foreign Liabilities		5 005 152	4 873 546
Domestic Liabilities			
Notes and Coin in Circulation	9	4 701 674	4 891 057
Deposits	10	3 020 943	3 099 437
Standing Deposit Facility	11	1 954 169	2 344 347
Bank of Botswana Certificates	12	1 409 205	1 199 634
Dividend to Government	13	7 292 783	3 444 016
Payables and Other Liabilities	14	761 267	425 627
Total Domestic Liabilities		19 140 041	15 404 118
Total Liabilities		24 145 193	20 277 664
Shareholder's Funds			
Paid-up Capital	16	150 000	150 000
Government Investment Account			
Pula Fund and Liquidity Portfolio	13.1	845 962	251 297
Currency Revaluation Reserve		16 319 173	15 809 166
Fair Value Revaluation Reserve		-	2 705 452
General Reserve	17	15 000 000	15 000 000
Unappropriated Net Income for the Period		150 000	-
Total Shareholder's Funds		32 465 135	33 915 915
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		56 610 328	54 193 579
FOREIGN ASSETS IN US DOLLARS (000) ¹		3 495 436	3 455 751
FOREIGN ASSETS IN SDR (000) ²		2 551 621	2 656 789

¹ United States dollar/Pula – 0.0737 (2024: 0.0718)

² SDR/Pula – 0.0538 (2024: 0.0552)

BANK OF BOTSWANA
STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
For the year ended 31 December 2025

	Notes	2025 P'000	2024 P'000
INCOME			
Interest – foreign exchange reserves	18	1 158 846	1 140 716
Interest Income: amortised cost		695 564	463 747
Interest Income: FVTPL*		463 282	676 969
Dividends – foreign exchange reserves	19	238 915	516 738
Net realised fair value gains	20	5 610 095	3 850 961
Net unrealised fair value gains	21	-	1 147 183
Net realised currency gains	22	975 711	2 282 821
Impairment reversals on financial assets	31	-	7 930
Profit on foreign exchange deals		1 507 148	32 625
Net sundry income		123 772	26 912
		<u>9 614 487</u>	<u>9 005 886</u>
EXPENSES			
Interest expense	24	61 746	196 314
Interest (lease liability)		4	6
Administration costs	36	1 070 406	971 720
Depreciation expense	6	70 014	79 281
Net unrealised currency losses	23	554 271	1 979 134
Net unrealised fair value losses	21	2 582 576	-
Impairment loss on financial assets	31	28 132	-
		<u>4 367 149</u>	<u>3 226 455</u>
NET INCOME		<u>5 247 338</u>	<u>5 779 431</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>5 247 338</u>	<u>5 779 431</u>

STATEMENT OF DISTRIBUTION
For the year ended 31 December 2025

	Notes	2025 P'000	2024 P'000
TOTAL COMPREHENSIVE INCOME		<u>5 247 338</u>	<u>5 779 431</u>
Transfer of net currency gains to currency revaluation reserve	25	(510 007)	(251 406)
Transfer of unrealised fair value losses/(gains) to fair value revaluation reserve	23	2 917 097	(1 455 509)
		<u>7 654 428</u>	<u>4 072 516</u>
NET INCOME AVAILABLE FOR DISTRIBUTION			
Transfer to fair value revaluation reserve		(211 645)	-
Distribution to Government		(7 292 783)	4 072 516
Dividend		-	(838 000)
Residual Net Income	13	(7 292 783)	(3 234 516)
UNAPPROPRIATED NET INCOME FOR THE PERIOD		<u>150 000</u>	<u>-</u>

* Fair Value Through Profit or Loss

BANK OF BOTSWANA
STATEMENT OF CASHFLOWS
For the year ended 31 December 2025

	Notes	2025 P'000	2024 P'000
OPERATING ACTIVITIES			
Cash generated from operations before movements relating to currency in circulation	29	10 660 632	3 263 605
Movement in currency in circulation		189 383	530 955
Cash generated from operations		10 850 015	3 794 560
Interest received		1 099 039	1 129 040
Dividends received		238 915	516 738
Interest paid		(61 746)	(196 314)
Cash generated from operating activities		12 126 223	5 244 024
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment – other assets		1 520	1 092
Purchase of property and equipment – other assets	6	(50 095)	(85 303)
NET CASH USED IN INVESTING ACTIVITIES		(48 575)	(84 211)
FINANCING ACTIVITIES			
Dividend to Government	13	(3 444 016)	(867 258)
Government investments/(withdrawals)		594 665	(8 326 127)
Interest on lease liability		(4)	(6)
Lease Liability: right-of-use	6.2	(39)	(37)
NET CASH USED IN FINANCING ACTIVITIES		(2 849 394)	(9 193 428)
Net increase in Cash and Cash Equivalents		9 228 255	(4 033 616)
Net foreign exchange gains/(losses)		385 332	(11 137)
Impairment loss		(29 727)	(1 817)
Cash and Cash Equivalents at beginning of year		2 255 330	6 301 900
CASH AND CASH EQUIVALENTS AT YEAR END		11 839 190	2 255 330

BANK OF BOTSWANA
STATEMENT OF CHANGES IN SHAREHOLDER'S FUNDS
For the year ended 31 December 2025

	Paid-up Capital	Currency Revaluation Reserve	Fair Value Revaluation Reserve	General Reserve	Government Investment Account	Accumulated Profit/(Loss)	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Balance at 1 January 2024	150 000	15 557 760	1 249 943	15 000 000	8 577 425	-	40 535 128
Total net income for the period	-	-	-	-	-	5 779 431	5 779 431
Government withdrawals	-	-	-	-	(8 326 128)	-	(8 326 128)
Transfer of Gains to Currency Revaluation Reserve	-	251 406	-	-	-	(251 406)	-
Transfer of Gains to Fair Value Revaluation Reserve	-	-	1 455 509	-	-	(1 455 509)	-
Dividend to Government	-	-	-	-	-	(838 000)	(838 000)
Distribution of Residual Net Income	-	-	-	-	-	(3 234 516)	(3 234 516)
BALANCE AT 31 DECEMBER 2024	150 000	15 809 166	2 705 452	15 000 000	251 297	-	33 915 915
Total net income for the period	-	-	-	-	-	5 247 338	5 247 338
Government investments	-	-	-	-	594 665	-	594 665
Transfer of Gains to Currency Revaluation Reserve	-	510 007	-	-	-	(510 007)	-
Transfer of losses to Fair Value Revaluation Reserve	-	-	(2 917 097)	-	-	2 917 097	-
Fair Value Revaluation Loss charged to Profit	-	-	211 645	-	-	(211 645)	-
Distribution of Residual Net Income	-	-	-	-	-	(7 292 783)	(7 292 783)
BALANCE AT 31 DECEMBER 2025	150 000	16 319 173	-	15 000 000	845 962	150 000	32 465 135

BANK OF BOTSWANA
MATERIAL ACCOUNTING POLICIES
For the year ended 31 December 2025

REPORTING ENTITY

Bank of Botswana (“the Bank”) is the Central Bank of the Republic of Botswana established by the Bank of Botswana Act. The physical address of the Bank’s registered office is 17938 Khama Crescent, Gaborone. These financial statements apply to the financial year ended 31 December 2025 and represent the Bank’s statutory financial statements. The Government of Republic of Botswana is the Bank’s sole shareholder.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The principal accounting policies applied in the preparation of the financial statements are stated below. These policies have been consistently applied to all the years presented and comply with the Bank of Botswana Act and the IFRS* Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), in all material respects unless otherwise stated.

The financial statements were approved by the Board on 27 March 2026.

* International Financial Reporting Standards

Basis of Preparation

These financial statements have been prepared on the historical cost basis, except for financial instruments held at fair value, where fair value basis is considered more appropriate.

Functional and Presentation Currency

The financial statements are presented in Pula, which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in Pula has been rounded to the nearest thousand.

ADOPTION OF REVISED STANDARDS AND INTERPRETATION

As at the date of finalisation of the financial statements, the following standards relevant to the Bank’s operations were available for adoption.

Standard	Effective for annual periods beginning on or after
<p>Sustainability Disclosure Standards: IFRS S1 and S2</p> <p>The International Sustainability Standards Board (ISSB) issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures on 26 June 2024. IFRS S1 and S2 set out overall requirements for an entity to disclose information about its sustainability-related risks and opportunities that are useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity.</p> <p>The Bank is assessing the impact on the financial statements resulting from the application of IFRS S1 and S2. The Botswana Integrated Reporting Committee (BIRC) is currently working on compilation of jurisdictional guidelines for adoption of IFRS S1 and S2 in Botswana. The Bank will, therefore, consider the guidelines provided by the BIRC, once they are completed.</p>	<p>1 January 2025, but for subsequent applications, adoption is by jurisdiction using a phased introduction.</p>

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET EFFECTIVE

As at the date of finalisation of these financial statements, the following standards relevant to the Bank's operations, are in issue and not yet effective.

Standard	Effective for annual periods beginning on or after
<p>Amendments to IFRS 9 and IFRS 7: Classification and Measurement of Financial Instruments</p> <p>The amendments clarify that a financial liability is derecognised on the settlement date and introduces an accounting policy choice to derecognise financial liabilities settled using an electronic payment system before the settlement date, if certain conditions are met.</p> <p>Other clarifications include how to assess the contractual cashflow characteristics of financial assets that include environmental, social and governance (ESG) linked features.</p> <p>The amendments also introduce additional disclosures for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income (FVOCI).</p> <p>The Bank is in the process of assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 9 and IFRS 7.</p>	<p>1 January 2026</p>
<p>IFRS 18 Presentation and Disclosure in Financial Statements</p> <p>IFRS 18 replaces IAS 1, and aims to provide greater consistency in presenting the income and cashflow statements and more disaggregated information.</p> <p>The key changes introduced by IFRS 18 are as follows:</p> <ul style="list-style-type: none"> – the requirement for entities to classify all items of income and expenses into one of the five categories of operating, investing, financing, income taxes and discontinued operations. The categories are complemented by the requirement to present subtotals and totals for operating profit or loss; profit or loss before financing and income taxes; and profit or loss. – enhanced guidance on grouping transactions through aggregating items with similar characteristics and disaggregating those with different characteristics, based on their nature, function or both, to provide a structured summary. – the requirement to disclose certain management-defined performance measures (MDPM) not mandated by IFRSs but considered to be important to primary users of financial statement, intended to comprehensively reflect management's view of financial performance. <p>The Bank is in the process of assessing the potential impact on its financial statements resulting from the application of IFRS 18.</p>	<p>1 January 2027</p>

FINANCIAL INSTRUMENTS

General

Financial instruments carried in the Statement of Financial Position include all assets and liabilities, including derivative instruments and receivables, but exclude property and equipment and other assets (prepayments and other).

Fair Value Measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Bank measures the fair value of a financial instrument using the quoted price in an active market for that particular instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For financial assets or liabilities with a quoted price, the Bank measures assets at a bid price, and liabilities at an ask price.

When quoted prices in an active market are not available, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction (see valuation models in Note 32).

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Financial Assets

Financial assets are initially measured at fair value plus, in the case of financial assets not measured at fair value through profit or loss, incremental direct transaction costs that are directly attributable to the acquisition of the financial asset are subsequently accounted for depending on their classification as either measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is dependent upon the Bank’s business model for managing its financial assets, and the contractual cash flow characteristics of the financial asset.

Business Model Assessment

The Bank’s business model is determined based on how it manages groups of financial assets in order to achieve set objectives. The Bank, therefore, makes an assessment of the objective of its business model in which assets are held at portfolio level, and not on individual instrument basis. The information considered in assessing the business model include:

- the stated policies and objectives of the portfolio and the operation of those policies in practice, including whether management’s strategy focuses on earning contractual revenue, maintaining a particular earnings profile, or realising cash flows through the sale of assets;
- how the portfolio is evaluated and reported to the Board;
- the risks that affect the performance of the business model (and the financial assets held within the business model) and how those risks are managed;
- how managers of the funds are compensated, that is, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objectives for managing the financial assets is achieved and how cash flows are realised.

Contractual Cash Flow Characteristics Assessment

The Bank considers the contractual cash flow characteristics of the financial assets it holds in terms of whether the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assessment includes determining whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Assets at Amortised Cost

Financial assets are measured at amortised cost if held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at Fair Value through Profit or Loss (FVTPL)

The Pula Fund invests over a long-term horizon. The Pula Fund bonds are held within a business model whose objective is to actively trade in liquid markets with the expectation of earning a higher return than could be achieved on conventionally managed investments. Therefore, the business model is neither “hold to collect” nor “hold to collect and sell”, but trading. This is considered to be “other business model” and falls under the residual category of FVTPL. The policy driven sales override the intention to hold to collect contractual cash flows that are solely payments of principal and interest. They have a potential to bring significant variances in the expected income of the Fund due to fair value gains or losses.

FINANCIAL INSTRUMENTS (Cont'd)

Fair value gains and losses of financial assets measured at fair value through profit or loss are recognised in profit or loss.

The classification and measurement of the Bank's financial assets is detailed as below.

Short-term deposits (mainly balances with banks) for both the Liquidity Portfolio and Pula Fund and assets held with IMF are measured at amortised cost. Receivables and Other Assets include staff advances which are also measured at amortised cost.

Long-term Investments (Pula Fund)

This is a long-term fund intended to generate returns and maintain the purchasing power of the foreign exchange reserves. It is invested in foreign global financial markets. It is the long-term fund as provided for under Section 35 of the Bank of Botswana Act (CAP 55:01). The Fund invests in bonds, equities and derivatives. These investments may be sold in response to needs for liquidity, changes in interest rates, market prices and exchange rates. Investments in debt securities, equity and derivatives are classified at fair value through profit or loss. These securities are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices.

The Pula Fund short-term deposits are cash balances relating to investments in bonds and equities whereas the short-term deposits in the Liquidity Portfolio are mainly cash held to meet the banks daily operating expenditure. The short-term deposits funds held under the Pula-fund are mainly held to earn interest and for investment in securities. The central banks' first point of contact when in need of cash for operational needs will be the liquidity portfolio and not the Pula fund as these funds are held entirely for investment purposes.

All realised and unrealised currency gains/losses are recognised in profit or loss. However, in line with the Bank policy, all currency gains/losses for this Fund are not distributable and are, therefore, transferred to the Currency Revaluation Reserve.

All realised and unrealised fair value changes in investment securities are recognised in profit or loss. Unrealised gains and losses arising from fair value changes of the instruments in this Fund are non-distributable as per the Bank's policy and are transferred to the Fair value Revaluation Reserve. However, when the investment securities are disposed of, the related accumulated fair value gains/losses are distributable.

All purchases and sales of investment securities in the portfolio are recognised at trade date, which is the date the Bank commits to purchase or sell the investments.

Short-term Deposits

Short-term deposits are placed with different deposit taking institutions in the international markets. The duration of the fixed deposits is typically one week to three months. Most are in the Liquidity Portfolio specifically to meet international payments and other transactional needs. The deposits are held with central banks and other high investment graded institutions, with the exception of South Africa where deposits are always held despite the rating because of the important economic and business relationship that exists between Botswana and South Africa. South Africa is Botswana's largest trading partner.

The deposits are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The resulting gain or loss on disposal of the deposits is recognised in the profit or loss. The expected credit loss model is applied to the deposits under this category. Risk assessment of default to calculate expected credit loss is detailed per Note 31.

Receivables Other Assets

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Bank provides a service directly to a counterparty. Receivables and other assets include prepayments, advances to banks and staff advances initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method less any identified loss allowance at the end of each reporting period.

Advances to Government

In accordance with the Bank of Botswana (Amendment) Act 2022, the Bank is permitted to grant temporary advances to the Government under conditions set out in Section 62 (4) and (5). Under the current agreement, the advance is given up to a maximum of 92 calendar days at a rate equivalent to the prevailing 3-months treasury bill rate.

Derivative Instruments

The Bank uses a variety of derivative instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate futures, foreign exchange forward contracts, cross-currency swaps and options.

Derivative instruments are initially recognised at fair value and are subsequently remeasured at fair value, based on bid prices for assets held or liabilities to be issued, and ask/offer prices for assets to be acquired or liabilities held. The resulting gain or loss is recognised in the profit or loss.

FINANCIAL INSTRUMENTS (Cont'd)

Standing Credit Facility (SCF)

SCF is a collateralised facility offered to commercial banks as part of the Bank's monetary policy operations. SCF interest rate is set at 100 basis points above the MoPR and is intended to signal the upper bound of the interest rate corridor. The reforms included introduction of the Monetary Policy Rate (MoPR) anchored on 7-day BoBCs as the policy rate and collateralised standing credit facility linked to the new monetary policy rate. SCF interest rate is set at 100 basis points above the MoPR and allows commercial banks to borrow from the Bank provided they have the eligible collateral. Instruments eligible for collateral include Bank of Botswana Certificates (BoBCs), Botswana Government bonds and treasury bills. Financial assets arising from the SCF are classified and measured at amortised cost.

Credit Facility

Under the Credit Facility, the Bank provides emergency and intermittent funding to solvent banks, intended to bridge intra-day and overnight liquidity shortages. The advances are secured by any Government of Botswana bond of any maturity, International Finance Corporation Pula denominated note listed on the Botswana Stock Exchange, BoBCs and any other eligible Government guaranteed securities, valued at fair value prices on the date of the transaction. Only high quality, marketable and freely transferable paper with a minimum amount of risk is acceptable as collateral at the discretion of the Bank. A margin/hairst cut is applied to mitigate risk. The Bank has the right to call for additional collateral, should the value of the security decline during the tenure of the facility. Interest earned on the advances is credited to profit or loss, while advances outstanding as at the Statement of Financial Position date are recorded under "receivables and other assets".

Impairment of Financial Assets

The Bank applies the IFRS 9 expected credit loss model under the general approach for recognition and measurement of impairment losses on financial assets measured at amortised cost. The impairment model is forward looking and recognises expected credit losses (ECL) on financial assets at the end of each reporting date. The standard states that if there has been significant increase in the credit risk of the financial asset after initial recognition, a lifetime expected credit loss should be recognised. However, the Bank only invests in high quality investment grade financial instruments which are considered to have close to zero risk of default, except South Africa deposits held for transactional purposes despite the rating being lower than investment grade.

The Bank also has other domestic financial instruments resulting from its monetary policy, considered low credit risk due to the general

assumption that sovereign debt denominated in local currency is extremely low risk of default (usually referred to as "risk-free" from market participant perspective).

In the foregoing the Bank, therefore, measures impairment on financial assets using the 12-month expected credit loss. The Bank at each reporting date determines if financial assets measured at amortised cost are of low credit risk.

Financial assets are credit impaired when there is objective evidence that as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been adversely impacted. Evidence that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the deposit taker;
- a breach of contract such as a default or past due event;
- it is becoming probable that the deposit taker will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a money market instrument because of financial difficulties.

Staff advances are categorised as low-risk assets, with controls on issue of loans and their recovery in place. An annual assessment of materiality of any ECL is undertaken. The Bank recognises impairment loss amounting to 12 months ECL for all staff loans. Staff loans are considered low risk as repayments are deducted at source and probability of default is less likely. In the case of ex-staff debts, where there are no terminal benefits to recover the outstanding debt, the remaining debt is wholly impaired. However, determined effort is undertaken to recover the debt.

Advances to banks are collateralised against Bank of Botswana Certificates and Government Bonds, therefore there is no risk of default.

For financial assets carried at amortised cost, the amount of the expected credit loss allowance is the difference between the asset's gross carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Financial Liabilities

The Bank's financial liabilities comprise the following:

- (a) **Foreign liabilities**
Allocation of SDR (IMF Reserve Tranche), Liabilities to Government (IMF Reserve Tranche).

FINANCIAL INSTRUMENTS (Cont'd)

(b) Domestic liabilities

Bank of Botswana Certificates, reverse repurchase agreements, deposits, dividend to Government, payables and other liabilities. Financial liabilities are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(c) Bank of Botswana Certificates

As one of the primary tools for maintaining monetary stability in the economy, the Bank of Botswana issues its own paper, BoBCs to absorb excess liquidity in the market and thereby influence short-term interest rates. BoBCs are issued at a discount to counterparties. These are measured at amortised cost using the effective interest method, with interest expense recognised on the effective yield basis.

The Bank's liability in respect of BoBCs is stated at offer prices on auction date, adjusted for movements in matured and unmatured discount recognised in profit or loss.

(d) Standing Deposit Facility (SDF)

SDF is an interest-bearing deposit placement with the Bank by the commercial banks. The SDF interest rate is set at 100 basis points below the MoPR. Interest charged is recognised as an expense in the profit or loss while outstanding deposits are reported as liabilities at the end of the reporting period.

(e) Notes and Coin in Circulation

The Bank issues banknotes and coin as legal tender in accordance with applicable national legislation. Currency in circulation comprises all banknotes and coin issued by the Bank that are not held in the Bank's own vaults. This amount is recognised as a financial liability when released into circulation and fluctuates based on transactional demand at varying times. All costs associated with the production of these notes and coin are expensed in profit or loss when incurred.

Currency in circulation is measured at face value as this liability does not have a fixed maturity date. It also represents the amount payable by the Bank upon presentation. As currency does not bear interest and has no contractual maturity, it is not discounted and is not subsequently remeasured. Banknotes and coin are removed from currency in circulation when returned to the Bank and formally withdrawn from use.

Derecognition

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

SECURITIES LENDING PROGRAMME

The Bank takes part in a Securities Lending Programme administered by its global custodian, The Northern Trust Company on its behalf. Where securities are lent, the Bank holds collateral in the form of cash or other securities. The securities lent continue to be recorded in the Bank's Statement of Financial Position.

The Bank's global custodian administers the Securities Lending Programme and monitors the securities lent and related collateral against requirements agreed by the Bank.

The Bank records income from lending securities as it accrues.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

This facility is one of the mechanisms designed to deal with short-term liquidity fluctuations in the domestic money market. It is available to primary counterparties which are solvent institutions licensed and supervised by the Bank.

The term of a repurchase agreement and reverse repurchase agreement can vary from overnight to 91 days, depending on the liquidity conditions in the domestic market.

Interest earned by the Bank on repurchase agreements and interest paid by the Bank on reverse repurchase agreements is recognised in profit or loss.

OFFSETTING FINANCIAL INSTRUMENTS

The Bank offsets financial assets and liabilities and reports the net balance in the Statement of Financial Position where:

- (a) there is a legally enforceable right to set off; and
- (b) there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

FOREIGN CURRENCIES

All transactions denominated in foreign currencies are translated to Pula at the mid exchange rate at the transaction date. All assets and liabilities denominated in foreign currencies are translated to Pula using mid rates of exchange at the close of the financial year. Foreign currency differences arising on translation are recognised in profit or loss. However, all gains and losses relating to disposals whose proceeds are reinvested in foreign assets, and all the unrealised gains/losses arising on financial instruments are not considered distributable in terms of Bank policy; these items are appropriated to the Currency Revaluation Reserve.

Profit/Loss on Foreign Exchange Deals

The Bank conducts foreign exchange operations in line with its mandate to implement exchange rate policy, manage foreign exchange reserves, and ensure adequate foreign currency liquidity in the domestic market. Foreign exchange gains and losses arise from differences between the mid-exchange rate applied in valuing the Bank's foreign currency holdings and the transaction rates with authorised counterparties. These gains or losses, including those generated from the sale or purchase of foreign currency to financial institutions, are recognised in profit or loss.

RECOGNITION OF PROVISIONS AND CONTINGENT LIABILITIES

Contingent Liabilities

The Bank discloses a contingent liability where there is a possible obligation depending on whether some uncertain future event occurs or a present obligation, but payment is not probable, or the amount cannot be measured reliably.

Provisions

The Bank recognises provisions when:

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

Measurement of Provisions

The Bank measures the provision at the amount which is the best estimate of the expenditure required to be settled. Risks and uncertainties are taken into account in measuring the provision. Provisions are re-measured at each reporting date. If an outflow is no longer probable, provisions are reversed.

INCOME AND EXPENSE RECOGNITION

Financial Assets Measured at Amortised Cost

Interest income from financial assets measured at amortised cost is calculated using the effective interest method and is recognised in profit or loss. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected

life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes transaction costs that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. For financial assets measured at amortised cost, future cash flow estimates are based on the carrying amounts of financial assets adjusted for loss allowances. Changes in carrying amounts are recognised in profit or loss (refer to Note 18).

Financial Assets Measured at FVTPL

For financial assets measured at FVTPL the measure of revenue is the net interest income received from investment securities. Dividends on fair value through profit or loss equity instruments are recognised in profit or loss when the right to receive payment is established. Usually, this is the ex-dividend date for quoted equities (refer to Note 18).

GENERAL RESERVE

Under Section 7 of the Bank of Botswana Act (CAP 55:01), the Bank is required to establish and maintain a General Reserve sufficient to ensure the sustainability of future operations. The Bank may transfer to the General Reserve funds from other reserves, which it maintains, for the purposes of maintaining the required level of the General Reserve.

CURRENCY REVALUATION RESERVE

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

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

FAIR VALUE REVALUATION RESERVE

Any changes in the value of the Bank's long-term investments as a result of any change in the fair values of such investments are transferred to the Fair Value Revaluation Reserve.

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

GOVERNMENT INVESTMENT ACCOUNT

The Government Investment Account, which was established on 1 January 1997, represents the Government's share of foreign exchange reserves in the Pula Fund and Liquidity Portfolio including its share of unrealised fair value and currency gains and losses.

PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

At each Statement of Financial Position date, items of Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment losses, if any. This includes the cost of improving or replacing part of the Property, Plant and Equipment provided the recognition criteria are satisfied. Cost includes expenditure that is directly attributable to the acquisition and construction of an asset.

Intangible assets acquired or internally developed/modified are measured on initial recognition at cost. Costs directly associated with development or obtaining the software are capitalised while indirect costs related to the software development are expensed as incurred. Corporate software applications are capitalised as part of the related item of Property, Plant and Equipment. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as indefinite unless useful life can be reliably estimated.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated residual values of Property, Plant and Equipment are reviewed at least annually. The useful lives and depreciation methods of these items are reassessed at each financial year-end and adjusted prospectively.

The Bank considers the pattern of use, technological and commercial obsolescence and regulatory requirements in its assessment of expected useful lives and estimated residual values.

An item of Property, Plant and Equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on disposal or retirement of an item of Property, Plant and Equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Repairs and maintenance costs are recognised in the statement of profit or loss during the financial year in which these costs are incurred. The cost of major renovations is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing

asset will flow to the entity and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset or over the period until the next planned renovation, whichever period is shorter.

Improvements that can function independently of the underlying asset are capitalised separately based on their specific useful lives. Replacements to Property, Plant and Equipment are accounted for based on the substitution approach. The cost and the accumulated depreciation of the existing assets are removed from the asset register and the new or replacement asset independently recorded over its own useful life.

Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of Property, Plant and Equipment. The depreciation rates are as follows:

	Percent
Buildings	2 to 7
Other Assets	
Furniture, machines and equipment	5 to 20
Computer hardware	5 to 20
Corporate software applications	20
Motor vehicles	5 to 20
Artwork	10 to not being depreciated
Land	
Right-of-use	over the estimated remaining life of the lease
Freehold	not depreciated

Intangible Assets

The Bank's intangible assets are subjected to amortisation and are depreciated using the straight-line method over their estimated useful lives. The Bank's intangible assets are corporate software applications and are held as part of Property, Plant and Equipment. In determining the useful life of computer software, the Bank considers the shelf life of the operating system, alternative technologies and obsolescence.

PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Cont'd)

Impairment

The carrying values of the Bank's property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the loss. However, the valuation of land and buildings takes place every three years. These are valued on a fair value basis and the recoverable (revalued) amounts disclosed by way of a note to the financial statements.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

EMPLOYEE BENEFITS

Retirement benefits

Pension benefits are provided for employees through the Bank of Botswana Defined Contribution Staff Pension Fund, in accordance with the Retirement Funds Act, 2022. The contribution per pensionable employee is at the rate of 21.5 percent of pensionable salary, which comprises 16 percent and 1.5 percent payable by the Bank as its contribution to the Fund and for administration costs of the Fund, respectively, and a 4 percent contribution by each active pensionable employee. Other than the contributions made, the Bank has no commitments or obligations to the Fund. Obligations for contributions to the pension fund are recognised in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Other benefits

Employee benefit expense consists of staff subsidy on staff loans charged as a period cost based on the differential between the market interest rate and staff rate over the period of the loan.

LEASES

The Bank assesses whether a contract is, or contains a lease, at the time of inception, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets.

For new leases the asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. The Bank depreciates the right-of-use assets on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain pre-measurements of the lease liability.

The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease and by reducing the carrying amount to reflect the lease payments. It is re-measured when there is a change in future lease payments arising from a change in the rate, or in cases of extension or termination option or if there is a revised in-substance fixed lease payment.

The Bank has one leased property which is a piece of land in which the Sports and Recreation facility is built. Lease agreements are negotiated on an individual and separate basis and would normally have an option for renewal upon expiry of the original agreement.

All leases are recognised in the Bank's statement of financial position.

RELATED PARTY TRANSACTIONS

The Bank enters into various transactions with other wholly owned or partly owned Government institutions and its key management personnel (related parties). All related party transactions are entered into a mutually agreed terms and conditions in the ordinary course of business. The transactions with key management personnel are staff benefits provided under the General Conditions of Service of the Bank.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Determination of fair values of financial instruments with unobservable inputs (or market data) - level 2

If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques (level 2). These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants (refer to Note 32).

Determination of expected credit losses

The Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12 months (refer to Note 30 on the measurement of ECL).

Right-of-use rate for IFRS 16 lease

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the applicable Monetary Policy Rate plus a margin as determined by the Bank, which is the interest rate the Bank is willing to lend in its role as a lender of last resort.

Useful life and residual value of assets

The Bank estimates useful life of each part of Property, Plant and Equipment (refer to material accounting policies – Property, Plant and Equipment). The useful lives and depreciation methods of these items are reassessed annually. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2025

	2025 P'000	2024 P'000
1. FOREIGN EXCHANGE RESERVES		
1.1 Liquidity Portfolio		
Bonds: FVTPL	2 022 042	1 880 035
Short-term deposits: amortised cost	11 868 917	2 257 146
Less: impairment loss (Note 31)	(29 727)	(1 816)
	11 839 190	2 255 330
	13 861 232	4 135 365
1.2 Pula Fund		
Equities: FVTPL	13 871 818	25 147 452
Bonds: FVTPL*	13 002 563	12 179 251
Short-term deposits: amortised cost	991 333	1 134 481
Less: impairment loss (Note 31)	(559)	(715)
	990 774	1 133 766
	27 865 155	38 460 469
(a) Statement of Financial Position		
<i>Capital Employed</i>		
Government	345 962	134 678
Bank of Botswana	27 519 193	38 325 791
	27 865 155	38 460 469
<i>Employment of Capital</i>		
Investments	27 865 155	38 460 469
Investments expressed in US dollars ('000) ³	2 053 662	2 761 462
Investments expressed in SDR ('000) ⁴	1 499 145	2 123 018
(b) Statement of Profit or Loss and Other Comprehensive Income		
<i>Income</i>		
Interest and dividends	722 714	1 216 454
Realised currency revaluation gains	1 016 301	1 991 896
Unrealised currency revaluation losses	(940 843)	(1 974 616)
Realised fair value gains	5 921 682	4 003 844
Unrealised fair value (losses)/gains	(2 917 097)	1 455 508
Impairment loss reduction on financial assets	309	23
	3 803 066	6 693 109
<i>Expenses</i>		
Administration costs	(289 181)	(336 229)
Net income	3 513 885	6 356 880
<i>Other comprehensive income</i>	-	-
Total comprehensive income	3 513 885	6 356 880

* Included in the Pula Fund are net derivative positions (which qualify for offset) of net derivative asset of P14.1 million (2024: net derivative liability of P8.1million) made up of derivative assets of P15.9 million (2024: P12.1 million) and derivative liabilities of P1.8 million (2024: P4 million). This has been aggregated within the Bonds: FVTPL line item as it not considered significant to warrant separate disclosure.

³ United States dollar/Pula – 0.0737 (2024: 0.0718)

⁴ SDR/Pula – 0.0538 (2024: 0.0552)

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025 P'000	2024 P'000
2 INTERNATIONAL MONETARY FUND (IMF)		
2.1 Reserve Tranche		
<p>This asset represents the difference between Botswana's Quota in the IMF and IMF Holdings of Pula. Botswana's Quota is the membership subscription, of which at least 25 percent was paid for in foreign currencies and the balance in Pula. The holding of Pula by the IMF, which initially was equal to 75 percent of the quota, has changed from time to time as a result of the use of the Pula by the IMF in lending to member countries.</p> <p>The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in, and commitments to the IMF are denominated in SDR. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen, and Pound sterling.</p>		
Quota SDR197 200 000 (2024: SDR 197 200 000)	3 663 602	3 575 495
Less: IMF Holdings of Pula	(2 737 781)	(2 671 173)
Reserve Position in IMF	925 821	904 322
<p>The IMF Holdings of Pula are represented by the Non-Interest-Bearing Note of P 1 477 900 684 (2024: P1 477 900 684) issued by the Government of Botswana in favour of the IMF, maintenance of value currency adjustments and the amount in the current account held at the Bank (included in deposits in Note 10 – IMF No 1 & 2 accounts).</p>		
2.2 Holdings of Special Drawing Rights		
Balance at the beginning of the year	4 602 496	4 526 840
Net interest & remuneration	32 062	47 807
Currency revaluation	112 875	27 849
	4 747 433	4 602 496
<p>The balance on the account represents the value of Special Drawing Rights (SDR) allocated and purchased less utilisation to date.</p>		
2.3 General Subsidy Account		
Face value (SDR 1 520 000)	28 239	27 560
Interest	20	19
	28 259	27 579
<p>This is an investment with the IMF, the purpose of which is to augment the resources of the Poverty Reduction and Growth Trust Fund. The term of investment agreement of 22 August 2022 was extended to 30 August 2027.</p>		
3 REPURCHASE AGREEMENTS		
Amortised cost	3 744 875	4 149 431
<p>Repurchase agreements (Repos) are used for short-term liquidity management in the domestic market. The Repos are offered to inject liquidity into the banking system at the prevailing monetary policy rate (MoPR) and have a maximum tenure of three months. They are collateralised using Bank of Botswana Certificates, Government of Botswana Treasury Bills and bonds.</p>		
4 ADVANCES TO GOVERNMENT		
Amortised cost	3 200 000	-
<p>The Bank granted Government temporary advances amounting to P3 200 000 000 as at 31 December 2025 (2024: nil). The advance is given in terms of Section 62 (4) and (5) of the Bank of Botswana Act. The temporary advances are for a period not exceeding 92 calendar days and attract prevailing market interest rates, in this case, the prevailing 3-month Botswana Government Treasury Bill rate.</p>		
5 RECEIVABLES AND OTHER ASSETS		
Staff loans and advances (Note 15.1)	298 928	215 077
Prepayments	6 731	11 395
Donor funds – Government projects	531 413	264 625
Trade Receivables (Note 15.1)	787	610
Other	2 752	3 302
	840 611	495 009

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

6. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	Freehold Land	Leasehold Land	Buildings	Capital Works in Progress (Redevelopment Project)	Capital Works in Progress (Other Assets) ⁵	Right-of-Use Assets	Other ⁶ Assets	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cost – 31 December 2025								
Balance at the beginning of the year	2 065	4 932	1 200 567	6 041	63 559	606	587 181	1 864 951
Additions	-	-	-	18 199	14 006	-	17 890	50 095
Disposals	-	-	(1 634)	-	-	-	(9 725)	(11 359)
Reclassification	-	-	112 074	-	-	-	(112 074)	-
Cost as at 31 December 2025	2 065	4 932	1 311 007	24 240	77 565	606	483 272	1 903 687 ⁷
Accumulated Depreciation								
Balance at the beginning of the year	-	-	179 292	-	-	558	266 194	446 044
Charge for the year	-	-	34 030	-	-	24	35 960	70 014
Disposals	-	-	(1 091)	-	-	-	(8 222)	(9 313)
Reclassification	-	-	16 112	-	-	-	(16 112)	-
Balance at year-end	-	-	228 343	-	-	582	277 820	506 745
Net book value at 31 December 2025	2 065	4 932	1 082 664	24 240	77 565	24	205 452	1 396 942
Cost – 31 December 2024								
Balance at the beginning of the year	2 065	4 932	1 179 800	8 100	92 785	606	497 642	1 785 930
Additions	-	-	-	17 670	35 324	-	32 309	85 303
Disposals	-	-	-	-	-	-	(6 282)	(6 282)
Transfers from WIP	-	-	20 767	(19 584)	(64 550)	-	63 367	-
Cost as at 31 December 2024	2 065	4 932	1 200 567	6 186	63 559	606	587 036	1 864 951
Accumulated Depreciation								
Balance at the beginning of the year	-	-	149 156	-	-	533	222 050	371 739
Charge for the year	-	-	30 136	-	-	24	49 120	79 280
Disposals	-	-	-	-	-	-	(4 976)	(4 976)
Balance at year-end	-	-	179 292	-	-	557	266 194	446 043
Net book value at 31 December 2024	2 065	4 932	1 021 275	6 186	63 559	49	320 842	1 418 908

⁵ Capital works (other assets) comprises work in progress relating to computer hardware and software projects.

⁶ Other assets comprise of furniture, machines and equipment, fixtures and fittings, computer hardware, computer software and motor vehicles and Artwork (Note 6.3).

⁷ Property, Plant and Equipment comprise of some assets with original cost (P129 537 340) which are fully depreciated and still in use.

PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Cont'd)

6.1 Breakdown of the right-of-use assets	Land P'000	Buildings P'000	Total P'000
Balance at 1 January 2025	606	-	606
Accumulated depreciation	582	-	582
Net book value at 31 December 2025	24	-	24
Balance at 1 January 2024	606	-	606
Additions	-	-	-
Matured Leases	-	-	-
	606	-	606
Accumulated depreciation	557	-	557
Net book value at 31 December 2023	49	-	49

6.2 Lease liability: right-of-use

	2025 P'000	2024 P'000
Balance at the beginning of the year	80	117
Lease payments: right-of-use	(39)	(37)
Additions	-	-
Balance at the end of the year	41	80

6.3 Other Assets

	Motor Vehicles P'000	Furniture, Fixtures, Machines & Equipment, Artwork & Other P'000	Computer Hardware P'000	Corporate Software Applications P'000	Total P'000
Cost – 31 December 2025					
Balance at the beginning of the year	22 615	357 503	164 030	43 033	587 181
Additions	4 932	5 294	7 039	625	17 890
Disposals	(2 564)	(6 712)	(449)	-	(9 725)
Reclassification*	-	(113 548)	(3 299)	4 773	(112 074)
Balance at year-end	24 983	242 537	167 321	48 431	483 272
Accumulated depreciation					
Balance at the beginning of the year	10 061	138 513	77 772	39 848	266 194
Charge for the year	1 635	20 759	9 960	3 606	35 960
Disposals	(1 866)	(5 931)	(425)	-	(8 222)
Reclassification*	-	(16 288)	(1 678)	1 854	(16 112)
Balance at year-end	9 830	137 053	85 629	45 308	277 820
Net book value at 31 December 2025	15 153	105 483	81 692	3 123	205 452

As per IAS 16.73 disclosure of classes of assets have been presented separately to enhance presentation with no impact on the numbers presented.

* We have reassessed the nature of certain permanent fixtures and considered that these would be more appropriately classified as part of the cost of the buildings. This resulted in a prospective reclassification due to the amounts not being considered material.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025	2024
	P'000	P'000
7. ALLOCATION OF IMF SPECIAL DRAWING RIGHTS (SDR)		
Balance at the beginning of the year	4 468 271	4 433 919
Currency revaluation gains for the year	110 107	34 352
	<u>4 578 378</u>	<u>4 468 271</u>
This is the liability of the Bank to the IMF in respect of the allocation of SDR to Botswana.		
8. LIABILITIES TO GOVERNMENT (IMF RESERVE TRANCHE)		
Balance at the beginning of the year	405 275	503 200
Repurchase of SDR	3 412	(104 388)
Revaluation currency gains for the year	18 087	6 463
Balance at the end of the year	<u>426 774</u>	<u>405 275</u>
This balance represents the Bank's liability to the Government in respect of the Reserve Tranche position in the IMF. Movement in the Reserve Tranche comprise of purchases, repurchases and currency revaluations for the year (Note 2.1).		
9. NOTES AND COIN IN CIRCULATION		
Notes	4 544 280	4 739 168
Coin	157 394	151 889
	<u>4 701 674</u>	<u>4 891 057</u>
Notes and coin in circulation held by the Bank at the end of the financial year have been netted off against the liability for notes and coin in circulation to reflect the net liability to the public. Notes and coin are a cost to the Bank which becomes a liability on distribution to the public. Notes and coin in circulation are payable on demand.		
10. DEPOSITS		
Government	905 830	1 255 899
Bankers - current accounts	266 664	99 068
IMF No 1 & 2 accounts	1 248 542	1 181 135
Other	599 907	563 335
	<u>3 020 943</u>	<u>3 099 437</u>
These deposits are various current accounts of Government, commercial banks, parastatal bodies and others, which are repayable on demand and are interest free.		
11. STANDING DEPOSIT FACILITY		
Amortised cost	<u>1 954 169</u>	<u>3 487 185</u>
The Standing Deposit Facility (SDF) is an overnight deposit facility used to absorb excess liquidity in the banking system. The SDF acts as the floor of the interest rate corridor and is 100 basis points below the anchor rate (MoPR).		
12. BANK OF BOTSWANA CERTIFICATES		
Face value	1 410 000	1 200 000
Unmatured discount	(795)	(366)
Carrying amount	<u>1 409 205</u>	<u>1 199 634</u>

Bank of Botswana Certificates are issued at various short-term maturity dates (Note 34) and discount rates.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025 P'000	2024 P'000
13. DIVIDEND TO GOVERNMENT		
Balance due at the beginning of the year	3 444 016	238 758
Dividend to Government from Pula Fund	-	838 000
Paid during the year	(3 444 016)	(867 258)
Residual net income	7 292 783	3 234 516
Balance due at the end of the year	7 292 783	3 444 016
<p>The residual net income of P7 292 782 785 unpaid as at 31 December 2025 has been provided for in accordance with Section 6 of the Bank of Botswana Act; which requires that net profits of the Bank be distributed to the shareholder, the Government.</p>		
13.1 GOVERNMENT INVESTMENTS/ (WITHDRAWALS)		
(a) Pula Fund		
Balance at the beginning of the year	134 678	8 308 096
Investments	11 470 601	6 932 166
Withdrawals	(11 259 370)	(15 105 584)
Balance at the end of the year	345 962	134 678
(b) Liquidity Portfolio		
Balance at the beginning of the year	116 619	269 329
Withdrawals	383 381	(152 710)
Balance at the end of the year	500 000	116 619
Total Government Investments	845 962	251 297
14. PAYABLES AND OTHER LIABILITIES		
Accounts payable	85 176	15 150
Donor funds – Government projects	531 413	264 625
Lease liability	41	80
Provisions (refer to Note 14.1)	136 442	132 874
Accruals and Other Payables	8 195	12 898
	761 267	425 627

14.1 PROVISIONS

	Provision for Audit fees P'000	Provision for Fund Manager's fees P'000	Provision for leave P'000	Provision for Gratuity P'000	Total P'000
Balance at 1 January 2025	1 308	71 680	39 605	20 281	132 874
Cost paid during the year	(2 038)	(60 932)	(19 714)	(12 509)	(95 193)
Provision arising during the year	1 764	62 123	20 858	14 016	98 761
Balance at 31 December 2025	1 034	72 871	40 749	21 788	136 442

Details for each class of provision for the period have been provided as per IAS 37.84 disclosure requirements.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

15. CATEGORIES OF FINANCIAL INSTRUMENTS	2025 P'000	2024 P'000
15.1 Financial Assets		
Measured at FVTPL		
Equities	13 871 818	25 147 452
Bonds	15 010 513	14 051 232
Derivative assets	15 881	12 091
	28 898 212	39 210 775
Measured at Amortised Cost		
IMF Reserves	5 701 513	5 534 397
Advances to Government	3 200 000	-
Staff loans and advances	298 928	215 077
Short-term deposits	12 829 965	3 389 096
Trade Receivables	787	610
	22 031 193	9 139 180
Total Financial Assets	50 929 405	48 349 955
The above is disclosed in the Statement of Financial Position as follows:		
Total Foreign Assets	47 427 900	48 130 230
Add: Derivative instruments (liabilities) (Note 1.2)	1 789	4 037
Advances to Government	3 200 000	-
Receivables and Other Assets - staff loans and advances (Note 5)	299 716	215 688
	50 929 405	48 349 955
15.1 Financial Liabilities		
Measured at FVTPL		
Derivative instruments (Note 1.2)	1 789	4 037
Measured at amortised cost		
Bank of Botswana Certificates	1 409 205	1 199 634
Allocation of SDR (IMF)	4 578 378	4 468 271
Liabilities to Government (IMF)	426 774	405 275
Deposits	3 020 943	3 099 437
Standing Deposit Facility	1 954 169	2 344 347
Dividend to Government (Note 13)	7 292 783	3 444 016
Payables and Other Liabilities	229 855	161 001
	18 913 896	15 126 018

The payables and other liabilities figure excludes Donor funds – Government projects, which do not meet the definition of a financial liability.

15.3 Derivative Instruments

The Bank's Reserve Management Policies and Investment Guidelines authorise the use of derivative instruments. The derivatives are held for managing risk.

CATEGORIES OF FINANCIAL INSTRUMENTS (Cont'd)

The table below shows the market values and the total notional exposures of derivative instruments as at year end.

		Asset	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
		2025	2025	2025	2024	2024	2024
		(P'000)	(P'000)	(P'000)	(P'000)	(P'000)	(P'000)
Swaps	-Buy	15 881	-	3 065	11 792	-	2 722
	-Sell	-	(1 789)	42	-	(3 940)	(665)
Options	-Buy	-	-	-	299	-	434
	-Sell	-	-	-	-	(97)	(175)
		15 881	(1 789)	3 107	12 091	(4 037)	2 316

The above derivatives are classified by type of asset and instrument. The assets and liabilities reflect the net position between the market values and the notional amounts.

Swaps

A swap is an agreement between two or more parties to exchange sets of cash flows over a period in the future, typically either in the form of interest rate swaps or currency swaps. The cash flows that the counterparties make are linked to the value of the underlying debt financial instrument or the foreign currency.

Options

An option is an exclusive right, usually obtained for a fee, but not the obligation to buy or sell a specific financial instrument within a specified time. A fixed income option is the exclusive right to either buy or sell specified units of a fixed income security by a specific date. A currency option is an option to either buy or sell a specified currency by a specific date.

16. PAID-UP CAPITAL

2025
P'000 **2024**
P'000

Authorised and Paid-up Capital	150 000	150 000
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The capital is the amount subscribed by the Government in accordance with Section 5(1) of the Bank of Botswana (Amendment) Act, 2022. The Bank is not subject to any externally imposed capital requirements. Therefore, capital is not actively managed. Management considers the Paid-up Capital and the General Reserve to be capital.

17. GENERAL RESERVE

General Reserve	15 000 000	15 000 000
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In the opinion of the Board, the General Reserve, taken together with other reserves which the Bank maintains, is sufficient to ensure the sustainability of future operations of the Bank.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025 P'000	2024 P'000
18. INTEREST – FOREIGN EXCHANGE RESERVES		
Liquidity Portfolio		
Short-term deposits: amortised cost	606 291	392 110
Bonds: FVTPL	50 906	21 304
IMF Reserves: amortised cost	31 302	40 340
Pula Fund		
Short-term deposits: amortised cost	7 065	9 992
Bonds: FVTPL	463 282	676 969
	1 158 846	1 140 716
19. DIVIDENDS – FOREIGN EXCHANGE RESERVES		
Pula Fund		
Equities: FVTPL	238 915	516 738
20. NET REALISED FAIR VALUE GAINS/(LOSSES) ON DISPOSAL OF SECURITIES		
Liquidity Portfolio		
Bonds	(311 586)	(152 882)
Pula Fund		
Bonds: FVTPL	(50 731)	(311 064)
Derivative instrument: FVTPL	30 343	(18 725)
Equities: FVTPL	5 942 069	4 333 632
	5 610 095	3 850 961
21. NET UNREALISED FAIR VALUE GAINS/(LOSSES)		
Liquidity Portfolio		
Bonds FVTPL	334 521	(308 326)
Pula Fund		
Bonds: FVTPL	137 306	748 236
Equities: FVTPL	(3 065 312)	701 960
Derivative instruments: FVTPL	10 909	5 313
	(2 582 576)	1 147 183
22. NET REALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	(45 897)	468 935
Bonds: FVTPL	5 309	(178 008)
Pula Fund		
Derivative instruments: FVTPL	566	(1)
Short-term deposits: amortised cost	(17 359)	(25 979)
Bonds: FVTPL	224 289	1 311 092
Equities: FVTPL	808 803	706 782
	975 711	2 282 821
Included above are net currency losses of P17 357 000 (2024: P25 701 000) on withdrawal of short-term deposits measured at amortised cost.		
23. NET UNREALISED CURRENCY GAINS/(LOSSES)		
Liquidity Portfolio		
Short-term deposits: amortised cost	371 818	(90 866)
Bonds: FVTPL	10 547	85 172
IMF reserves: amortised cost	4 207	1 176
Pula Fund		
Short-term deposits: amortised cost bonds: FVTPL	2 967	(5 443)
Bonds: FVTPL	(32 951)	(1 322 656)
Equities: FVTPL	(910 935)	(640 680)
Derivative instruments: FVTPL	76	(5 837)
	(554 271)	(1 979 134)

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025 P'000	2024 P'000
24. INTEREST EXPENSE		
Bank of Botswana Certificates (BoBCs)	39 559	167 162
Standing Deposit Facility	22 187	29 152
	61 746	196 314
25. NET CURRENCY REVALUATION GAINS/(LOSSES) RETAINED IN PROFIT OR LOSS		
Total net realised gains (Note 22)	975 711	2 282 821
Total net unrealised losses (Note 23)	(554 271)	(1 979 134)
Total net currency revaluation gains	421 440	303 687
Appropriated to Currency Revaluation Reserve:		
Net realised currency gains reinvested in foreign assets	(1 064 278)	(2 230 540)
Net unrealised currency losses (Note 23)	554 271	1 979 134
Transfer of net currency gains to Currency Revaluation Reserve	(510 007)	(251 406)
Net currency revaluation gains retained in profit or loss	(88 565)	52 281
26. NET FAIR VALUE GAINS/(LOSSES) APPROPRIATED TO FAIR VALUE REVALUATION RESERVE		
Total net realised gains/(losses) (Note 20)	5 610 095	3 850 961
Total net unrealised gains (Note 21)	(2 582 576)	1 147 183
Total net fair value gains	3 027 519	4 998 144
Appropriated to Fair Value Revaluation Reserve:		
Transfer of unrealised fair value losses/(gains) to fair value revaluation reserve	2 582 576	(1 147 183)
Net fair value gains retained in profit or loss	5 610 095	3 850 961

27. COLLATERAL

a. Credit Facility

There were no open positions as at 31 December 2025 (2024 Nil) under the Credit Facility accounted for as "Advances to Banks".

a. Securities Lending Programme

Under the Bank's Securities Lending Programme, the Bank has lent securities with a fair value of P3.7 billion (2024: P4.8 billion). The Bank has accepted collateral with fair value of P3.9 billion (2024: P5.2 billion) consisting of government bonds P1.5 billion (2024: P1.9 billion), cash P1.7 billion (2024: P2.7 billion) and equities P0.6 billion (2024: P0.6 billion).

28. STATEMENT OF CASH FLOWS

The Bank has no cash on hand balances on its Statement of Financial Position attributable to its role in the creation and withdrawal of currency in circulation (see Note 9).

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

	2025	2024
	P'000	P'000
29. CASH GENERATED FROM OPERATIONS		
Net income for the year adjusted for:	5 247 338	5 779 431
Unrealised Exchange gains	554 271	1 979 134
Unrealised Fair Value losses/(gains)	2 917 097	(1 455 509)
Fair Value Revaluation losses charged to Profit	211 645	-
Depreciation Expense	70 014	79 281
Interest On Lease Liability	4	6
Impairment Reversals on Financial Assets	28 132	(7 930)
Losses On Disposal of Property and Equipment	527	213
Other Impairments	30 314	22 900
Provisions	136 442	131 566
Other Liabilities – Accruals	3 893	8 574
Accrued Interest Income	59 807	11 676
Interest Income	(1 158 846)	(1 140 716)
Dividend Income	238 915	(516 738)
Interest Expense	61 746	196 314
	8 401 299	5 088 202
Deposits – banks and other	271 575	(2 638 092)
Deposits – Government	(350 069)	116 145
Bank of Botswana Certificates	209 571	(4 798 434)
Repurchase Agreements	404 556	(4 149 431)
Advances to Government	(3 200 000)	-
Standing Deposit Facility	(390 178)	(1 142 838)
Receivables and Other Assets	345 602	(90 490)
Payables and Other Liabilities	195 344	(224 204)
Movement in Pula Fund – Foreign reserves	4 772 932	11 102 747
Cash generated from operations	10 660 632	3 263 605
30. CAPITAL COMMITMENTS		
Approved and contracted for	81 044	51 566
Approved, but not contracted for	68 937	69 205
	149 981	120 771

These capital commitments will be funded from internal resources.

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS

Risk is inherent in the Bank's management of financial instruments comprising primarily foreign currency denominated assets, which are held in various financial instruments and currencies. This risk is managed through a process of ongoing identification, measurement and monitoring that is subject to an extensive framework of risk limits and other controls. The process of risk management is critical to the Bank's ongoing operations, with the day-to-day management of the financial instruments being conducted by the Financial Markets Department. A key element in the risk management of the foreign exchange reserves is safety, defined as the preservation of purchasing power of the foreign exchange reserves. To this end, the Bank has continued to pursue a prudent and diversified investment strategy. The Bank's objectives, policies and procedures for managing the risk exposures and the method used to measure

the risks have remained consistent with the prior year. The risk management framework remains sound and effective.

Risk Management Governance Structure

The Bank's risk management governance structure is broadly as follows:

(a) Board

The Board is responsible for the Bank's overall risk management and for approving Reserves Management Policies and the strategic asset allocation. The Board receives quarterly reports on the performance of the portfolio.

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

(b) Investment Committee

The Investment Committee, which is chaired by the Governor and comprises representatives from relevant areas of the Bank, reviews and approves the Investment Guidelines for the foreign exchange reserves. It meets regularly to review developments in the international financial and capital markets. Where necessary, the Investment Committee makes strategic and tactical decisions on Bank-managed portfolios. The Investment Committee also monitors the performance of the external fund managers and reports on same to the Board.

(c) Financial Markets Department

The Financial Markets Department is responsible for the management of the foreign exchange reserves and has a specialised Risk Management Unit focusing on the risks associated with all the investment portfolios and ensures compliance with the Bank's Reserves Management Policies and Investment Guidelines.

(d) External Fund Managers and Custody

External fund managers are engaged to complement the Bank's reserve management activity. The Bank uses the services of a custodian which provides custodial services and performance measurement for the Bank's portfolios. The custodian is also responsible for the securities lending programme and ensures that sufficient collateral is provided to mitigate associated risks.

(e) Segregation of Duties

At an operational level, the main feature of risk control is the segregation of duties relating to dealing, settlement, risk monitoring and recording. These responsibilities are split among three Departments: Financial Markets, Banking, Currency and Settlement and Finance.

Tranching of Foreign Exchange Reserves – Liquidity Portfolio and Pula Fund

The Bank of Botswana Act requires the Bank to maintain a primary international reserve, that is, the Liquidity Portfolio, while Section 35 provides for the establishment and maintenance of a long-term investment fund, the Pula Fund. In compliance with the statutory requirements, a major feature of the foreign exchange reserves management strategy is, therefore, to allocate a certain level of reserves to the Liquidity Portfolio, with the remaining amount invested in the Pula Fund.

Pula Fund

Investments of the Pula Fund comprise long-term assets, such as long-dated bonds and equities actively traded in highly liquid global markets, with the expectation of earning a higher return than the risk-free rate. The asset allocation between bonds and equities is determined using a combination of historical data and assumptions. Exercises are also conducted in respect of the Pula Fund risk/return sensitivity analysis, using different portfolio options, where risk is measured by a standard deviation on the rate of return. A small allocation (5 percent) is made to a high yield portfolio with the aim of enhancing the return potential of the reserves. To mitigate currency risk in the high yield portfolio hedging is used to limit non-US dollar currency exposure to no more than 25 percent.

Liquidity Portfolio

In terms of the investment guidelines, liquidity takes precedence over return in the Liquidity Portfolio, given the recurring need to provide foreign exchange to finance international transaction payments. While the eligible investment currencies are similar to those of the Pula Fund, the Liquidity Portfolio is largely invested in shorter-dated assets. The Liquidity Portfolio is sub-divided into the Liquidity Investment Tranche (LIT) and the Transaction Balances Tranche (TBT), comprising highly liquid investments in the Bank's international transaction currencies.

Types of Risk Exposure

The Bank's investment guidelines cover basic types of risk exposures, namely, market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. These types of risk apply to the foreign assets and liabilities.

(a) Currency Risk

Currency risk or exchange rate risk arises when exchange rates move against the reporting currency. The reserves are invested in diverse currencies to mitigate the impact of exchange rate movements. The Bank's policy is to invest only in currencies with investment grade ratings assigned by Moody's Investors Services, Standard and Poor's and Fitch Ratings. Through a diversified currency allocation, the Bank ensures that the purchasing power of the foreign exchange reserves is preserved. In terms of the investment guidelines, a maximum deviation from the neutral level is 10 percent for currencies rated AAA to AA-, 6 percent for currencies rated between A+ and A-, 5 percent for BBB+. At the end of 2025, the Bank's total exposure to major investment currencies was P41.7 billion (2024: P42.6 billion). The Bank is also exposed to SDR currency risk on net IMF balances amounting to P0.70 billion (2024: P0.66 billion).

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31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Exposure to Currency Risk

The Table below shows the investment currencies to which the Bank had exposure as at 31 December 2025.

	2025 (P'000)	2024 (P'000)
Major Investment Currencies		
AUD	694 483	791 703
CAD	475 166	562 809
EURO	5 761 388	3 615 640
GBP	1 635 103	1 085 075
ZAR	2 219 253	507 073
JPY	2 753 646	3 433 542
USD	21 269 314	25 884 745
Other ⁸	6 948 320	6 717 778
Impairment Loss on Financial Assets*		
Liquidity Portfolio (Note 1.1)	(29 727)	(1 816)
Pula Fund (Note 1.2)	(559)	(715)
	41 726 387	42 595 834

* The figures for impairment on financial assets in respect of Liquidity Portfolio and Pula Fund have been presented separately to enhance presentation with no impact on the numbers presented.

(b) Interest Rate Risk

Interest rate risk is the possible loss in the value of a fixed income asset resulting from an adverse movement in interest rates and a consequent change in price. Interest rate risk is measured by modified duration, which measures the sensitivity of the price of a bond to changes in interest rates expressed in years. The Bank benchmarks the interest rate risk for the Pula Fund (fixed income assets) to reflect the long-term nature of the portfolio, with emphasis on higher return. The higher interest rate risks generally compensated by higher returns expected from longer maturity bonds. The modified duration benchmark will vary over time, as changing market conditions and index weights impact the global modified duration of the index. At the end of 2025, the average modified duration of the fixed income portion of the Pula Fund was 5 years (2024: 5 years). The Pula Fund's total exposure to interest rate risk was P13.0 billion (2024: P14.5 billion). The Liquidity Portfolio gives priority to liquidity over return and given the constant need to provide foreign exchange to finance international transaction payments, the portfolio is exposed to minimum interest rate risk. The Liquidity Portfolio total exposure to interest rate risk was P2 billion (2024: 1.9 billion).

(c) Equity Price Risk

Equity price risk is the risk that the value of equities decreases as a result of changes in the level of equity indices and diminution of value of individual stocks. The geographic allocation of equity exposure follows generally the market capitalisation among the equity markets. The

investment guidelines stipulate the holding levels of equities. Holdings of more than 10 percent of the voting rights of any one company are not permitted, and the portfolio must hold a reasonable number of stocks. A reasonable spread among the industry sectors is maintained in the portfolio. There are no investments in private placements or unquoted stocks. At the end of 2025, the equity portion of the Pula Fund was P13.9 billion (2024: P25.4 billion).

Market Risk Sensitivity Analysis

The set of assumptions used for each of the risk factors hereunder are not forecasts, but merely "what if" scenarios and the likely impact on the current portfolio, based on selected changes in risk variables over a one-year horizon.

The Table below gives an indication of the risk sensitivities of the portfolio to various risk parameters. Assuming that the probability of the beneficial change in the risk variables.

⁸ Includes emerging markets currencies.

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

31 DECEMBER 2025

Risk Variable	Adverse market change			Beneficial market change	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income ⁹ (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 105 basis points	698 854	Decrease in yields by 400 basis points	(698 854)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	395 374	Weakening of the Pula by 1 percent	(395 374)
	South African rand	Strengthening of the Pula by 1 percent	22 193	Weakening of the pula by 1 percent	(22 193)
Equity Risk	Global Equities	Decline in global equity prices by 12 percent	1 664 618	Increase in global equity prices by 12 percent	(1 664 618)

31 DECEMBER 2024

Risk Variable	Adverse market change			Beneficial market change	
		Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income ¹⁰ (P'000)	Scenario	Effect on Statement of Profit or Loss and Other Comprehensive Income (P '000)
Interest Rate Risk		Increase in yields by 400 basis points	3 423 778	Decrease in yields by 400 basis points	(3 423 778)
Currency Risk	Investment currencies	Strengthening of the Pula by 1 percent	420 888	Weakening of the Pula by 1 percent	(420 888)
	South African rand	Strengthening of the Pula by 1 percent	5 071	Weakening of the pula by 1 percent	(5 071)
Equity Risk	Global Equities	Decline in global equity prices by 10 percent	2 514 745	Increase in global equity prices by 10 percent	(2 514 745)

The market risk estimates as presented in the Tables above are based on sensitivities to the individual risk factors. The correlation between the risk variables is not reflected in the effect on the Statement of Profit or Loss and Other Comprehensive Income. In view of prevailing market conditions, the Bank maintained the equity risk variable at 10 percent to reflect the average movement of the MSCI World Index in global equity prices. For market risk estimates, the interest rate risk variable remained the same at 400 basis points relative to the 2-year average bond yield movements.

(d) Credit Risk

This is the risk that would arise if an entity that the Bank conducts business with is unable to meet its financial obligations or in the event of an adverse credit event or default. This may be a commercial bank

accepting a deposit, a sovereign, supranational or corporate entity issuing a bond or a counterparty with whom the portfolio manager has contracted to buy or sell foreign exchange or money or capital market instruments. In the Bank's endeavour to control credit risk, it deals with only high-quality investment grade institutions or counterparties, as determined by international rating agencies.

Consistent with the Reserves Management Policies and Investment Guidelines, the Bank disinvests whenever the rating of an instrument falls below investment grade. This is with the exception of the "Strategic Yield" portfolio, where a minimum rating of B- is applied. The Strategic Yield portfolio comprises not more than 5 percent of the Pula Fund. In cases where the new lower rating necessitates a lower exposure, holdings are reduced to ensure that the new limit is not exceeded.

⁹ The effects are expected to have the same impact on shareholder's funds.

¹⁰ The effects are expected to have the same impact on shareholder's funds.

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31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

The Bank mitigates credit risk by addressing the following underlying issues:

- defining eligible investment instruments;
- pre-qualifying counterparties (financial institutions, brokers/dealers, and intermediaries) doing business with the Bank; and
- diversifying investment portfolios so as to minimise potential losses from securities or individual issuers.

Exposure to Credit Risk

The Table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position, including derivatives. The maximum exposure is shown gross, before the effect of the above mitigation factors.

	Notes	2025 P'000	2024 P'000
Financial Assets			
Liquidity Portfolio			
Short-term deposits: amortised cost		11 868 917	2 255 330
Bonds: FVTPL	1.1	2 022 042	1 880 035
Pula Fund			
Bonds: FVTPL	1.2	12 988 471	12 171 197
Derivative instruments: FVTPL		14 092	8 054
Short-term deposits: amortised cost		991 333	1 133 766
International Monetary Fund - amortised cost			
Reserve Tranche	2.1	925 821	904 322
Holdings of Special Drawing Rights	2.2	4 747 433	4 602 496
General Subsidy Account	2.3	28 259	27 579
Advances to Government	4	3 200 000	-
Repurchase Agreements: amortised cost	3	3 744 875	4 149 430
Receivables and Other Assets - staff loans and advances: amortised cost	5	298 928	215 688
Total		40 830 172	27 347 897
Analysis of Credit Exposure by class:			
Measured at fair value			
Bonds		15 010 513	14 051 232
Derivatives		14 092	8 054
Measured at amortised cost			
IMF Reserves		5 701 513	5 534 397
Advances to Government		3 200 000	-
Repurchase Agreements		3 744 875	4 149 430
Receivables and Other Assets - staff loans and advances		298 928	215 688
Short-term deposits		12 860 251	3 389 096
Total		40 830 172	27 347 897

While some financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure, but not the maximum risk exposure that could arise in future as a result of changes in values.

Under staff advances, the amount of P170 114 (2024: P153 400 120)

was for owner-occupied residential mortgage loans. The Bank is the first holder of the mortgage loan bonds. As at year-end, the total value of this collateral was a fair value of P195 280 499 (2024: P195 280 499), based on the property valuation report as at November 2020 (refer to page 22 valuation of properties).

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

The Tables below reflect the credit exposure based on the fair value of the assets with counterparties as at 31 December 2025.

Credit Exposure on Bonds

Moody's/S&P Rating	2025			2024		
	Government (P'000)	Corporate (P'000)	Total (P'000)	Government (P'000)	Corporate (P'000)	Total (P'000)
AAA	3 433 548	122 392	3 555 944	6 258 516	48 317	6 306 833
AA+	3 178 196	27 110	3 205 308	399 558	13 819	413 377
AA	912 176	6 099	918 275	967 438	2 977	970 415
AA-	75 959	43 156	119 113	234 490	75 252	309 742
A+	1 918 647	275 641	2 194 288	1 458 478	262 140	1 720 618
A	397 017	170 119	567 135	325 997	169 723	495 720
Other ¹¹	1 500 897	2 949 553	4 450 450	1 214 960	2 619 567	3 834 527
	11 416 440	3 594 073	15 010 513	10 859 437	3 191 795	14 051 232

Credit Exposure to Banks (Short-term deposits)

Fitch Rating	2025	2024
	(P'000)	(P'000)
AAA ¹²	5 263 832	537 815
AA+	-	290 004
AA	2 667 214	200 758
AA-	2 299 212	1 186 036
A	520 190	174 719
A+	-	614 688
BB+	-	387 607
BB-	2 109 801	-
	12 860 249	3 391 627

Credit Exposure on Securities Lending Programme

The Bank's global custodian manages a Securities Lending Programme as agent of the Bank. Due to the short-term nature of the securities lending transactions, the collateral received under this programme changes on a short-term basis. The securities lending is regulated by a securities lending agreement with the global custodian and follows the general criteria for the Bank's credit exposure. The global custodian monitors the market value of the collateral and, where necessary, obtains additional collateral in line with the underlying agreement.

(e) Instrument Risk

(i) Sovereign Bonds

In accordance with the Reserves Management Policies and Investment Guidelines, the Bank invests in eligible investment grade instruments that are direct obligations or obligations explicitly guaranteed by governments or local governments. Exposure limits are assigned to the specific sovereign countries in accordance with the ratings assigned by at least two credit rating agencies. If an issuer is rated by one rating agency its exposure limit will be downgraded by one notch.

(ii) Corporate Bonds

The Bank invests in investment grade corporate bonds rated BBB- or higher, with the issuer being incorporated and tax resident in a country whose sovereign debt is eligible for investment by the Bank. A reasonable geographical spread of issuers is maintained. This is with the exception of the Strategic Yield Portfolio, which can invest in issuers rated below investment grade with a credit limit of B-.

¹¹ Other includes investments rated below A-, but still remain within the acceptable investment grade (BBB-) as per the investment guidelines.

¹² Included in AAA, AA+, AA, A and BB+ are deposits held with central banks.

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

(f) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due, hence liquidity is an integral part of the Bank's foreign exchange reserves policies. To limit this risk, the Management manages the assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. The Bank is exposed to daily Pula liquidity requirements on the deposits it holds on behalf of the shareholder, Government of Botswana, the banking system and other clients holding deposits with the Bank (mainly parastatals). For the purpose of managing foreign exchange reserves, the Bank keeps some of its assets in short-term deposits and other liquid money market instruments to enable the availability of liquidity to meet outflows without incurring undue capital loss and to provide flexibility to respond effectively to changing market requirements.

Credit Quality Analysis

The Bank uses the following criteria to assess issuer risk

Normal – an issuer or bank will be considered as normal if its credit rating is maintained within investment grade. For staff loans, the Bank mitigates the credit exposure by considering the staff overall indebtedness and all loans are deducted at source.

Concerned – the Bank will be concerned if the credit rating falls to the lowest scale within the investment grade category. Such

an issuer will be placed under watch for regular review. The Bank may decide to disinvest if such an issuer is under negative watch for an extended period. For ex-staff debts carrying amounts are recovered from terminal benefits.

Sub-investment grade – an issuer is considered to be in sub-investment grade if the credit ratings fall below investment grade rating.

Default – an issuer is considered to be in default if it is rated below investment grade by two rating agencies. If the rating falls below investment grade, all investments on the issuer will be terminated immediately. In case of deposits, such deposits are expected to be repaid on their due date. For ex-staff debts, where there are no terminal benefits to recover from, the whole outstanding debt is impaired.

The Bank uses international rating agencies namely, Moody's, S&P Global (S&P) and Fitch Group for its credit risk assessment. For commercial banks and other deposit taking institutions investments are allowed only in investment grade rated issuers with a minimum rating of BBB- or equivalent (investment grade). Central banks assume the credit rating of their sovereign.

The Table below shows the Bank's risk criteria mapped to external ratings for short-term deposits.

Risk Criteria	Fitch	Moody's	S&P
Normal	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	Concerned	BBB-	Baa3
Default		Bbb	BB

Inputs, Assumptions and Techniques used for Estimating Impairment

The key judgements and assumptions adopted by the Bank in addressing the requirements of IFRS 9 for calculation of expected credit losses are discussed below.

Amounts arising from ECL

ECL is measured on a 12-month basis on initial recognition, subsequent measurement where there is no significant increase in credit risk and for low-risk financial assets. A 12-month ECL represent financial assets' lifetime ECL that are expected to arise from default events that are possible within 12-month period following origination of an asset or from each reporting date.

31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

Significant increase in credit risk

The Bank carries high quality financial instruments whose risk is low. An annual assessment of the risk of default at the reporting date is done.

Measurement of ECL

For financial assets relating to foreign assets, the Bank has adopted the Probability of Default and Loss Given Default models in the determination of ECL. In applying these models, the Bank considers factors such as current economic circumstances of the markets in which it holds investments, forward looking economic and financial indicators to consider the likelihood of a default occurring within the next 12 months.

The key inputs into the measurement of ECL are the following:

- Probability of Default (PD) – is the likelihood of default over a given time horizon of one year. The PD is based on the issuer's credit rating such that the probability of default increases as the credit quality deteriorates;
- Loss Given Default (LGD) – is the magnitude of the likely loss, if there is a default by the issuer. It is a percentage of the exposure at default or the share of the exposure to a financial asset that the Bank could lose in the event of default; and
- Exposure at Default (EAD) – represents the expected exposure in the event of a default. This is the total value holding of a financial instrument at the time of default.

In determining LGD, the following formula is used:

$LGD = 1 - \text{Recovery Rate (RR)}$; where

$RR = \text{Value of Collateral} / \text{Value of the fair value of investment}$.

The Bank places time deposits with approved correspondent banks, central banks and other reputable international deposit taking institutions. These depositories are considered to have minimum risk of default in line with international ratings. As such, the Bank's short-term deposits are not collateralised, consequently the RR is zero; thus, the LGD remains constant at one. This results in the loss rates being equal to the PDs. The loss rates are determined as per applicable Probabilities of Default Fitch Ratings.

Financial instruments are grouped on the basis of shared risk characteristics that include instrument types, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry and geographical location of the borrower.

The Bank recognises impairment loss amounting to 12 months ECL for all staff loans, which is based on the outstanding ex-staff loans over the total of the same category. In determining the LGD, the LGD is 1 (The percentage of the amount lost in case of default), while the EAD is the total value of each class of loans outstanding at the reporting date.

Model Inputs: 1-Year Default Risk

In determining the Probability of Default for the various sovereigns, PD sourced from Bloomberg are used. These probabilities are derived from models based on economic and financial data that the Bank considers sufficiently comprehensive to provide credible estimates of default risk. The variables listed below are the main inputs in the calculation of the PD for each country the Bank holds investments in cash and cash equivalents:

- (i) expenditure (as a percentage of GDP);
- (ii) revenues (as a percentage of GDP);
- (iii) debt due in twelve months (as a percentage of GDP);
- (iv) long-term debt (as a percentage of GDP);
- (v) refinancing ability;
- (vi) budget surplus/deficit (as a percentage of GDP);
- (vii) non-performing loans (as a percentage of total loans);
- (viii) GDP growth; and
- (ix) political risk score.

Loss allowance

The following Table shows reconciliation from the opening to the closing balance of the loss allowance for financial instruments measured at amortised cost.

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31. RISK MANAGEMENT IN RESPECT OF FINANCIAL INSTRUMENTS (Cont'd)

	2025	2024
	12-month ECL	12-month ECL
	P'000	P'000
Financial Instruments at amortised cost		
Opening balance	2 681	10 613
Loss allowance/reversals during the year	(148)	(2)
Net remeasurement of loss allowance	28 132	(7 930)
	30 665	2 681

Financial and Lease Liabilities at Undiscounted Cash Flows

The table below summarises the maturity profile of the Bank's financial and lease liabilities as at 31 December 2025, based on contractual undiscounted repayment obligations.

31 DECEMBER 2025	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	-	-	11 226	2 866	14 092
Bank of Botswana Certificates	1 409 205	-	-	-	1 409 205
Deposits	3 020 943	-	-	-	3 020 943
Standing Deposit Facility	1 954 169	-	-	-	1 954 169
Allocation of SDR - IMF	-	4 578 378	-	-	4 578 378
Liabilities to Government - IMF	-	426 774	-	-	426 774
Dividend to Government	7 292 783	-	-	-	7 292 783
Payables and Other Liabilities	761 267	-	-	-	761 267
	14 438 367	5 005 152	11 226	2 866	19 457 611
31 DECEMBER 2025	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	-	41	-	-	41

31 DECEMBER 2024	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Financial Liabilities					
Derivatives	97	-	2 850	1 090	4 037
Bank of Botswana Certificates	1 199 634	-	-	-	1 199 634
Deposits	3 099 437	-	-	-	3 099 437
Standing Deposit Facility	2 344 347	-	-	-	2 344 347
Allocation of SDR - IMF	-	4 468 271	-	-	4 468 271
Liabilities to Government - IMF	-	405 275	-	-	405 275
Dividend to Government	3 444 016	-	-	-	3 444 016
Payables and Other Liabilities	425 627	-	-	-	425 627
	10 513 158	4 873 546	2 850	1 090	15 390 644
31 DECEMBER 2024	Less than 3 months (P'000)	3-12 months (P'000)	1-5 years (P'000)	Over 5 years (P'000)	Total (P'000)
Lease Liability	-	-	80	-	80

Interest Rate Benchmark Reform

The Bank's exposure to IBOR in respect of externally managed portfolio as of 31 December 2025, had been converted to interbank offered rates (IBORs) with alternative Risk-Free-Rates (RFR). For conversions made during the year, there were no significant changes in contractual cashflows due to the transition mechanisms used to close out positions. Furthermore, no additional risk management policies were introduced.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation models and techniques

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes). Multiple price types of bid/offer are sourced from pricing providers including last traded price, settlement, evaluated and primary exchange close time pricing.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models and valuation techniques. The fair values are based on net present value, discounted cash flow models and comparison with prices from observable current market transactions and dealer quotes for similar instruments. The Bank uses widely recognised valuation models for determining the fair value of financial instruments, such as interest rates yields, that use only observable market data and require little management judgement and estimation.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument.

The fair values of Government bonds are derived from market quotations. These are prices dealers will be willing to pay for similar instruments.

The Bank uses discounted cash flow analysis to value Bank of Botswana Certificates (BoBCs), with the yield curve providing the discount factors needed.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value of financial instruments measured at fair value- fair value hierarchy

Fair values are categorised into different levels in a fair value hierarchy, which reflects the significance of the inputs used in making the measurements. If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd)

(a) Fair Value of financial instruments measured at fair value

The following Table provides an analysis of the fair value of financial instruments, including their levels in the fair value hierarchy.

31 DECEMBER 2025	Level 1 P'000	Level 2 P'000	Total P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	15 024 606	-	15 024 606
Derivative Instruments	-	15 881	15 881
Equities	13 871 818	-	13 871 818
Total financial assets accounted for at fair value	28 896 424	15 881	28 912 305
Financial Liabilities			
Derivative Instruments	1 789	1 789	-
31 DECEMBER 2024			
	Level 1 P'000	Level 2 P'000	Total P'000
Financial Assets			
Investments Measured at FVTPL			
Bonds	12 167 163	-	12 167 163
Derivative Instruments	-	12 091	12 091
Equities	25 147 452	-	25 147 452
Total financial assets accounted for at fair value	37 314 615	12 091	37 326 706
Financial Liabilities			
Derivative Instruments	-	4 037	4 037

Financial instruments measured at amortised cost are excluded from the above table.

There were no transfers between levels during the year.

(b) Fair Value of financial instruments measured at amortised cost

In accordance with its accounting policies, the Bank accounts for certain financial instruments at amortised cost and considers that the carrying amounts recognised in the financial statements at amortised cost approximates their fair value. All financial assets measured at amortised cost shown in Notes 15.1 and 15.2 are considered level 2.

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

33. CLASSIFICATION OF ASSETS AND LIABILITIES

	Current P'000	Non-Current P'000	Total P'000
As at 31 December 2025			
ASSETS			
Liquidity Portfolio	13 861 232	-	13 861 232
Pula Fund	990 774	26 874 381	27 865 155
International Monetary Fund (IMF)			
Reserve Tranche	-	925 821	925 821
Holdings of Special Drawing Rights (SDR)	-	4 747 433	4 747 433
General Subsidy Account	-	28 259	28 259
Advance to Botswana Government	3 200 000	-	3 200 000
Receivables and Other Assets	541 982	298 629	840 611
Repurchase Agreements	3 744 875	-	3 744 875
Property, Plant, Equipment and Intangible Assets	-	1 396 942	1 396 942
TOTAL ASSETS	22 338 863	34 271 465	56 610 328

LIABILITIES

Allocation of IMF Special Drawing Rights	4 578 378	-	4 578 378
Liabilities to Government (IMF Reserve Tranche)	426 774	-	426 774
Notes and Coin in Circulation	4 701 674	-	4 701 674
Bank of Botswana Certificates	1 409 205	-	1 409 205
Standing Deposit Facility	1 954 169	-	1 954 169
Deposits	3 020 943	-	3 020 943
Dividend to Government	7 292 783	-	7 292 783
Payables and Other Liabilities	761 267	-	761 267
Total Liabilities	24 145 193	-	24 145 193

	Current P'000	Non-Current P'000	Total P'000
As at 31 December 2024			
ASSETS			
Liquidity Portfolio	4 135 365	-	4 135 365
Pula Fund	1 133 763	37 326 706	38 460 469
International Monetary Fund (IMF)			
Reserve Tranche	-	904 322	904 322
Holdings of Special Drawing Rights (SDR)	-	4 602 496	4 602 496
General Subsidy Account	-	27 579	27 579
Receivables and Other Assets	279 932	215 077	495 009
Repurchase Agreements	4 149 431	-	4 149 431
Property, Plant, Equipment and Intangible Assets	-	1 418 908	1 418 908
TOTAL ASSETS	9 698 491	44 495 088	54 193 579

LIABILITIES

Allocation of IMF Special Drawing Rights	4 468 271	-	4 468 271
Liabilities to Government (IMF Reserve Tranche)	405 275	-	405 275
Notes and Coin in Circulation	4 891 057	-	4 891 057
Bank of Botswana Certificates	1 199 634	-	1 199 634
Standing Deposit Facility	2 344 347	-	2 344 347
Deposits	3 099 437	-	3 099 437
Dividend to Government	3 444 016	-	3 444 016
Payables and Other Liabilities	425 627	-	425 627
TOTAL LIABILITIES	20 277 664	-	20 277 664

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

34. RELATED PARTY BALANCES AND TRANSACTIONS

Balances and Transactions with the Government

The Bank provides several services to its shareholder, the Government. The main services during the year to 31 December 2025 were:

- (a) Provision of banking services, including holding of the principal accounts of the Government and
- (b) Being agent for government bonds and treasury bills.

The aggregate balances in Government accounts are disclosed in Note 10. The Bank earned interest amounting to P48 042 065 for the temporary advances made to Government in the current year, this is included under sundry income in the profit or loss.

Other than the interest disclosed above, no charge is made to the Government for provision of these services.

Other Related Party Balances and Transactions

- (a) Amounts due to related parties.

Included in the balance of outstanding "Deposits – Other" in Note 10 are the following balances with Government-owned institutions.

	2025	2024
	P'000	P'000
Botswana Savings Bank	2 584	1 470
Botswana Unified Revenue Service	51 764	34 913
Total	54 348	36 383

The amounts outstanding are unsecured and have no fixed repayment terms.

- (b) Remuneration of Key Management Personnel

Key management personnel comprise the Board Members, Governor, Deputy Governors and Heads of Department.

Gross emoluments of the key management personnel are:

	2025	2024
	P'000	P'000
Non-Executive Board and Monetary Policy members	2 115	2 145
Executive Management		
Salaries, allowances and other short-term benefits	37 519	36 307
Post-employment benefits	26 915	9 611
	66 549	48 063

Of the Staff Loans and Advances per Note 5, P6 640 092 (2024: P7 025 118) are attributable to Executive Management.

35. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS

In accordance with Section 56 and 57 of the Bank of Botswana Act (CAP 55:01), the Bank acts as agent of the Government for the issuance and management of the Government Bonds and Treasury Bills. An analysis of the Bonds and Treasury Bills issued is provided below:

ANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

35. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

Government of Botswana Bonds and Treasury Bills issued and switched during the year 2025

Bond/ Treasury Bill	Date of Issue	Date of Ma- turity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0931/1213	29 Jan, 2 Apr, 2 Oct 2025	10 Sept 2031	7.75	448 000	(6 327)	441 673	29 798	10 838
BOTSGB0640/1437	2 Apr, 30 Apr, 2 Jul, 27 Aug, 5 Nov, 10 Dec 2025	13 June 2040	6	1 236 145	(280 324)	614 676	45 690	3 871
BOTSGB0929/1981	29 Jan, 30 Apr, 5 Nov 2025	5 Sept 2029	4.8	533 000	(61 451)	471 549	21 768	8 340
BOTSGB0943/1999	26 Feb, 28 May, 30 Jul, 2 Oct, 3 Dec 2025	2 Sept 2043	5.3	752 000	(322 258)	429 742	13 091	13 322
BOTSGB0527/2740	26 Feb, 2 Apr, 28 May, 30 Jul, 10 Dec 2025	5 May 2027	5.5	(6 000)	5 167	495 167	24 392	52
BOTSGB0635/3995	26 Feb, 30 Apr, 2 Jul, 2 Oct, 3 Dec, 10 Dec 2025	6 June 2035	8.6	570 879	(23 915)	407 084	17 974	3 507
BOTSGB1150/6584	5 Nov, 10 Dec 2025	2 Nov 2050	11.8	394 486	(14 437)	222 563	-	7 453
BOTSTB0425/5883	6 Jan 2025	2 Apr 2025	-	350 000	(2 800)	347 200	2 800	-
BOTSTB0725/5891	6 Jan 2025	2 Jul 2025	-	400 000	(7 800)	392 200	7 800	-
BOTSTB0425/5974	29 Jan 2025	30 Apr 2025	-	600 000	(5 130)	594 870	5 130	-
BOTSTB0725/5982	29 Jan 2025	30 Jul 2025	-	950 000	(19 123)	930 877	19 123	-
BOTSTB0226/5990	29 Jan 2025	4 Feb 2026	-	1 650 000	(72 187)	1 577 813	-	65 572
BOTSTB0525/6006	26 Feb 2025	28 May 2025	-	865 000	(7 863)	857 137	7 863	-
BOTSTB0825/6014	26 Feb 2025	27 Aug 2025	-	913 000	(18 379)	894 621	18 379	-
BOTSTB0725/6055	2 Apr 2025	2 Jul 2025	-	270 000	(2 468)	267 532	2 468	-
BOTSTB1025/6063	2 Apr 2025	2 Oct 2025	-	500 000	(10 190)	489 810	10 190	-
BOTSTB0426/6071	2 Apr 2025	1 Apr 2026	-	250 000	(10 852)	239 148	-	8 169
BOTSTB0725/6121	30 Apr 2025	30 Jul 2025	-	550 000	(5 230)	544 770	5 230	-
BOTSTB1125/6139	30 Apr 2025	5 Nov 2025	-	980 000	(21 099)	958 901	21 099	-
BOTSTB0825/6162	28 May 2025	27 Aug 2025	-	925 000	(9 019)	915 981	9 019	-
BOTSTB1225/6170	28 May 2025	3 Dec 2025	-	1 160 000	(25 845)	1 134 155	25 845	-
BOTSTB1025/6329	2 Jul 2025	2 Oct 2025	-	285 000	(3 548)	281 452	3 548	-
BOTSTB1225/6337	2 Jul 2025	31 Dec 2025	-	780 000	(22 659)	757 341	22 659	-
BOTSTB1125/6436	30 Jul 2025	5 Nov 2025	-	1 060 000	(14 734)	1 045 266	14 734	-
BOTSTB0226/6444	30 Jul 2025	4 Feb 2026	-	700 000	(22 792)	677 208	-	18 692
BOTSTB0826/6451	30 Jul 2025	5 Aug 2026	-	710 000	(44 950)	665 050	-	18 780
BOTSTB1225/6477	27 Aug 2025	3 Dec 2025	-	1 180 000	(21 004)	1 158 996	21 004	-
BOTSTB0326/6485	27 Aug 2025	4 Mar 2026	-	240 000	(8 971)	231 029	-	6 028
BOTSTB1225/6493	2 Oct 2025	31 Dec 2025	-	620 000	(10 515)	609 485	10 515	-
BOTSTB0426/6501	2 Oct 2025	1 Apr 2026	-	359 000	(12 565)	346 435	-	6 317
BOTSTB0226/6550	5 Nov 2025	4 Feb 2026	-	1 300 000	(24 557)	1 275 443	-	15 382
BOTSTB0526/6568	5 Nov 2025	6 May 2026	-	1 100 000	(45 100)	1 054 900	-	14 125
BOTSTB1126/6576	5 Nov 2025	4 Nov 2026	-	550 000	(52 134)	497 866	-	8 164
BOTSTB0326/6667	3 Dec 2025	4 Mar 2026	-	1 211 000	(23 687)	1 187 313	-	7 549
BOTSTB0626/6675	3 Dec 2025	3 Jun 2026	-	1 611 000	(49 052)	1 111 948	-	7 816
BOTSTB0426/6774	31 Dec 2025	1 Apr 2026	-	675 000	(14 175)	660 825	-	156
BOTSTB0626/6782	31 Dec 2025	30 Jun 2026	-	795 000	(36 570)	758 430	-	202
TOTAL				27 017 511	(1 328 543)	25 546 456	360 119	224 335

BANK OF BOTSWANA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Cont'd)
For the year ended 31 December 2025

35. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

Government of Botswana Bonds and Treasury Bills issued during the Year 2024

Bond/ Treasury Bill	Date of Issue	Date of Maturity	Interest Rate Percent (per annum)	Nominal Value (P' 000)	Discount /Premium (P' 000)	Net Proceeds (P' 000)	Interest Paid (P' 000)	Interest Accrued (P' 000)
BOTSGB0325/876	11 Dec 2024	10 Mar 2025	8	(528 000)	-	-	-	(13 185)
BOTSGB0931/1213	29 May, 31 Jul, 28 Aug 2024	10 Sept 2031	7.75	709 000	39 647	748 647	27 473	17 152
BOTSGB0640/1437	30 Apr, 3 Jul, 28 Aug, 27 Nov, 11 Dec 2024	13 June 2040	6	1 781 339	(251 275)	1 530 064	52 260	5 579
BOTSGB0929/1981	31 Jan, 28 Feb, 29 May, 2 Oct, 27 Nov, 11 Dec 2024	5 Sept 2029	4.8	1 815 380	(144 071)	1 671 308	19 200	28 404
BOTSGB0943/1999	31 Jan, 28 Feb, 29 May, 31 Jul, 2 Oct, 1 Nov 2024	2 Sept 2043	5.3	2 303 000	(638 434)	1 572 611	41 976	40 798
BOTSGB0527/2740	30 Apr, 3 Jul, 31 Jul, 28 Aug, 1 Nov 2024	5 May 2027	5.5	1 086 000	15 204	1 101 204	28 765	9 405
BOTSGB0635/3995	31 Jan, 28 Feb, 30 Apr, 3 Jul, 2 Oct, 1 Nov, 27 Nov 2024	6 June 2035	8.6	1 837 000	120 616	1 957 616	107 973	11 284
BOTSTB0424/5024	4 Jan 2024	3 Apr 2024	-	300 000	(2 715)	297 285	2 715	-
BOTSTB0724/5032	4 Jan 2024	3 Jul 2024	-	470 000	(9 141)	460 858	9 141	-
BOTSTB0424/5081	31 Jan 2024	30 Apr 2024	-	400 000	(3 088)	396 912	3 088	-
BOTSTB0724/5099	31 Jan 2024	31 Jul 2024	-	430 000	(6 858)	423 141	6 858	-
BOTSTB0524/5156	28 Feb 2024	29 May 2024	-	400 000	(2 796)	397 204	2 796	-
BOTSTB0824/5164	28 Feb 2024	28 Aug 2024	-	450 000	(6 502)	443 497	6 502	-
BOTSTB0724/5230	3 Apr 2024	3 Jul 2024	-	300 000	(1 857)	298 143	1 857	-
BOTSTB1024/5248	3 Apr 2024	2 Oct 2024	-	300 000	(3 987)	296 013	3 987	-
BOTSTB0724/5297	30 Apr 2024	31 Jul 2024	-	1 001 000	(6 266)	994 734	6 266	-
BOTSTB1024/5305	30 Apr 2024	30 Oct 2024	-	1 000 000	(12 870)	987 130	12 870	-
BOTSTB0824/5321	29 May 2024	28 Aug 2024	-	1 200 000	(7 428)	1 192 572	7 428	-
BOTSTB1124/5339	29 May 2024	27 Nov 2024	-	1 200 000	(15 360)	1 184 640	15 360	-
BOTSTB1024/5438	3 Jul 2024	2 Oct 2024	-	300 000	(1 845)	298 155	1 845	-
BOTSTB1024/5529	31 Jul 2024	30 Oct 2024	-	500 000	(2 970)	497 030	2 970	-
BOTSTB1124/5560	28 Aug 2024	27 Nov 2024	-	1 000 000	(5 460)	994 540	5 460	-
BOTSTB0125/5107	31 Jan 2024	29 Jan 2025	-	900 000	(29 511)	870 489	-	27 241
BOTSTB0425/5255	3 Apr 2024	2 Apr 2025	-	320 000	(9 206)	310 793	-	6 905
BOTSTB0125/5446	3 Jul 2024	3 Jan 2025	-	900 000	(11 205)	888 795	-	11 083
BOTSTB0125/5537	31 Jul 2024	29 Jan 2025	-	900 000	(10 647)	889 353	-	9 009
BOTSTB0725/5545	31 Jul 2024	30 Jul 2025	-	500 000	(12 165)	487 835	-	5 147
BOTSTB0225/5578	28 Aug 2024	26 Feb 2025	-	800 000	(9 792)	790 208	-	6 779
BOTSTB0125/5651	2 Oct 2024	3 Jan 2025	-	170 000	(1 248)	168 752	-	1 221
BOTSTB0425/5669	2 Oct 2024	2 Apr 2025	-	520 000	(7 665)	512 335	-	3 832
BOTSTB0125/5701	1 Nov 2024	29 Jan 2025	-	785 000	(5 652)	779 348	-	3 874
BOTSTB0425/5719	1 Nov 2024	30 Apr 2025	-	820 000	(12 078)	807 921	-	4 093
BOTSTB1125/5727	1 Nov 2024	5 Nov 2025	-	595 000	(19 635)	575 365	-	3 246
BOTSTB0225/5784	27 Nov 2024	26 Feb 2025	-	395 000	(3 077)	391 923	-	1 183
BOTSTB0525/5792	27 Nov 2024	28 May 2025	-	1 410 000	(23 843)	1 386 157	-	4 585
TOTAL				27 269 719	(1 103 180)	26 166 539	366 790	187 635

(a) Net proceeds from the issue of the bonds of P25 546 452 935 (2024: P27 269 719 000) were invested in the Government Investment Account. The bonds auctions include Government bond switch operations. The nominal value of holdings of total outstanding Government Bonds and Treasury Bills as at 31 December 2025, was P45 692 089 320 (2024: P41 152 577 650). The nominal value of redemptions during the year to 31 December 2025, was P23 092 000 000 (2024: P15 251 000 000).

35. GOVERNMENT OF BOTSWANA BONDS AND TREASURY BILLS (Cont'd)

- (a) Interest is payable on all interest earning bonds on a semi-annual basis in arrears. During the year to 31 December 2025, total interest payments of P2 489 148 816 (2024: P2 019 504 970) were made and were funded from the Government's current (remittances) account maintained with the Bank.
- (b) Government Bonds and Treasury Bills are liabilities of Government; and are, therefore, not accounted for in the Statement of Financial Position of the Bank.

36. ADMINISTRATION COSTS

	2025 P'000	2024 P'000
Operating Costs	660 155	296 842
Personnel Costs	363 486	624 978
General Costs	46 765	49 900
	1 070 406	971 720

Administrative Costs have been presented by function as per IAS 1:104 disclosure requirements.

The Bank's contribution to the Bank of Botswana Defined Contribution Staff Pension Fund for the year ended 31 December 2025 was P67 954 534 (2024: P63 761 271).

37. EVENTS AFTER THE REPORTING DATE

At the date of finalisation of the annual financial statements, there were no material events that occurred subsequent to the statement of financial position date that require adjustment to the financial statements.

However, on 28 February 2026, the United States of America (USA) and Israel launched coordinated air and missile strikes in Iran with strategic areas at target. In response, Iran has launched retaliatory strikes across the region targeting Israel and USA assets in the Gulf Cooperation Council region. The conflict has raised concern about possible widespread instability in the Middle East, which could choke global oil supplies and threaten global growth as well as derail progress made thus far on inflation. More importantly investors are concerned about the possible selloff in global equities, of which the Bank has significant exposure.

The Bank has exposure to equities and bonds in the Middle East region. At the end of year, the fair value of equities and bonds in the Middle East region was P20.4 million and P190.3 million, respectively, included under credit exposure at Note 31. The Bank is closely monitoring the developments in the region and continually engaging with its external fund managers. At the time of reporting, no material losses have been incurred with global equity markets demonstrating resilience.

38. GOING CONCERN

The annual financial statements have been prepared based on accounting policies applicable to a going concern. The basis presumes that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business and the Bank will be able to continue for the foreseeable future.

During 2025, the volatile global financial markets associated with geopolitical tensions and elevated global inflationary pressures had an adverse impact on the foreign exchange reserves in terms of inflows and returns. However, the Investment Committee, continued to maintain its primary focus of managing the foreign exchange reserves with the key objectives of preservation of capital (safety); liquidity; returns; and employment of appropriate diversification strategies through investments in emerging markets to optimise the value and return on the foreign exchange reserves, in line with the Reserves Management Policies and Investment Guidelines.

For the year under review, there has been substantial draw-downs of foreign exchange reserves to meet the foreign exchange needs of the economy, as receipts from diamond sales remain subdued. This necessitated withdrawals from the Pula Fund to fund the Liquidity Portfolio and hence a lower level of foreign exchange reserves as at year end.

38. GOING CONCERN (Cont'd)

Management has re-assessed the appropriateness of the use of the going concern assumption in the preparation of these financial statements. Based on the assessment performed, Management is of the view that global growth in 2026 is expected to remain sluggish but resilient. Central banks are expected to continue cutting interest rates to stimulate economic growth. However, divergence in growth across regions is likely to be more pronounced as uncertainty from potential United States of America tariffs and geopolitics could disrupt global growth. Lower interest rates, when implemented, alongside stabilising commodity prices, may boost global demand, potentially increasing foreign exchange reserves from diamond sales. However, the diamond market remains under pressure, with prices of natural and lab grown diamonds continuing to decline due to weak demand, particularly in China, and structural shifts in the industry could strain the Bank's portfolio increasing draw-downs from the Liquidity Portfolio, and necessitate continued asset liquidations from the Pula Fund to support foreign exchange needs of the economy.

Given the overall anticipated growth recovery in 2026, with risks to growth broadly balanced, Management is of the view that the Bank continues to be a going concern, with a strong capital base.



Gaborone Headquarters
17938, Khama Crescent, Gaborone, Botswana



(267) 360 6000



Private Bag 154, Gaborone, Botswana



Francistown Branch
9597, Thapama Circle, Francistown, Botswana



(267) 241 0450 / 240 0400



Private Bag F212, Francistown, Botswana



www.bankofbotswana.bw