BANK OF BOTSWANA
BANKA YA BOTSWANA

BANKING SUPERVISION

ANNUAL REPORT | 2023

MISSION STATEMENT

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

In pursuit of a key aspect of this objective, the Bank established the Prudential Authority and Payments Oversight Department with a specific mandate and mission to promote and maintain an efficient, a safe, stable, sound and competitive banking system. In its supervisory role, the Bank is guided by the Bank of Botswana Act (Cap. 55:01), including the amendment of 2022, Banking Act (Cap. 46:04) (Banking Act), Banking Regulations of 1995, Bureaux de Change Regulations of 2004, National Clearance and Settlement Systems Act (Cap 46:06); National Clearance and Settlement System Regulations, 2005; Electronic Payments Services Regulations, 2019; the National Payments System Oversight Policy and relevant directives, policies and guidelines issued pursuant to the Banking Act, all of which govern the establishment and conduct of financial institutions over which the Bank has supervisory mandate.

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

To achieve these goals, the Bank

(a) sets transparent criteria, and other requirements, and formulates guidelines for market entry as stipulated in the Licensing Policy;

(b) establishes and updates, on a regular basis, prudential policies and standards;

(c) monitors solvency, liquidity, large exposures, insider loans, prudent provisioning and risk management strategies, as well as the adequacy of risk management and governance structures for the safe and sound operation of banks;

(d) establishes effective systems for off-site surveillance and on-site examination, including reporting, accounting, auditing and disclosure standards;

(e) ensures timely enforcement of supervisory actions and compliance with banking and other related laws governing operations of banks in Botswana;

(f) maintains general market surveillance, monitors and investigates unlicensed or illegal deposit-taking activities and practices to protect the public and integrity of the banking system;

(g) provides modern payments infrastructure that meets current and future requirements of a growing economy; and

(h) promotes public confidence in the payments system and instruments.

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LIST OF ABBREVIATIONS

Absa	Absa Bank Botswana Limited
Access Bank	Access Bank Botswana Limited
ADTM	Automated Deposit Teller Machines
AML/CFT/CPF	Anti-Money Laundering and Combating the Financing of Terrorism and Combating Proliferation Financing
ATM	Automated Teller Machine
BACH	Botswana Automated Clearing House
Banking Act	Banking Act (Cap. 46:04)
Bank Gaborone	Bank Gaborone Limited
Baroda	Bank of Baroda (Botswana) Limited
BBS Bank	BBS Bank Limited
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BISS	Botswana Interbank Settlement System
BoBA	Bank of Botswana Act (Cap. 55:01)
BoBCs	Bank of Botswana Certificates
BSB	Botswana Savings Bank
BSEL	Botswana Stock Exchange Limited
CAMELS	Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk
CAR	Capital Adequacy Ratio
CB	Central Bank
CDD	Customer Due Diligence
CET1	Common Equity Tier 1
COVID-19	Coronavirus Disease of 2019
CPMI	Committee on Payments and Market Infrastructures
CSD	Central Security Depository
DFS	Digital Financial Services
DTA	Deferred Tax Assets
DTI	Deposit-taking Institutions
D-SIB	Domestic Systemically Important Bank
ECL	Expected Credit Losses
EFT	Electronic Funds Transfer
EMDEs	Emerging Market and Developing Economies
EPS	Electronic Payment Service
FATF	Financial Action Task Force
FCB	First Capital Bank Limited
FIA	Financial Intelligence Agency
FI Act	Financial Intelligence Act, 2022
Fintech	Financial Technology
FNBB	First National Bank of Botswana Limited
FSAP	Financial Sector Assessment Programme
GDP	Gross Domestic Product
G20	Group of 20 Countries

LIST OF ABBREVIATIONS (CONTINUED)

HHI	Herfindahl-Hirschman Index
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
LAR	Liquid Asset Ratio
LHS	Left-hand Scale
ML/TF	Money Laundering and Terrorist Financing
MoPR	Monetary Policy Rate
MVTS	Money or Value Transfer Service
NBFI	Non-bank Financial Institutions
NCSS	National Clearance and Settlement Systems
NDB	National Development Bank
NIM	Net Interest Margin
NPLs	Non-performing Loans
NPS	National Payments System
NPTF	National Payments Task Force
NRA	National Risk Assessment
OSS	Off-site Surveillance
PA	Prudential Authority
PFMIs	Principles for Financial Market Infrastructures
PIPs	Politically Influential Persons
PoS	Point-of-Sale
RAS	Risk Assessment Systems
RBS	Risk-based Supervision
RHS	Right-hand Scale
RoAA	Return on Average Assets
RoE	Return on Equity
RWA	Risk-weighted Asset(s)
SADC	Southern African Development Community
SADC-RTGS	Southern African Development Community Real-Time Gross Settlement
SARB	South African Reserve Bank
SBG	Standard Bank Group
SCG	Standard Chartered Group
SIPS	Systemically Important Payment Systems
Stanbic	Stanbic Bank Botswana Limited
Stanchart	Standard Chartered Bank Botswana Limited
UBOs	Ultimate Beneficial Owners
USD	United States dollar
ZAR	South African rand

FOREWORD

According to Section 28 of the Banking Act (Cap 46:04), the Bank of Botswana (Bank) shall submit to the Minister of Finance, by 30 June each year, a report on the business affairs of all banks and persons or institutions whose affairs were examined by the Bank, as well as all other important matters that the Bank dealt with during the review year. Accordingly, the Bank has, invariably complied with this statutory requirement over the years. Therefore, consistent with that obligation, this Annual Report presents information on the structure, performance and general state of the banking industry, overview of the national payments system and developments concerning banking regulation and supervision in Botswana during 2023.

In 2023, the global economic performance continued to recover from the lingering effects of the COVID-19 pandemic and the ongoing Russia–Ukraine war. The global economic performance was nonetheless adversely affected by high inflation, the increase in the debt burden arising from high interest rates, the withdrawal of fiscal support in some countries and extreme weather conditions. Consequently, the world economic activity is estimated to have expanded at a slower pace of 3.2 percent in 2023 compared with 3.5 percent in 2022. Meanwhile, the International Monetary Fund (IMF) projects global economic growth to remain at 3.2 percent in 2024 and 2025. Prospects for economic performance, however, vary across regions, mainly reflecting subdued economic activity in the euro area and in the United Kingdom due to high inflation and supply chain constraints in conjunction with the fallout from the Russia–Ukraine war, the Israel–Hamas war, and continued withdrawal of fiscal support that continues to weigh down on economic growth in emerging markets and developing economies.

In Botswana, growth in real gross domestic product (GDP) slowed down to 2.7 percent in the 12 months to December 2023 from 5.5 percent in the corresponding period in 2022. The deceleration in output increase was attributable to slower production in both the mining (mostly diamonds) and non-mining sectors. Meanwhile, the Ministry of Finance (MoF) projects growth of 4.2 percent in real GDP in 2024, mainly reflecting the expected improvement in performance of the non-mining sectors underpinned by, among others, better electricity and water supply, and an improvement in finance, insurance and pension funds sub-sectors. It is expected that effective implementation of the economic transformation reforms and expansionary government expenditure announced in the 2024/25 budget, together with the April 2023–March 2025 Transitional National Development Plan, would be supportive of economic activity through facilitating expansion of productive capacity, accelerating economic transformation and enhancing economic resilience.

The number of licensed commercial banks and of statutory banks remained at nine and two, respectively, in 2023. Meanwhile, the number of bureaux de change increased from 48 in 2022 to 52 in 2023, while that of electronic payment services and money and value-transfer-services providers increased from 23 to 25 in the same period.

On the legislative front, the Banking Act, 2023 was gazetted on 26 May 2023, while the Bank has submitted the associated regulations to MoF for further processing.

Measures of financial development and depth barely improved between 2022 and 2023, as indicated by, among others, the proportion of private sector credit to nominal GDP[1] , which increased, only marginally, from 27.2 percent in 2022 to 28.3 percent in 2023. In its intent to support financial deepening and development, the Bank monitored developments with a view to ensuring that banking regulations, supervisory practices and related prudential and market-conduct policies did not undermine innovation, financial inclusion and, overall, financial development.

Against the backdrop of the deceleration in economic growth (from 5.5 percent in 2022 to 2.7 percent in 2023), the banking sector credit grew by 11.7 percent in 2023 compared with an increase of 6.2 percent in 2022, while customer deposits expanded by 14.5 percent. The asset quality of the banking sector was substantially unchanged as the ratio of non-performing loans to gross loans and advances fell slightly from 3.8 percent in 2022 to 3.7 percent in 2023.

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

FOREWORD

All commercial banks operating in Botswana were assessed to be largely compliant with the minimum statutory and prudential requirements, liquid and adequately capitalised. To achieve better quality, consistency and comparability of financial and regulatory disclosure within the banking industry, the Bank continues to monitor developments in the banking sector and provide the necessary guidance. In addition, the Bank is committed to reviewing and enhancing its regulatory and supervisory tools to align them with international standards and best practices. In that regard, the Bank issued Guidelines on Cybersecurity and Resilience to the market in May 2023.

The national payments system for Botswana continues to evolve, as evidenced by the emergence of new players, new technologies and new payments initiatives. As at 31 December 2023, twenty-five electronic payments-service (EPS) providers and money or value-transfer-services providers were licensed through the EPS Regulations, 2019.

Consistent with the statutory requirement, the Bank held annual trilateral meetings with supervised institutions and their external auditors to discuss the business and financial performance of supervised banks. In recognition and support of principle 13 of the Basel Core Principles (BCPs) for Effective Banking Supervision, the Bank participated in supervisory college meetings for international banks with Botswana subsidiaries. The meetings are a platform for collaboration, coordination and exchange of information among supervisory authorities, thus facilitating comprehension by regulators of the risk profile of banking groups and supervisory challenges as anticipated by BCP 13.

After conclusion of the on-site Financial Sector Assessment Programme (FSAP) of Botswana conducted between 2022 and early 2023 by the IMF and World Bank, the FSAP report was completed and published in September 2023. The report highlighted, among others, shortcomings in the legislation governing operations of both the Bank and commercial banks. The weaknesses were, however, addressed by the Bank of Botswana (Amendment) Act, 2022 and the re-enacted Banking Act, 2023. The Bank of Botswana (Amendment) Act, 2022 was passed by Parliament in August 2022 and promulgated on 14 February 2023, while the re-enacted Banking Act, 2023 was passed into law in May 2023 and is yet to be put into effect.

Consistent with Section 24 of the Banking Act, the Bank conducted prudential, consumer and AML/CFT/CPF-compliance on-site examination of banks. Overall, the banking industry was compliant with statutory and prudential requirements; there were nevertheless a few instances of transgression to which the Bank responded through supervisory interventions, including remedial measures, in accordance with applicable laws and regulations. The Bank appraised the banking sector to be profitable, safe, sound, stable, and adequately capitalised and liquid in 2023.

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

Cornelius K Dekop
GOVERNOR

INTRODUCTION

The Bank of Botswana (Bank), in accordance with the requirements of the Banking Act (Cap. 46:04) (Banking Act), Bank of Botswana (Cap. 55:01) and (Amendment) Act, 2022 and Bank of Botswana (Bureaux de Change) Regulations, regulates and supervises banks, bureaux de change and one deposit-taking microfinance institution and payment systems in accordance with the National Clearance and Settlement Systems Act (Cap. 46:06). Further, the regulatory purview of the Bank has expanded to include the regulatory and supervisory responsibility for credit information bureaus, through the Credit Information Act, 2021.

As at 31 December 2023, there were nine commercial banks licensed by the Bank, two statutory banks, 52 operating bureaux de change, and 25 electronic payment services, and money and value-transfer service providers.

The level of employment at commercial and statutory banks increased by 1.5 percent to 5 094 in 2023 from 5 021 in 2022. The increase was due to business and branch expansion for some banks. Banks continue to optimise internal processes to improve the convenience of access to transactional banking services by adopting electronic processing and digitalisation as the key approaches to banking processes and provision of financial services as well as an essential driver of financial inclusion.

The banking industry assets grew by 14.2 percent from P117 billion in 2022 to P133.6 billion in 2023, largely reflecting expansion in loans and advances from P73.2 billion to P81.8 billion in the same period. Customer deposits, a major source of funding for asset growth and constituting 78 percent of total liabilities, increased by 14.5 percent from P90.9 billion in 2022 to P104.1 billion in 2023. The financial intermediation ratio eased from 80.5 percent in 2022 to 78.6 percent in 2023, falling within the recommended range of 50–80 percent.

Notwithstanding the increase in the statement of financial position of the banking sector, core indicators of financial depth and development indicate that the banking sector remains relatively small compared with the domestic economy, measured by gross domestic product (GDP). Meanwhile, the combination of digital transformation and product innovation by banks, changes in consumer preference and improvement in the financial infrastructure and enhanced efforts by government at improving financial inclusion offer prospects for financial development.

As in the previous periods, the banking industry was adequately capitalised and complied with minimum prudential standards for regulatory capital and statutory liquid requirements. In aggregate, the unimpaired capital for the banking industry increased by 9 percent from P15.7 billion in 2022 to P17.1 billion in 2023. All banks reported capital adequacy and common equity Tier 1 capital ratios of more than the respective prudential minimum limits of 12.5 percent and 4.5 percent.

Regarding credit quality, total past-due loans (loans subject to payment arrears) rose by 16.4 percent to P4.2 billion in 2023 from P3.6 billion in 2022, resulting in an increase in specific provisions from P1.4 billion in 2022 to P1.5 billion in 2023. Consequently, the net ratio of NPLs (net of specific provisions) to unimpaired capital increased from 8.3 percent to 8.7 percent during the period. Similarly, the specific provisions to NPLs ratio fell from 52.3 percent in 2022 to 50.3 percent in 2023. The ratio of banks' large exposures to unimpaired capital marginally increased from 151.4 percent in 2022 to 151.8 percent in 2023 and remained below the 800 percent prudential maximum limit for banks in Botswana. Non-performing loans (NPLs) increased by 9.3 percent from P2.7 billion to P3 billion. The ratio of NPLs to gross loans and advances, however, declined from 3.8 percent in 2022 to 3.7 percent in 2023.

Even though the composite credit risk for the banking industry is assessed to be moderate, inherent credit risk is likely to increase within the next 12 months, given the relatively high proportion (65 percent) of household loans to total loans and advances, and vulnerability of the sector to the business cycle.

The banking industry aggregate net after-tax profit rose by 18.3 percent from P2.6 billion in the year to December 2022 to P3.1 billion in 2023. The operational efficiency for the industry slightly improved as the average cost-to-income ratio declined from 56.6 percent in December 2022 to 56.3 percent in December 2023. Meanwhile, the return on equity increased from 21 percent in 2022 to 22.2 percent in 2023, while the return on average assets slightly rose from 2.3 percent to 2.5 percent.

INTRODUCTION (CONTINUED)

Net interest income increased by 27.4 percent from P5 billion to P6.4 billion in the review period, reflecting the increase in gross loans and advances and high interest rate environment.

Statutory liquid assets grew by 34.8 percent from P15.4 billion in 2022 to P20.8 billion in 2023 owing to an increase in treasury bills, Bank of Botswana Certificates and standing deposit facility for some banks, which collectively reflects an overall increase in liquidity in the banking sector. As a result, the liquid assets to total deposits ratio for banks increased from 17 percent in 2022 to 20 percent in 2023, a level above the 10 percent minimum statutory requirement; the banking sector therefore remained liquid in 2023. The banking industry continued to show a shift in composition of deposits by maturity, as long-term deposits (time and savings) contributed 53 percent and short-term deposits (call and current) accounted for 47 percent in 2023, reflecting a response by customers to the opportunities for benefitting from higher interest rates on the longer-dated deposits.

In addition to price and financial stability, the Bank has a mandate to maintain an efficient payments mechanism in support of a safe and sound financial system in Botswana. The Bank achieves that by ensuring that the National Payments System (NPS) is safe, efficient and effective. NPS is the conduit through which buyers and sellers of financial products and services make transactions, and encompasses all payment-related activities, processes, mechanisms, infrastructure and users in a country. The NPS for Botswana continues to evolve, as evidenced by the emergence of new players, technologies and payments initiatives. The Bank continues to foster and monitor these developments in pursuance of the mandate to ensure efficient and effective functioning of NPS.

The regulatory and supervisory oversight of the Bank continued to focus on ensuring adherence to good corporate governance standards, appropriate level of risk-taking and proper conduct of business by regulated institutions in the quest for promoting safety and soundness of the banking system and, generally, the financial sector. The oversight framework includes off-site monitoring and on-site examination of banks using a risk-based supervision approach and an off-site surveillance system. In addition to prudential supervision, the Bank monitored the business conduct of banks to ensure that banks institute a transparent resolution framework, which facilitates equitable and professional treatment of customers, and that banks complied with laws and regulations, including those relating to anti-money laundering and combating the financing of terrorism and combating proliferation financing (AML/CFT/CPF).

In accordance with Section 24 of the Banking Act, the Bank conducted a number of prudential, consumer compliance and AML/CFT/CPF on-site examination in 2023 at four banks. The results of the prudential and consumer compliance on-site examinations revealed deficiencies in corporate governance and credit risk management, lapses in operational processes and procedures and contravention of some sections of the Banking Act. The concerned banks were directed to redress the deficiencies and, in some instances, to pay a penalty. Further, on-site examination was conducted for AML/CFT/CPF processes and procedures for monitoring, analysing, investigating ML/TF risks and reporting suspicious transactions, all of which were assessed to be satisfactory at the banks involved. While progress had been made in addressing adverse findings of previous on-site examination, deficiencies were noted with respect to processes for identification and verification of ultimate beneficial ownership information for legal entities and trusts, and the identification of high-risk customers. The concerned banks were directed to correct the anomalies.

The Bank held prudential bilateral and statutory trilateral meetings in 2023 as well as AML/CFT/CPF bilateral meetings with two banks.

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

INTRODUCTION (CONTINUED)

This Banking Supervision Annual Report is divided into six thematic chapters: Chapter 1 outlines the structure of Botswana's financial system and selected indicators; Chapter 2 focusses on assessment of financial performance of the banking industry in 2023; Chapter 3 discusses the national payments system; Chapter 4 reports on licensing and consumer protection; Chapter 5 highlights other supervisory activities; and Chapter 6 presents highlights of on-site examination and off-site surveillance. There are technical notes in appendixes relating to the framework for banking supervision in Botswana, schedule of institutions regulated and supervised by the Bank, and a glossary of banking supervision terminology in the report as well as tables and graphical representation of prudential and other statistical information on the banking industry.

CHAPTER 1

BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS

CHAPTER 1:
BOTSWANA'S FINANCIAL SYSTEM AND SELECTED INDICATORS

STRUCTURE OF THE BANKING SECTOR

1.1 As at 31 December 2023, there were nine commercial banks and two statutory banks operating in Botswana. The number of operating bureaux de change was at 52 (an increase from 48 in 2022), seven of which were issued with licences during 2023; in the same period, three entities voluntarily surrendered their licences. In addition, there were three credit bureaus in operation: TransUnion (Pty) Limited, Credit Reference Bureau Africa (Pty) Limited and Microfinance (Pty) Limited. However, following the passing of the Credit Information Act, 2021 (CIA), the entities are required to apply for a licence from the Bank and regularise their operations, consistent with Section 6(1) of the CIA. Accordingly, two of the entities have since submitted their applications for a licence in 2023. The entities have been requested to submit additional information to facilitate processing of the applications.

Banking Sector Branch Network and Other Delivery Channels

1.2 While banks, in general, are leveraging technological advances to digitalise product offerings, they also continue to selectively open branches and increase automated teller machines (ATMs) to reach out to more customers in areas where they have no physical presence (Table 1.1). Overall, the number of bank branches increased by two from 172 in 2022 to 174 in 2023.

1.3 Likewise, the total number of ATMs increased from 629 in 2022 to 636 in 2023. Generally, ATMs are interactive and provide easy access to a range of financial products, such as cash deposits, wallet access, cash-out for mobile money, balance checking and access to other banking services. The increase in use of mobile banking services by customers nevertheless has potential to make ATMs less preferred by banks as a distribution channel.

1.4 The geographical distribution of the branch network was almost unchanged between the end of 2022 and 2023. The South East District, which includes the capital city, Gaborone, led the concentration of branches at 63, followed by the Central District with 40. There was an increase by a branch each in Northwest and Central districts during 2023, while the branch network for the rest of other districts was unchanged (Appendix 2).

Table 1.1: Branches and ATMs: 2021-2023

		Branches and Sub-branches			ATMs		
		2021	2022	2023	2021	2022	2023
Large Banks	Absa	36	36	36	114	114	114
	Stanchart	20	19	19	76	74	71
	FNBB	28	27	28	236	243	251
	Stanbic	18	18	18	80	80	79
Sub-total		**102**	**100**	**101**	**506**	**511**	**515**
Small banks	Access Bank	13	19	20	19	58	59
	Baroda	4	4	4	7	7	7
	Bank Gaborone	14	14	14	21	21	23
	FCB	5	10	10	5	6	5
	BBS Bank	-	-	10	-	-	10
Sub-total		**36**	**47**	**58**	**52**	**92**	**104**
Total for Commercial Banks		**138**	**147**	**159**	**558**	**603**	**619**
Statutory Banks	BBS Bank	10	10	-	9	9	-
	BSB	10	11	11	16	17	17
	NDB	4	4	4	-	-	-
Total for Statutory Banks		**24**	**25**	**15**	**25**	**26**	**17**
Overall total		**162**	**172**	**174**	**583**	**629**	**636**

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

1.5 On the other hand, the number of point-of-sale (PoS) terminals increased by 6.5 percent from 22 240 in 2022 to 23 683 in 2023, which can increase financial inclusion. Just over half of the terminals belong to FNBB, and the rest are shared among Absa Bank Botswana Limited (Absa), Stanbic, Bank Gaborone and Access Bank (Table 1.2).

Table 1.2: Point-of-Sale Terminals: 2021-2023

	Point of Sale		
Banks	**2021**	**2022**	**2023**
FNBB	10 949	12 163	13 428
Absa	5 245	5 484	5 694
Stanbic	3 571	2 705	3 208
Bank Gaborone	805	1 004	1 333
Access Bank	232	884	1 352
Total	**20 802**	**22 240**	**23 683**

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

Access Indicators

1.6 Access to banking services as measured by the ratio of the number of depositors to adult[2] population improved from 82.1 percent in 2022 to 87.9 percent in 2023, thereby contributing to financial inclusion. The number of depositors grew by 7 percent from 1.42 million in 2022 to 1.52 million in 2023, while that of the adult population was unchanged, at 1.73 million, from 2022.

2 Adult refers to persons aged 15 and above. Projections for population were obtained from the Statistics Botswana Population Projections for Botswana 2011–2026 Report; medium scenario projections were used.

1.7 There was one ATM per 1 000 square kilometres, the same as in the previous year, while the number of ATMs per 10 000 adults slightly increased from 3.6 in 2022 to 3.7 in 2023, reflecting marginal increase in access to financial services or products. There was one branch per 10 000 adults and less than one branch per 1 000 square kilometres in 2023, a statistical indication of the sparse population distribution in the country.

Banking Sector Employment Trends: 2022-2023

1.8 Table 1.3 shows employment levels for 2022 and 2023. The number of people employed in the banking sector increased from 5 021 in 2022 to 5 094 in 2023, a growth of 1.5 percent. The increase in employment was spread across six banks, reflecting expansion of business and branches, while the number of employees declined at four banks, reflecting the effect of increased automation and use of digital channels, resignations, retirement and termination of employment.

1.9 In aggregate, for small banks, staff grew by 27.2 percent from 996 in 2022 to 1 267 in 2023, while the number of workers at large banks[3] declined by 1.2 percent from 3 450 to 3 410 in the same period. The increase in the staff number for small banks is largely attributed to the conversion of one bank from a statutory to a commercial bank. The proportion of expatriates in the banking sector remained at 0.8 percent between 2022 and 2023, with the absolute number falling from 42 to 41 in the same period.

Table 1.3: Level of Employment by Domestic Banks: 2022-2023

		2022			2023		
		Citizens	Expatriates	Total	Citizens	Expatriates	Total
Large Banks	Absa	1 023	4	**1 027**	1 036	5	**1 041**
	Stanchart	463	5	**468**	417	5	**422**
	FNBB	1 399	3	**1 402**	1 409	4	**1 413**
	Stanbic	552	1	**553**	532	2	**534**
Sub-total		**3 437**	**13**	**3 450**	**3 394**	**16**	**3 410**
Small Banks	Access Bank	418	5	**423**	463	5	**468**
	Baroda	52	14	**66**	46	14	**60**
	Bank Gaborone	279	5	**284**	309	1	**310**
	FCB	218	5	**223**	225	4	**229**
	BBS Bank	-	-	-	199	1	**200**
Sub-total		**996**	**29**	**996**	**1 242**	**25**	**1 267**
Total for Commercial Banks		**4 404**	**42**	**4 446**	**4 636**	**41**	**4 677**
Statutory Banks	BBS Bank	202	-	**202**	-	-	-
	BSB	222	-	**222**	217	-	**217**
	NDB	151	-	**151**	200	-	**200**
Total for Statutory Banks		**575**	-	**557**	**417**	-	**417**
Overall Total		**4 979**	**42**	**5 021**	**5 053**	**41**	**5 094**

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

3 A large bank refers to a bank with total assets amounting to at least 10 percent of the banking sector consolidated assets as at 31 December 2023. In Botswana, large banks are FNBB, Absa, Stanbic and Stanchart.

New Banking Sector Products and Services

1.10 Some of the G20 high-level principles on financial consumer protection require jurisdictions to ensure that consumers have access to satisfactory complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Further, financial products offered by financial institutions should meet the interests and objectives of the target consumers and contribute to their financial well-being. In that regard, banks continued to enhance, develop and diversify their products and services to meet evolving customer needs and to embrace and harness broadening of technical innovation in areas of potential business growth, while supporting financial inclusion.

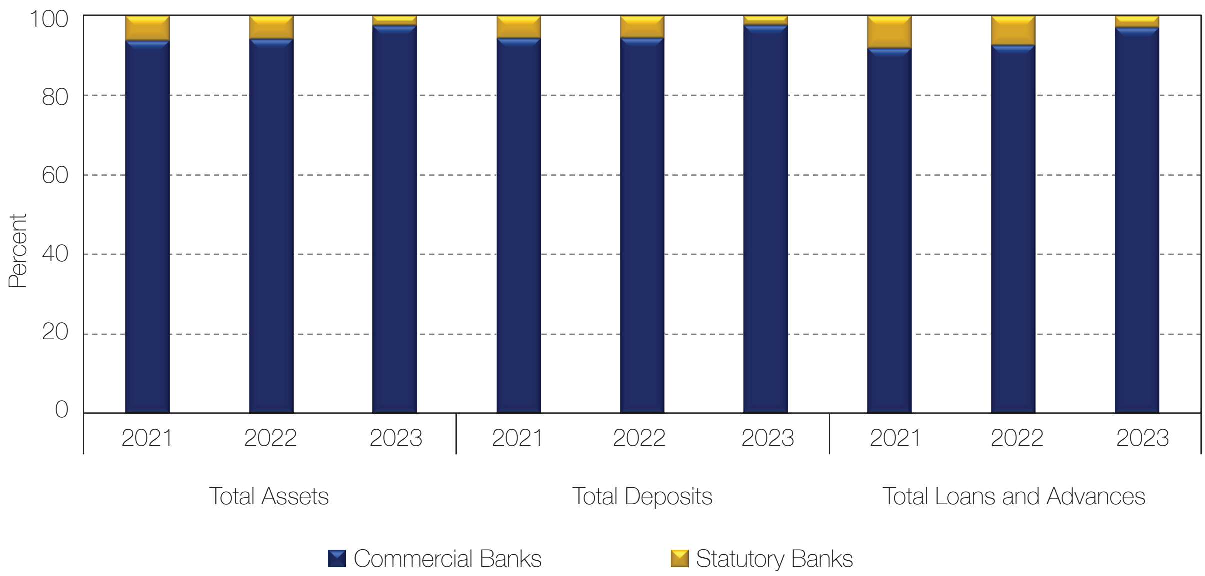
1.11 During 2023, the Bank assessed and approved 30 products and services from different banks, two products of which were brought forward from the previous year, while 28 were received in 2023; the products and services covered a wide range of banking services, such as enhancing through adding digital features as the banking sector continues to digitise banking services, particularly as use of the cheque in Botswana was earmarked for termination on 31 December 2023. With most of these products and services, banks target retail customers, with a view to retaining clients and broadening the customer base.

BANKING SECTOR COMPETITION AND CONCENTRATION

Market Share

1.12 As at the end of 2023, commercial banks continued to dominate the banking sector, with a market share of 94 percent for assets and deposits and 92.5 percent for loans and advances (Chart 1.1). Meanwhile, the market share for statutory banks increased marginally with respect to assets (from 5.9 percent to 6 percent), deposits (5.5 percent to 6 percent), and loans and advances (7.4 percent to 7.5 percent) in the same period.

Chart 1.1: Market Share of Total Assets, Total Deposits, and Total Loans and Advances of the Banking Sector*: 2021-2023 (Percent)

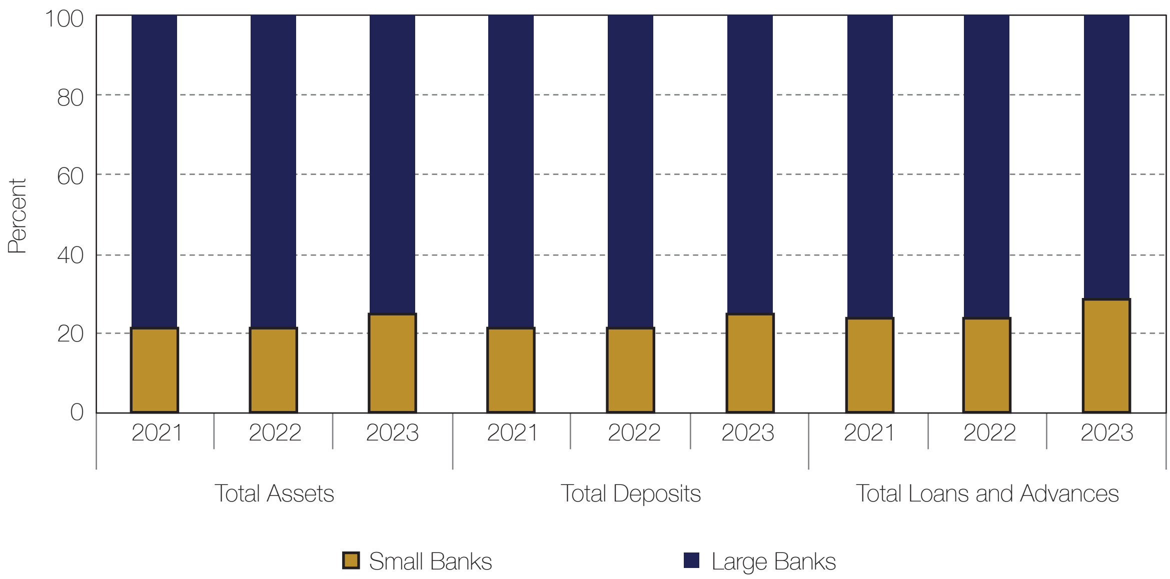


* Figures exclude one statutory bank.

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

1.13 In the period under review, the levels of concentration remained generally unchanged, as the four large banks continued to dominate the banking sector and jointly controlled 74.9 percent, 74.4 percent and 71.3 percent of total assets, deposits, and loans and advances, respectively, in 2023, compared with 78.4 percent, 78.1 percent and 75.8 percent of total assets, deposits, and loans and advances in 2022 (Chart 1.2). In the same period, small banks marginally increased their market share with respect to assets, deposits, and loans and advances owing to the conversion of one statutory bank to a commercial bank.

Chart 1.2: Market Share of Total Assets, Total Deposits, and Total Loans and Advances of Commercial Banks: 2021-2023 (Percent)



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

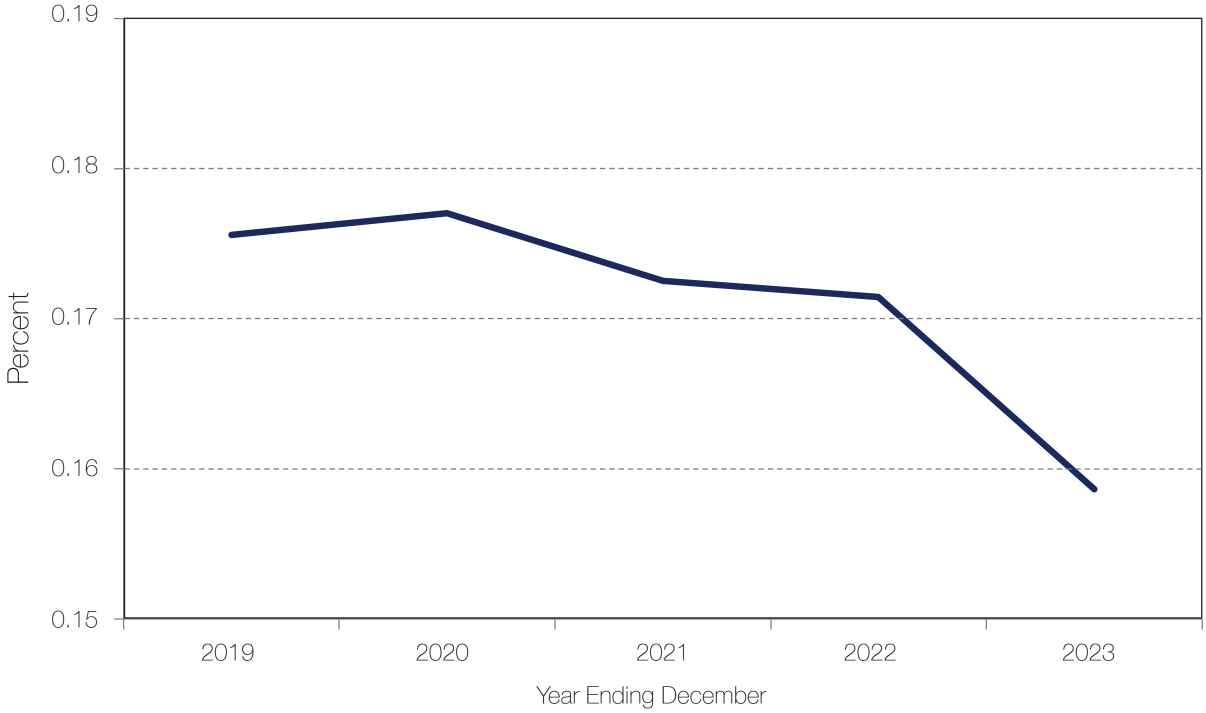
Market Competition Indicators

The Herfindahl-Hirschman Index (HHI) of Competitiveness

1.14 The Herfindahl-Hirschman Index[4] (HHI), a widely applied measure of market concentration, declined to 0.15866 in 2023 from 0.17148 in 2022, suggesting an improvement in the level of competition in the banking sector. However, the index was lower than 0.1800, indicating a moderately concentrated market, as small banks gained market share by asset, deposit and credit (loans and advances) owing to the change highlighted in the preceding paragraph (Chart 1.3).

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

Chart 1.3: Herfindahl-Hirschman Index (HHI): 2019-2023

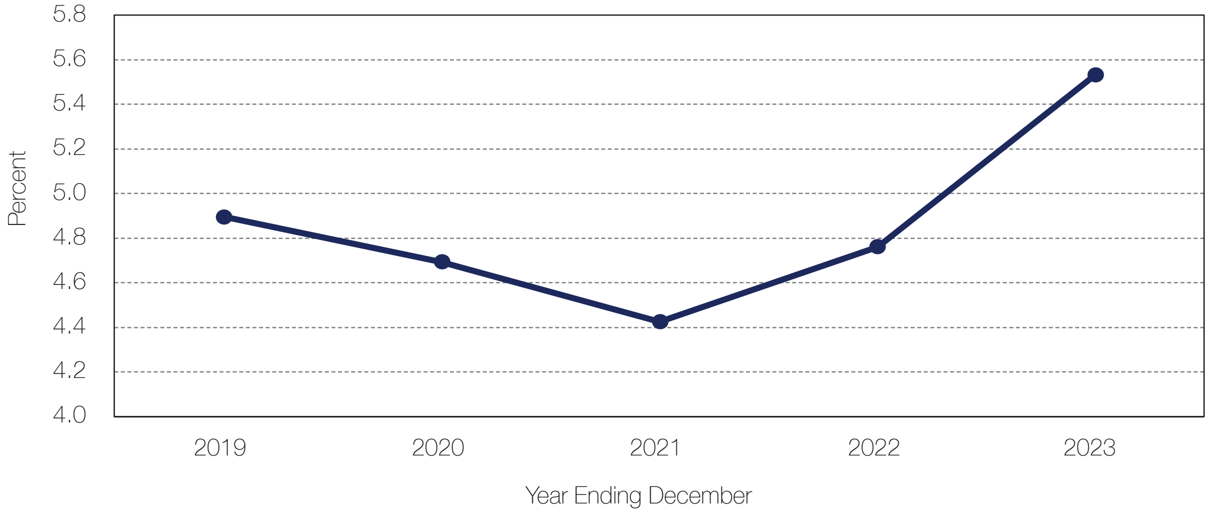


Source: Commercial Banks (Statutory Returns submitted to the Bank).

Net Interest Margin

1.15 The net interest margin (NIM) for the banking industry increased by 70 basis points from 4.8 percent in 2022 to 5.5 percent in 2023 (Chart 1.4), highlighting an increase in profitability of the banking sector in 2023. The ratio has been on an upward trajectory since 2022, reflecting the overall financial beneficial effect to banks of a high interest rate environment owing to tightening of monetary policy by the Bank to rein in inflation. In that regard, the Monetary Policy Rate was increased by a cumulative 151 basis points in 2022 and reduced by 25 basis points in December 2023.

Chart 1.4: Banking Sector Trend of Net Interest Margin: 2019-2023 (Percent)



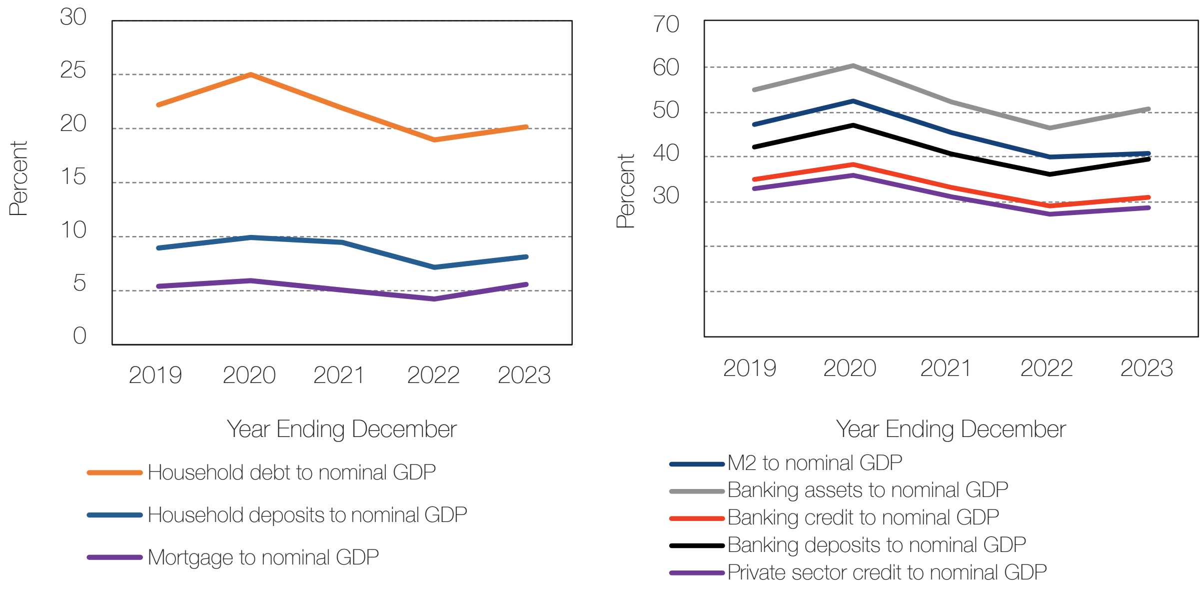
Source: Commercial Banks (Statutory Returns submitted to the Bank).

BANKING SECTOR SIZE AND DEPTH

1.16 Financial deepening refers to increasing provision of financial services and is measured as a ratio of financial assets to a country's nominal gross domestic product (GDP). Consistent with this broad definition, the IMF defines a financial development index as the increasing provision of financial services, characterised by depth of a financial system, ease of access to financial services by the unbanked and underbanked population, and the efficiency of financial services providers. Financial depth enhances the welfare of people and overall economic performance.

1.17 Chart 1.5 shows several commonly used ratios to measure financial depth and development. Overall, financial development, including depth, improved between 2022 and 2023, which is reflective of improved capacity of financial institutions to mobilise savings to finance investment, thus contributing to economic growth. However, there is scope for further deepening of the financial sector through policy interventions, structural reforms and targeted strategic initiatives by financial institutions. An additional avenue for financial development is a deliberate concerted effort at fostering and promoting growth of the capital market to diversify financial investment and drive financial inclusion.

Chart 1.5: Financial Sector Deepening Indicators: 2019-2023 (Percent)



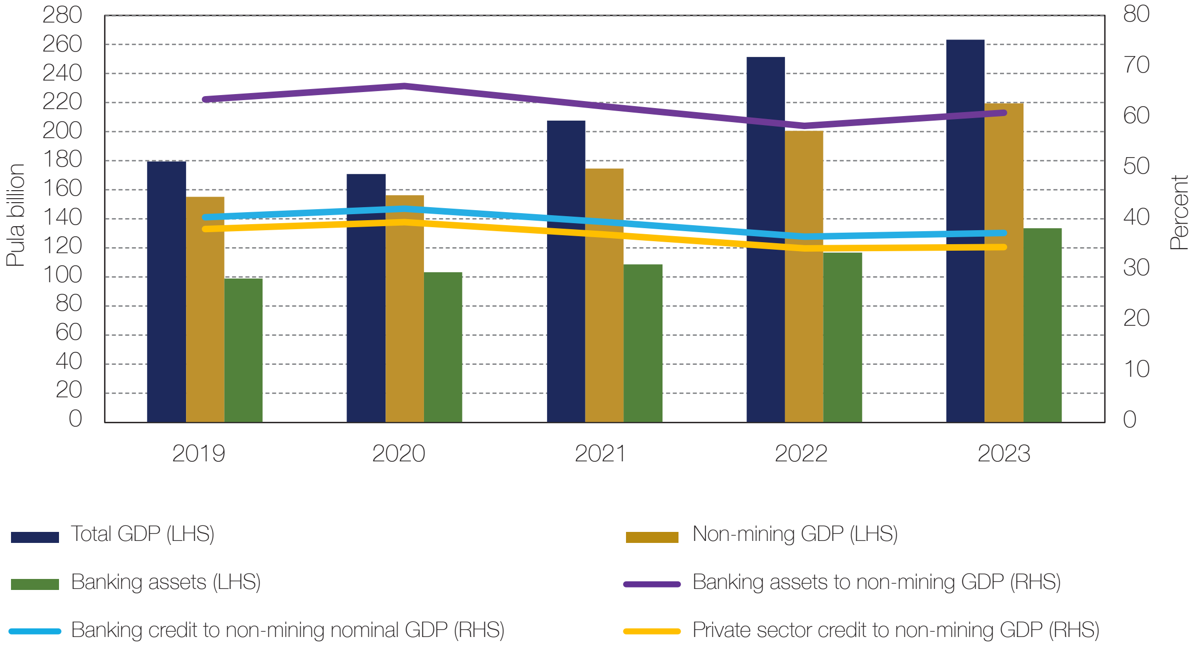
Source: Commercial Banks (Statutory Returns submitted to the Bank) and Statistics Botswana.

1.18 Regarding financial depth and development, there was an improvement between 2022 and 2023, with the ratio of private sector credit to nominal GDP[5] increasing from 27.2 percent to 28.6 percent in the same period. Meanwhile, private sector credit as a proportion of non-mining nominal GDP marginally increased from 34.2 percent in 2022 to 34.4 percent in 2023, reflecting faster growth in private sector credit than non-mining nominal GDP.

1.19 The banking sector credit as a percentage of nominal GDP rose to 31 percent in 2023 from 29.1 percent in 2022. On the other hand, the ratio of banking assets to nominal GDP, a measure of banking sector size, grew from 46.5 percent in 2022 to 50.7 percent in 2023 (Chart 1.5), while the size of banking assets relative to non-mining nominal GDP rose from 58.3 percent in 2022 to 60.8 percent in 2023 (Chart 1.6). The increase in the ratios shows that the banking sector continues to support economic growth.

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

Chart 1.6: Financial Sector Size and Depth Indicators: 2019-2023



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

1.20 The ratio of M2[6] to nominal GDP, used to estimate the extent of monetisation of an economy, was unchanged, at 40.8 percent, between 2022 and 2023, suggesting stagnation in the monetisation of the Botswana economy. Generally, a high M2 to GDP ratio would imply that a significant part of economic activity was supported by the financial resources mobilised by the banking sector.[7]

1.21 Household debt[8] as a proportion of nominal GDP increased to 20.2 percent in 2023 from 19 percent in 2022. Likewise, the ratio of commercial bank mortgage to nominal GDP increased from 4.2 percent in 2022 to 5.6 percent in 2023. Including statutory banks, the ratio of mortgage to nominal GDP marginally increased from 5.8 percent in 2022[9] to 5.9 percent in 2023. The low level of housing finance relative to the size of the economy is a concern, given the high share of unsecured credit of households that consists of large amounts. Nonetheless, it is worth noting that unsecured personal loans can be used to fund property development, including construction of houses and refurbishment of existing properties and for investment in farming. The ratio of household deposits to nominal GDP[10], which increased from 7.2 percent in 2022 to 8.2 percent in 2023 is an indication that the banking sector continues to face a challenge in mobilising financial resources from households to support business investment.

6 M2 (P107.5 billion) comprises all liabilities of financial corporations included in a country's definition of broad money. In the case of Botswana, M2 comprises currency outside depository corporations, transferable deposits (demand deposits) and other deposits included in broad money (time and fixed deposits).

7 M2 increased by 6.8 percent in 2023, compared with a 4.8 percent increase in nominal GDP.

8 Household debt increased by 11.5 percent compared with 4.8 percent increase in nominal GDP.

9 Mortgage (by commercial and statutory banks) increased by 5.2 percent, while nominal GDP increased by 4.8 percent.

10 Household deposits increased by 19.4 percent compared with a 4.8 percent increase in nominal GDP.

1.22 Pension fund assets increased as a share of nominal GDP to 51.2 percent in 2023 from 46.9 percent in 2022, reflecting a 14.6 percent increase in pension fund assets to P135.1 billion in 2023 from P118 billion in 2022. Total household savings, including pension funds, amounted to P156.6 billion as at 31 December 2023 compared with the household borrowing of P53.3 billion in the review period, an indication that, overall, including non-discretionary savings, the household sector was a net saver[11] in the economy.

1.23 The value of electronic funds transfer transactions (EFTs) as a proportion of nominal GDP rose from 106.9 percent in 2022 to 114.1 percent in 2023. In value, EFTs increased by 11.8 percent from P269.1 billion in 2022 to P300.9 billion in 2023; growth in EFTs is indicative of increasing acceptance of electronic cash for economic transactions by economic agents along with the shift from use of cheques in Botswana, which is a positive contribution towards attainment of the financial inclusion objective.

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

BOX 1: SUMMARY OF KEY CHANGES IN THE RE-ENACTED BANKING ACT, 2023

Introduction

The Banking Act (Cap. 46:04) (Banking Act) 1995 provides for the licensing, regulation and supervision of banking institutions. The Banking Act was reviewed twice to address specific and urgent matters. The first amendment pertained to section 43 to address concerns by the European Union relating to Botswana's non-compliance with standards and requirements of the Organisation for Economic Cooperation and Development, and global forum on transparency and exchange of information for tax purposes. The second one was intended to address the adverse findings by the Eastern and Southern Africa Anti-Money Laundering Group relating to the required institutional arrangements and mandate for coordination of the country's regime of anti-money laundering and combating the financing of terrorism. In May 2023, after an extensive and comprehensive revision of the Banking Act, a Banking Bill was passed into law by Parliament, resulting in the re-enacted Banking Act, 2023. Overall, the revision of the Banking Act was 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.

Key Objectives of the Re-enactment

The key objectives of the re-enactment were to strengthen the legal framework to provide a sound legal foundation for development of an inclusive, innovative, and growing banking sector; establish a more robust architecture and legal basis for financial safety nets; ensure licensing and regulation of banks is undertaken in recognition of the emergence of diversified banking groups especially in the context of complex structures, such as financial conglomerates and cross-border establishments; accommodate and support innovation in the banking system by licensing a variety of banks, including digital banks and other deposit-taking institutions (DTIs); define significant shareholding and controlling interests in banks; ensure compliance with the Basel Core Principles for Effective Banking Supervision; and ease any limitations to the effective discharge of the Bank's banking supervision mandate.

Highlights of Key Changes

The revised Act has introduced a definition of deposit and includes an expanded set of legal definitions of core banking supervision terms intended to provide clarity in the administration of the Act. Key revisions are as follows:

Section 8 on application for a banking licence has been reviewed and the scope extended to include DTIs. Section 11 on refusal to grant a banking licence has been amended to the effect that appeals for rejected applications for a banking licence will no longer be adjudicated by the Minister responsible for finance; instead, appeals will be adjudicated by an Appeals Tribunal whose constitution, membership and governing procedures are established by the Act at sections 92–95.

Section 20 on mergers, acquisition, and registration of controlling companies, introduces a new requirement for a bank to notify the Bank first of any proposed mergers, acquisitions, and any other forms of corporate affiliations to ensure that processes are properly coordinated with the Competition and Consumer Authority. In addition, section 21 on transfer of significant or controlling interest was introduced to provide guidance to a bank or DTI that proposes to hold or transfer significant or controlling interests.

For sections 31–37 on financial statements, and audit of accounts, the main amendment relates to the alignment of the record retention period to the Financial Intelligence Act therefore raising it from five to 20 years. This requirement applies to banks, banking groups and DTIs. Meanwhile, Section 42 of the revised Act, on consolidated supervision as amended, puts in place effective tools to remove obstacles to conducting national and cross-border consolidated supervision. Sections 43–45 on bank recovery plans, corrective measures and early intervention measures expanded the scope on temporary management of banks in the previous Act.

Sections 45A–58 on corporate governance of banks and DTIs have been amended to clarify that the central bank will subject board members of a bank to a continuing fit and proper test and, in particular, at least once a year. In turn, banks will be required to similarly conduct the fit and proper test of senior managers. The amendment provides for a wide range of board committees, such as remuneration, audit, risk, and compliance committees intended to enhance governance.

The new sections 59–72 on resolution measures represent the most extensive review of the Act as follows:

- the new law designates the central bank as the resolution authority for purposes of the implementation of the resolution powers and specifies the objectives of bank resolution.
- the central bank is further mandated to prepare resolution plans for systemically important banks and any other bank the failure of which would, in the opinion of the central bank, be disruptive to stability of the financial system of Botswana.
- the amendments also aim to minimise potential conflicts with other statutes such as Companies Act and Insolvency Act.
- The revision provides for banks to develop and maintain recovery plans for restoration of the institutions to financial soundness whenever there is such need.
- the revision provides for the appointment of an official administrator to perform resolution functions under the Act, while there is a provision for establishment of a resolution fund to facilitate bank resolution.

The amendment of sections 73-91 on liquidation expanded the section on winding-up or judicial management of banks provided in the previous Act.

The revision of section 100 on confidentiality of information amended the banking secrecy and confidentiality clauses to permit sharing of customer confidential banking information with specified relevant institutions, for supervisory purposes and credit reference bureaus established under the Credit Information Act, 2021, without the risk of liability for wrongful disclosure and breach of the banking secrecy laws.

With respect to Section 105 on immunity of the Central Bank, consistent with international best practice, the law shall protect the central bank and officers of the central bank from possible litigation when performing a public interest function. Therefore, the revision has a provision on immunity of the central bank staff.

Moreover, monetary fines have been increased significantly, considering that the current Act is relatively old.

Conclusion

The Banking Act has been revised comprehensively to align it with international best practices as well as to align the country's regulatory and supervisory standards with the evolving domestic and international financial systems. Although the Banking Bill was passed into law, it is yet to come into operation on a date the Minister of Finance shall appoint.

CHAPTER 2
PERFORMANCE OF THE BANKING INDUSTRY

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PERFORMANCE OF THE BANKING INDUSTRY

COMMERCIAL BANKS

Statement of Financial Position (Balance Sheet)

Assets

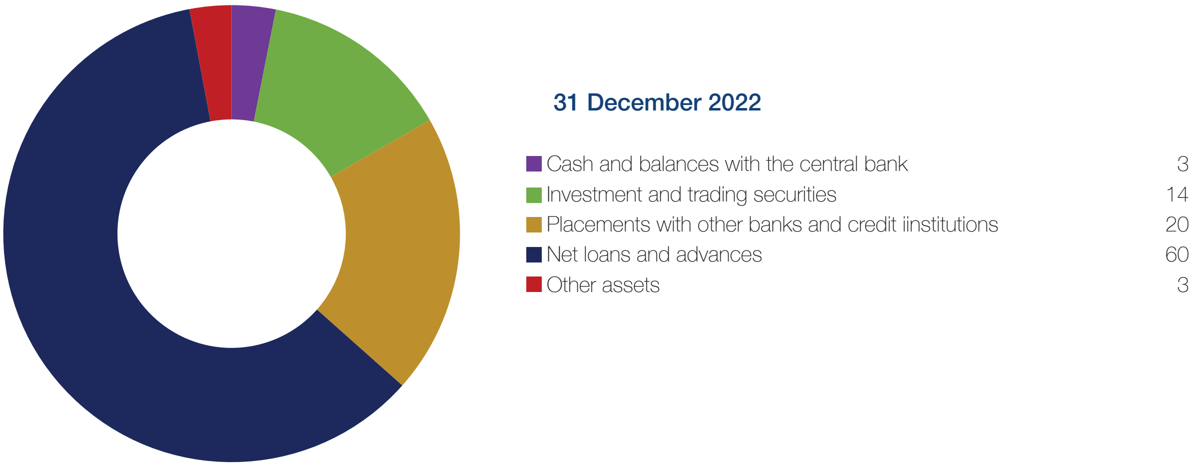
2.1 The banking industry total assets grew by 14.2 percent from P117 billion in 2022 to P133.6 billion in 2023, largely owing to an increase in gross loans and advances from P73.2 billion to P81.8 billion in the same period. Within the banking sector asset portfolio, net loans and advances had the largest share, of 59 percent, followed by placements with other banks and credit institutions, at 16 percent, investment and trading securities, at 15 percent, cash and balances with the central bank, at 6 percent, and other assets, at 4 percent. Net loans and advances grew by 11.6 percent from P70.7 billion in 2022 to P78.9 billion in 2023, while investment and trading securities increased by 26.7 percent from P15.9 billion to P20.2 billion, and cash and balances with the central bank rose by 139.2 percent from P3.6 billion to P8.6 billion in the same period.

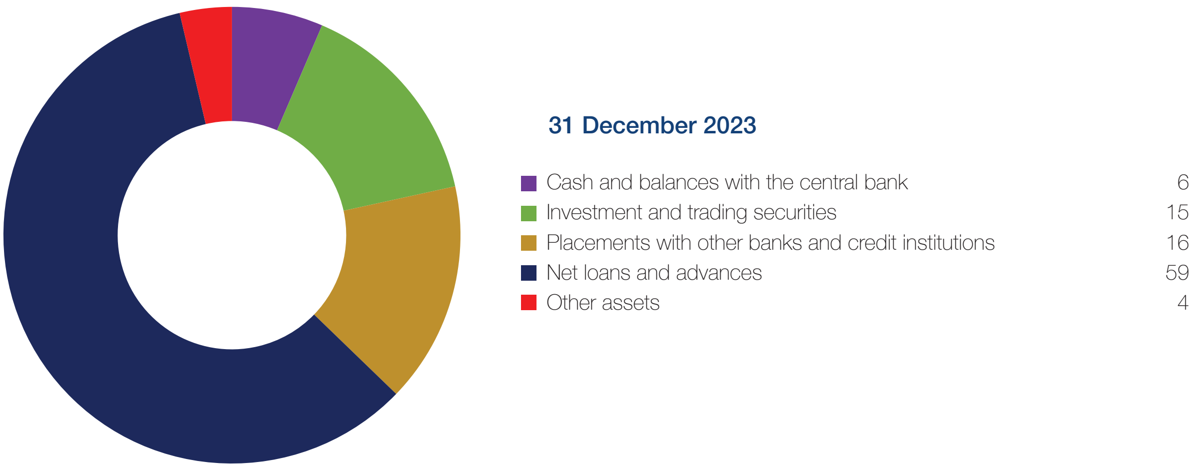
Liabilities

2.2 On liabilities, customer deposits and shareholder funds remain a major funding source for asset growth. In 2023, customer deposits made up 78 percent of liabilities, whereas shareholder funds were 11 percent of the total. The rest of the liability elements of the banking sector were balances due to other banks and credit institutions, debt securities and other borrowing, and other liabilities, which contributed 5 percent, 4 percent and 2 percent, respectively, to total liabilities in the same period.

2.3 Charts 2.1 and 2.2 show the asset and liability structure of the banking sector balance sheet, which was virtually unchanged between 2022 and 2023. Loans and advances accounted for the largest proportion of the asset portfolio as did customer deposits with respect to liabilities.

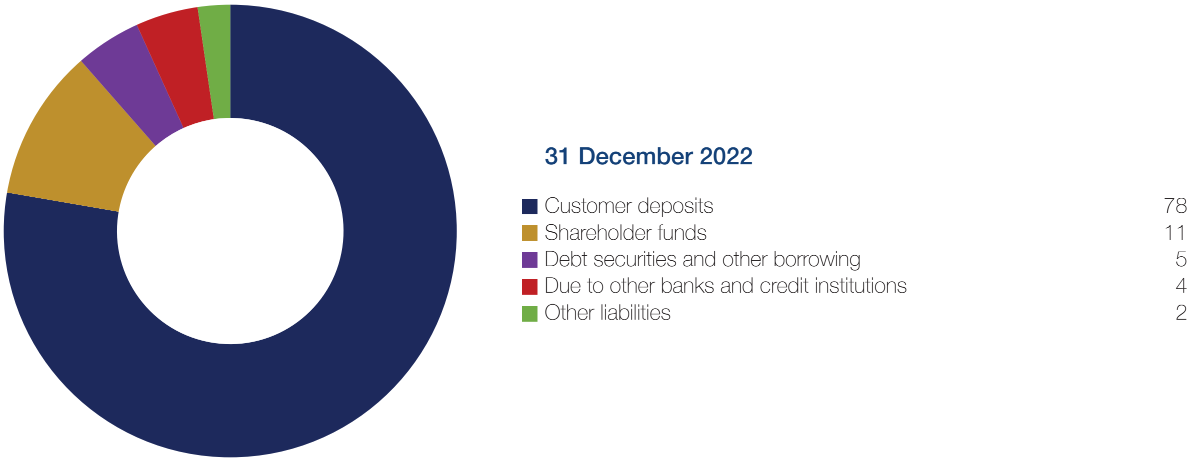
Chart 2.1: Commercial Banks: Composition of Assets: 2022 and 2023 (Percent)

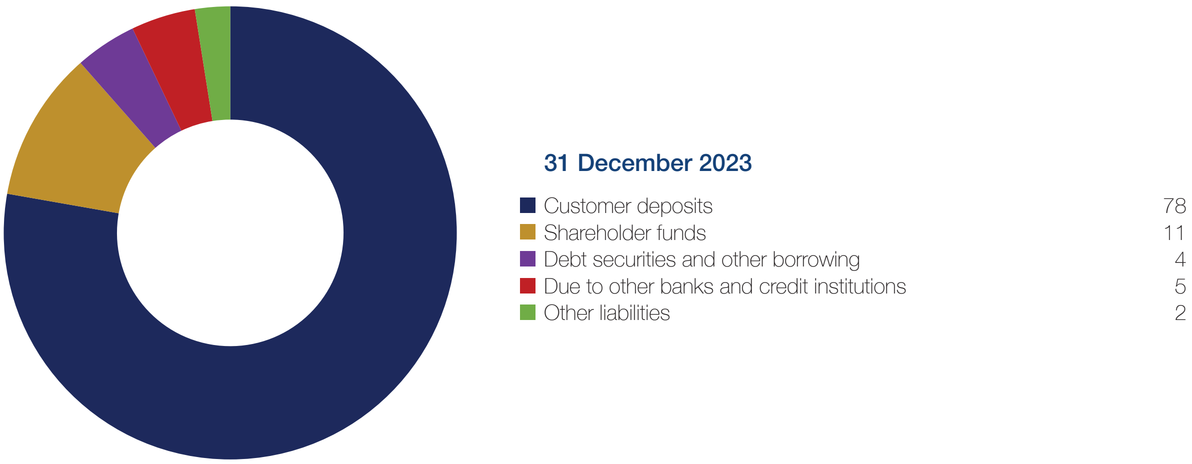




Source: Commercial Banks (Statutory Returns submitted to the Bank).

Chart 2.2: Commercial Banks: Composition of Liabilities: 2022 and 2023 (Percent)

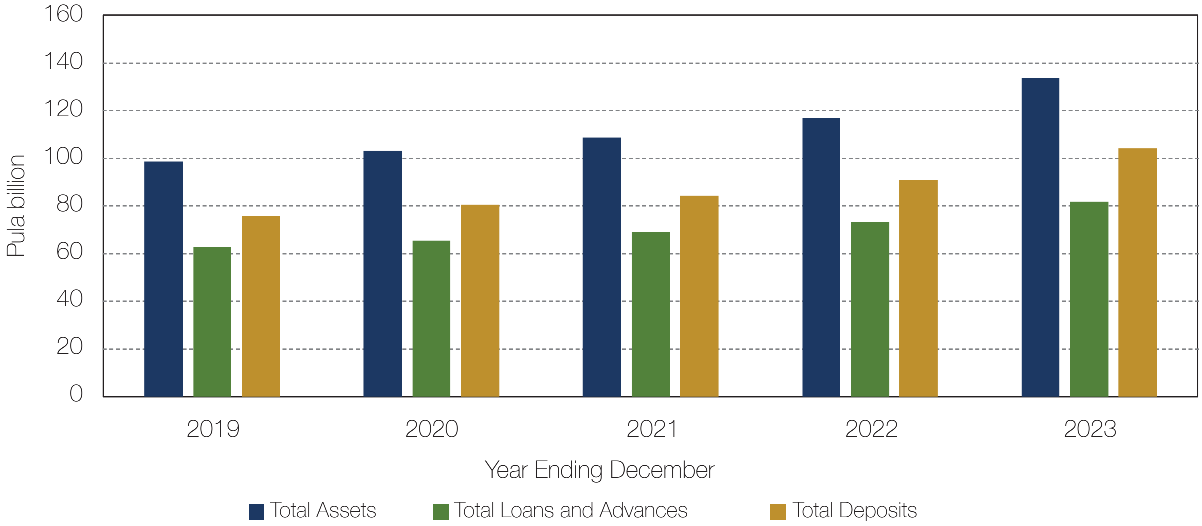




Source: Commercial Banks (Statutory Returns submitted to the Bank).

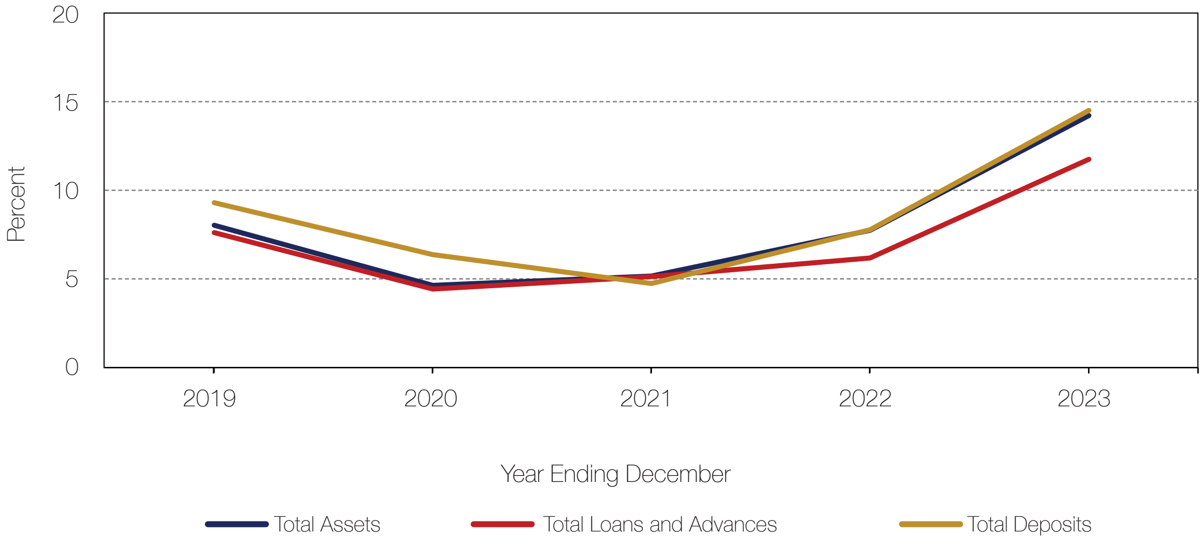
2.4 Chart 2.3 presents the level of assets, loans and advances, and deposits, while Chart 2.4 shows growth rates of assets, loans and advances, and deposits, for the period 2019–2023. Total assets, loans and advances, and deposits increased in 2023.

Chart 2.3: Commercial Banks: Total Assets, Total Deposits, and Total Loans and Advances: 2019-2023 (P billion)



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

Chart 2.4: Commercial Banks: Annual Growth Rates of Total Assets, Total Deposits, and Total Loans and Advances: 2019-2023 (Percent)



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

Riskiness of On-balance Sheet Assets

2.5 Banking business entails risk-taking and therefore banks are required to set aside regulatory capital to enable them to absorb unexpected losses as they continue to offer financial services to customers. The losses may arise from, among others, loan defaults (credit risk); failed internal processes, systems and people (operational risk); and loss in investments due to unfavourable movement in prices (market risk). The level of capital should be commensurate with the level of risk assumed.

2.6 In determining credit risk, related assets risk weights are assigned to different categories of a bank's assets to reflect the risk profile of the assets to determine the level of capital required to absorb losses that may arise from these assets. The risk weights as determined by the regulator, range from zero percent (low-risk asset) to 1250 percent (high-risk asset). Assets with higher risk weights require higher capital.

2.7 Table 2.1 provides a comparison between the riskiness of on-balance-sheet assets of banks as at 31 December 2022 and 31 December 2023. Assets risk-weighted at zero, 20 percent, 35 percent, 100 percent, 150 percent, and 250 percent increased, while assets with risk weights of 50 percent and 75 percent decreased. No bank held assets risk-weighted 1250 percent (Appendix 6). On-balance-sheet assets with risk weights of 75 percent (retail portfolio) constituted the highest share of (risk-weighted assets), at 28.2 percent (albeit a decrease from 33.3 percent in 2022) in 2023, indicating the underlying dominant share of the retail portfolio in the balance sheet of banks.

2.8 Overall, 28.4 percent of on-balance-sheet asset items were above the 75 percent risk-weight category in 2023, compared with 27.5 percent in 2022, showing a marginal increase in the riskiness of banking sector assets. Nonetheless, 54.1 percent of on-balance-sheet asset items were in the 75 percent and 100 percent risk-weight categories, indicative of the higher share of riskier assets in the loan portfolio of banks.

Table 2.1: Riskiness of Banks' Portfolios of On-balance Sheet Assets in 2022 and 2023

Risk weights (Percent)	On-balance sheet assets (P million)	Shares of on-balance sheet asset items in total on-balance sheet assets (percent)	On-balance sheet assets (P million)	Shares of on-balance sheet assets items in total on-balance sheet assets (percent)
	December 2022		**December 2023**	
0	18 937	15.9	28 075	20.6
20	17 406	14.6	17 964	13.2
35	7 939	6.7	11 411	8.4
50	2 353	2.0	1 825	1.3
75	39 604	33.3	38 416	28.2
100	31 237	26.2	35 326	25.9
150	1 451	1.2	3 068	2.3
250	109	0.1	207	0.2
1250	0	0	0	0
Total	**119 037**	**100.0**	**136 292**	**100.0**

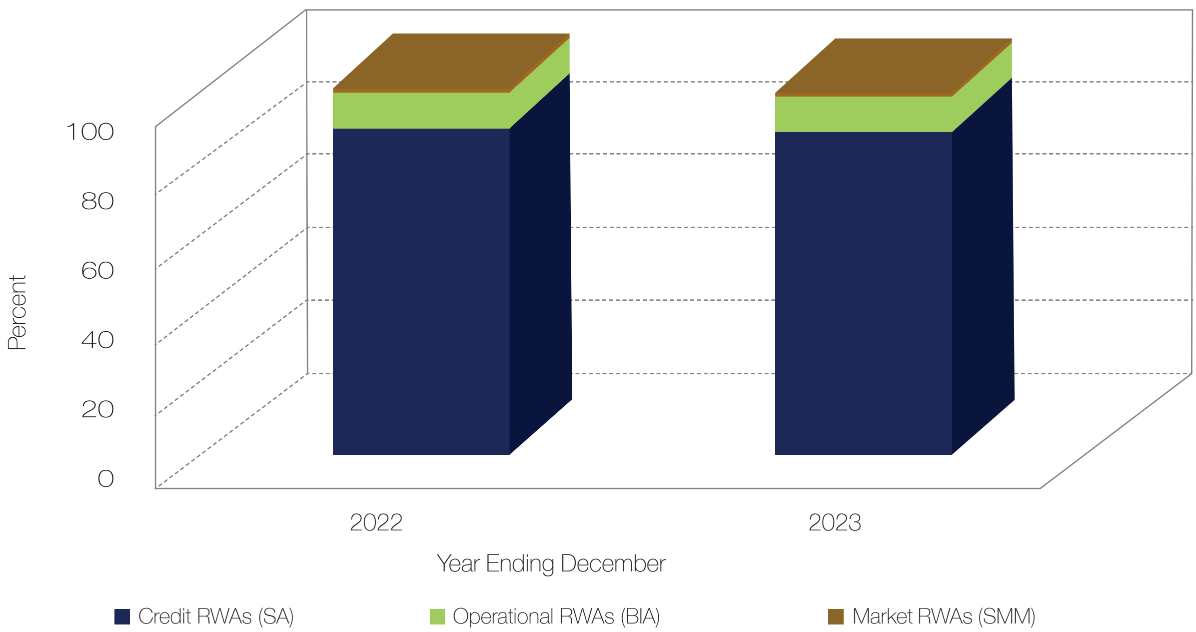
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Risk Assessment

2.9 Botswana has adopted the Basel II standardised approach for credit risk, standardised measurement method for market risk and a choice between the basic indicator approach and standardised approach for operational risk. The use of advanced approaches for capital-adequacy measurement in line with Basel III has been deferred.

2.10 Chart 2.5 illustrates risk-weighted assets (RWAs) of the banking sector by risk-weight approach in 2022 and 2023 as calculated under Pillar 1 of the Basel II Capital Directive. RWAs rose by 9.9 percent to P87 billion in 2023 from P79.2 billion in 2022, mainly reflecting the increase in loans and advances. Proportions of RWAs of the banking sector were constant between 2022 and 2023 with credit RWAs, at 89 percent, operational RWAs, at 10 percent, and market RWAs, at one percent, indicative of the focus of banks on retail banking, particularly unsecured personal loans, which are riskier.

Chart 2.5: Composition of Risk-weighted Assets: 2022 and 2023 (Percent)



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

Credit Risk

Regulatory Capital Requirements on Credit Risk

2.11 Credit RWAs increased by 9.6 percent from P70.8 billion in December 2022 to P77.6 billion in December 2023, as credit expanded faster, by 11.7 percent, in 2023. The accelerated growth in credit RWAs largely reflects the underlying composition of the loan portfolio of the banking sector, which is led by the household sector (risk-weighted at 75 percent). Credit to the household sector increased at a higher rate of 11.5 percent in 2023 compared with 4.8 percent in 2022, which contributed significantly to growth in credit risk-weighted assets.

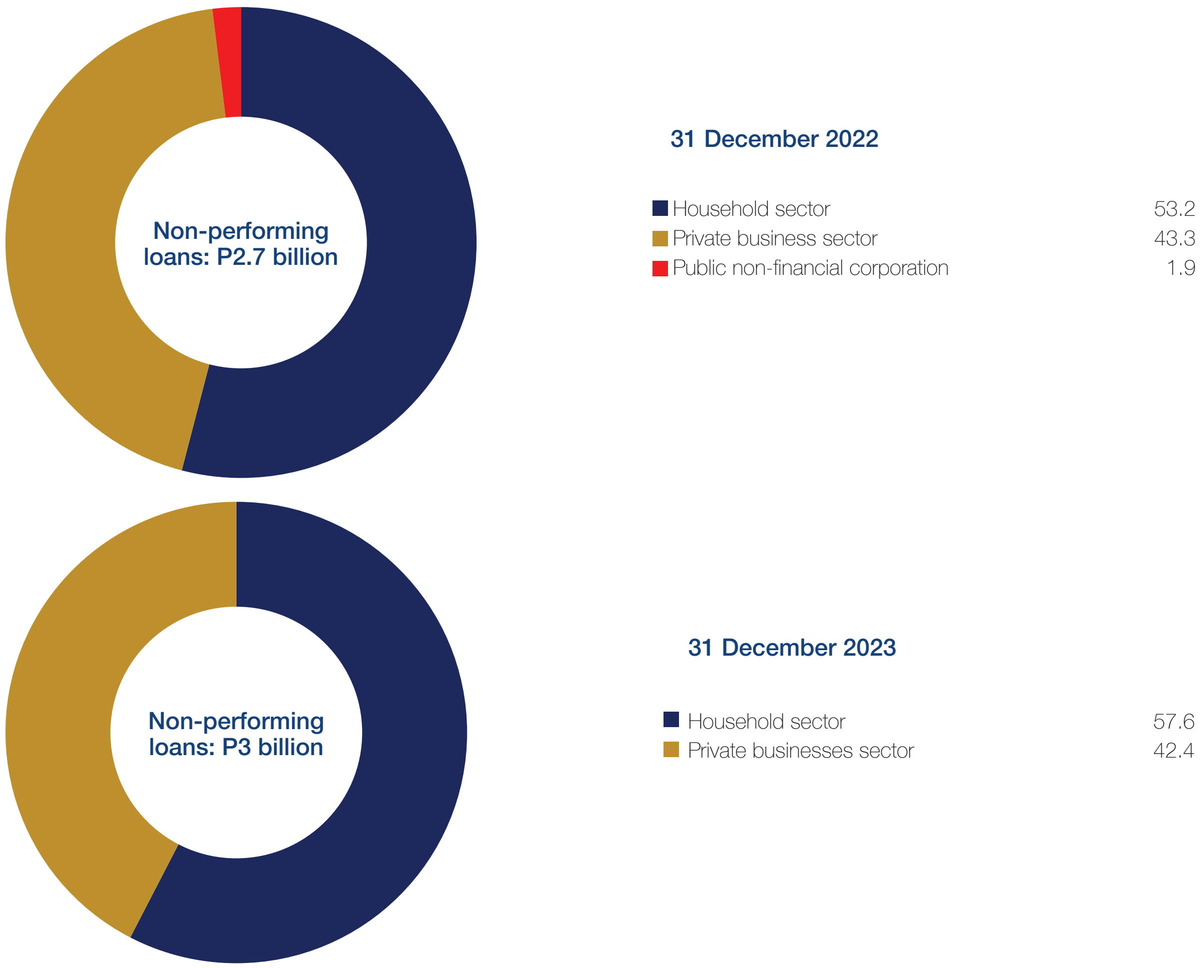
Asset Quality: Levels and Trends

2.12 Gross loans and advances of the banking sector amounted to P81.8 billion in December 2023, an increase of 11.7 percent from P73.2 billion in 2022. Growth in loans and advances was across all banks except one, which experienced a decline of 6.7 percent in the same period. Total past due loans (loans in payment arrears) grew by 16.4 percent from P3.6 billion in 2022 to P4.2 billion in 2023, while NPLs (impaired loans) rose by 9.3 percent from P2.7 billion to P3 billion in the same period.

2.13 The banking industry loans and advances classified as pass, special mention, sub-standard, doubtful and loss loans (see Appendix 5 for definition) constituted 90.2 percent, 5.7 percent, 0.9 percent, 0.9 percent and 2.3 percent of total loans and advances, respectively, as at 31 December 2023 compared with 86.2 percent, 4.9 percent, 1.3 percent, 0.8 percent and 1.6 percent in 2022. Proportions of all the classification categories of loans and advances in 2023 were consistent with those in 2022, indicating that the credit risk profile of the banking sector was largely unchanged.

2.14 Households constituted a higher proportion of 57.6 percent of NPLs in the banking sector than the 42.4 percent for private businesses in 2023. Meanwhile, public non-financial institutions, non-residents and financial institutions sub-sectors had no NPLs in the year. Chart 2.6 compares the sectoral distribution of NPLs in 2022 and 2023.

Chart 2.6: Sectoral Distribution of Non-performing Loans and Advances: 2022 and 2023 (Percent)



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

2.15 Table 2.2 shows the sectoral distribution of NPLs as at the end of December 2023. Business services had the highest proportion of NPLs, at 20.8 percent, followed by trade, restaurants and bars; other community, social and personal services; tourism and hotels; and commercial real estate, at 16.7 percent, 12.5 percent, 11.4 percent and 10.3 percent, respectively. Table 2.3 presents levels of loans and advances, NPLs and specific provisions as well as the proportion of NPLs to gross loans and advances, and specific provisions to NPLs.

Table 2.2: Distribution of Private Business Sector Non-performing Loans and Advances: 2019-2023 (Percent)

Private Business	2019	2020	2021	2022	2023
Agriculture, forestry and fishing	7.4	7.2	7.4	5.4	6.7
Mining and quarrying	2.5	5.6	2.9	3.8	0.8
Manufacturing	27.1	14.3	9.6	9.3	6.3
Construction	10.2	13.2	7.9	5.4	6.1
Commercial real estate	9.4	12.6	12.0	19.0	10.3
Electricity	0.5	0.8	0.6	0.8	0.8
Water	0.0	0.0	0.0	0.0	0.0
Telecommunications	0.0	0.1	0.1	0.3	0.3
Tourism and hotels	3.2	2.8	12.4	16.9	11.4
Transport	3.4	5.1	4.3	4.0	7.2
Trade, restaurants and bars	23.7	17.9	14.4	10.0	16.7
Business services	9.5	16.0	23.4	19.9	20.8
Other community, social and personal services	3.1	4.3	4.8	5.3	12.5
Total	**100**	**100**	**100**	**100**	**100**

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

Table 2.3: Levels and Proportions of Gross Loans and Advances, Non-performing Loans and Advances and Specific Provisions: 2019–2023

	2019	2020	2021	2022	2023
Pula million					
Gross loans and advances	62 770	65 554	68 920	73 195	81 797
Non-performing loans (NPLs)	3 051	2 824	2 922	2 746	3 001
Specific provisions	1 775	1 713	1 654	1 437	1 510
Percent					
NPLs to gross loans and advances	4.9	4.3	4.2	3.8	3.7
Specific provisions to NPLs	58.2	60.7	56.6	52.3	50.3

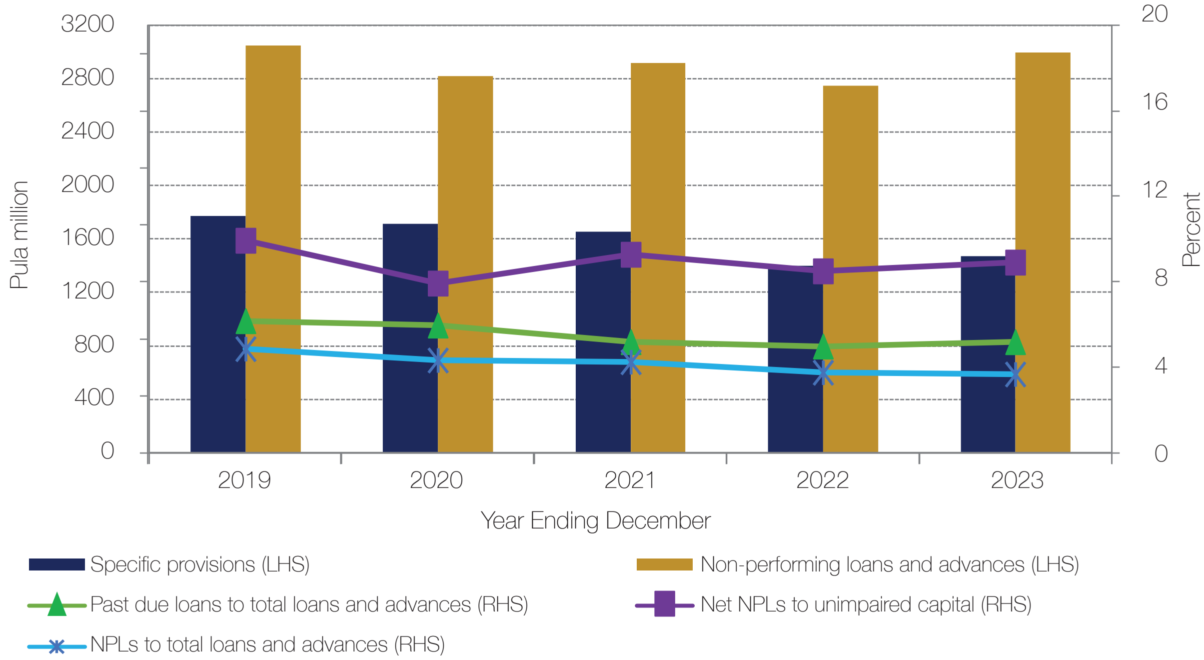
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.16 Specific provisions for the banking industry increased by 5 percent from P1.4 billion in 2022 to P1.5 billion in 2023. The ratio of specific provisions to NPLs slightly fell from 52.3 percent in 2022 to 50.3 percent in 2023. The ratio of net NPLs (net of specific provisions) to unimpaired capital rose from 8.3 percent in 2022 to 8.7 percent in 2023, indicative of a slight impairment in the loan loss-absorption capacity of banks. At that level, the ratio does not constitute a supervisory concern for the Bank.

2.17 Overall, the quality of assets of the banking sector slightly improved between 2022 and 2023, with the ratio of NPLs to gross loans and advances declining from 3.8 percent in 2022 to 3.7 percent in 2023. At the individual bank level, the ratio ranged between 1.4 percent and 6 percent.

2.18 Chart 2.7 shows trends in the commercial bank asset-quality indicators for the period 2019-2023.

Chart 2.7: Commercial Banks: Asset Quality Indicators: 2019-2023

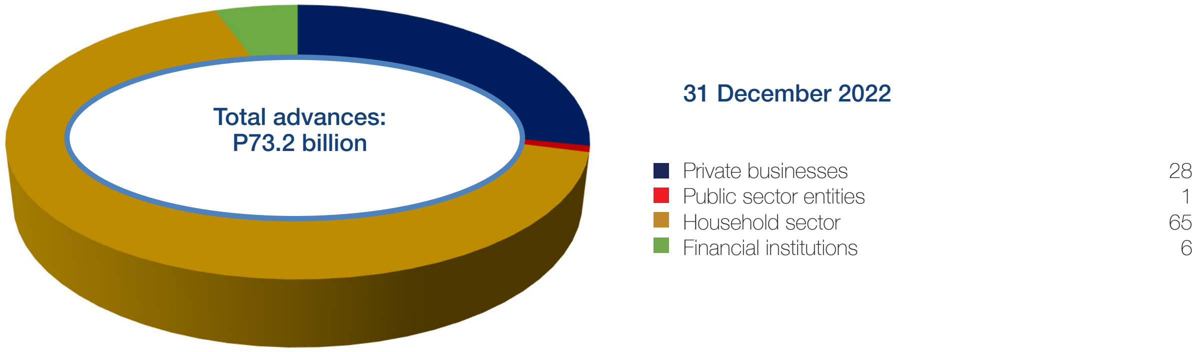


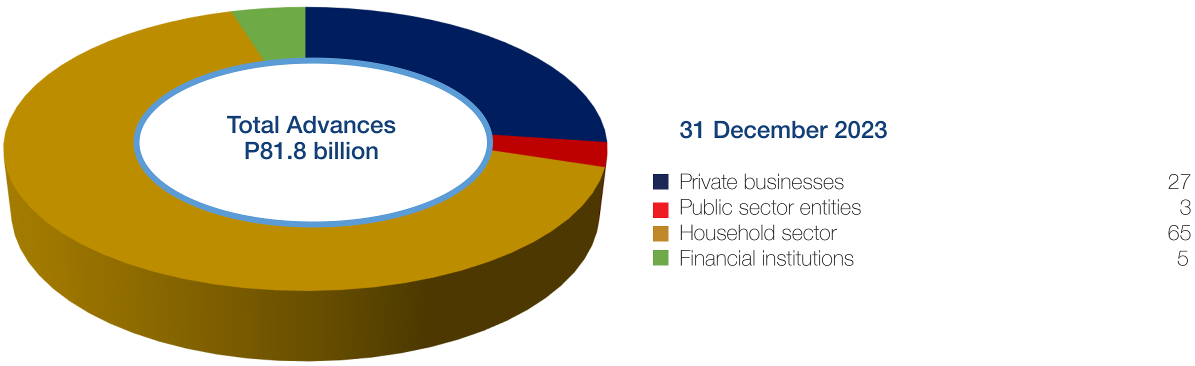
Source: Commercial Banks (Statutory Returns submitted to the Bank).

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

2.19 Loans and advances to households increased by 11.5 percent from P47.8 billion in December 2022 to P53.3 billion in December 2023 and constituted 65 percent of gross loans and advances for the banking industry. The shares for public-sector entities and non-residents increased from 0.7 percent and 0.1 percent in 2022 to 2.7 percent and 0.2 percent in 2023, respectively, while for private businesses and financial institutions, the proportion fell from 28.4 percent and 5.5 percent to 27.2 percent and to 4.8 percent in the same period. Chart 2.8 compares the sectoral distribution of loans and advances between 2022 and 2023.

Chart 2.8: Sectoral Distribution of Loans and Advances: 2022 and 2023 (Percent))





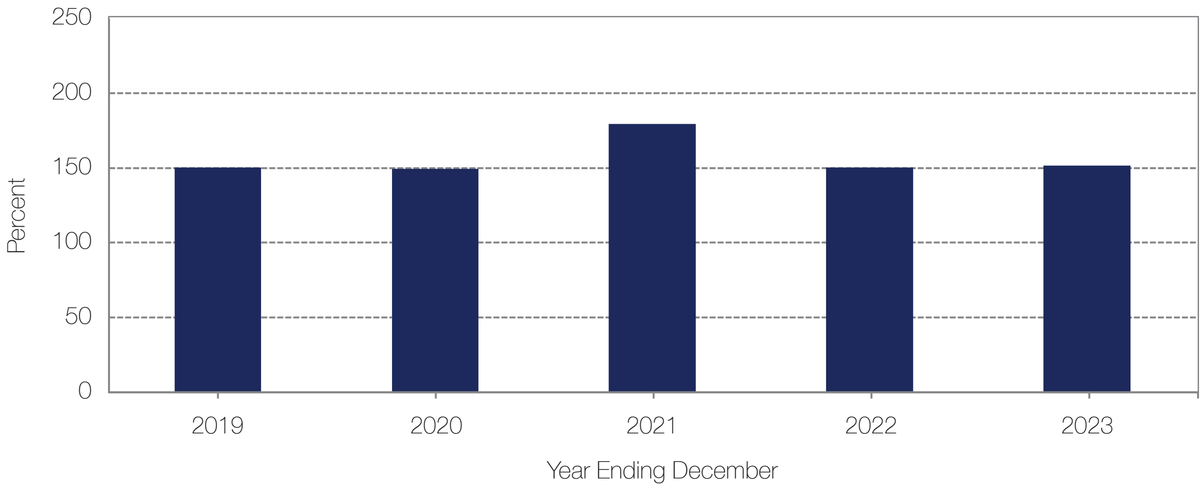
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Large Exposures

2.20 Large exposures[12] of commercial banks increased by 9.3 percent from P23.8 billion in 2022 to P26 billion in 2023, while unimpaired capital increased by 9 percent from P15.7 billion to P17.1 billion in the same period. The ratio of large exposures to unimpaired capital marginally increased from 151.4 percent in 2022 to 151.8 percent in 2023 and was substantially below the 800 percent prudential limit for banks in Botswana (Chart 2.9). The ratio varied considerably across banks, ranging from 8.9 percent to 586.6 percent.

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

Chart 2.9: Commercial Banks: Large Exposures to Unimpaired Capital Ratio: 2019-2023 (Percent)



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

Loans to Directors and Related Parties

2.21 The level of exposure of banks to related parties[13] declined between 2022 and 2023 as reflected in the fall of the ratio of loans to related parties to unimpaired capital to 7.1 percent from 7.6 percent in the same period. At this level, insider loans are considered an insignificant source of credit risk to the banking industry.

Foreign Currency Denominated Loans and Liabilities

2.22 Annual growth in loans denominated in foreign currency accelerated by 47.2 percent from P2.7 billion in 2022 to P3.9 billion in 2023 compared with 10.5 percent in the previous year.

2.23 On the other hand, foreign currency-denominated deposits fell by 2.6 percent from P19.3 billion to P18.8 billion in the same period. Hence, the ratio of foreign currency-denominated loans to foreign currency-denominated deposits increased from 13.8 percent to 20.9 percent in the same period. Across banks, a wide variation of the ratio was observed, ranging from 0.7 percent to 50.7 percent. The higher foreign currency-denominated deposits than foreign currency-denominated loans indicate that the banking sector foreign-currency funding is available, and there is minimal foreign-currency liquidity risk. Foreign currency-denominated deposits are also used to hedge against exchange rate risk.

The Structure of Private Business Loans and Advances

2.24 Table 2.4 shows the sectoral distribution of private business loans and advances for the period 2019–2023. The market share of commercial real estate; tourism and hotels; and transport increased, while that of manufacturing; business services; construction; and other decreased in the review period. Meanwhile, the market share of the following sectors remained constant between 2022 and 2023: agriculture, forestry and fishing; mining and quarrying; trade, restaurants and bars; electricity; and telecommunications.

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

Table 2.4: Sectoral Distribution of Private Business Loans: 2019-2023 (Percent)

Private business sector loans	2019	2020	2021	2022	2023
Agriculture, forestry and fishing	8	7	7	8	8
Mining and quarrying	3	3	2	2	2
Manufacturing	10	9	8	8	6
Construction	6	5	5	5	4
Commercial real estate	24	24	25	26	27
Electricity	-	-	-	1	1
Telecommunications	1	1	1	1	1
Tourism and hotels	6	6	6	4	5
Transport	3	2	2	2	3
Trade, restaurants and bars	19	22	21	20	20
Business services	16	16	19	18	17
Other	4	5	4	7	5

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

Composition of Household Loans and Advances

2.25 Household sector loans and advances grew by 11.5 percent from P47.8 billion in 2022 to P53.3 billion in 2023 compared with a 4.8 percent increase in 2022. The loans comprised personal (66 percent), mortgage (28 percent), motor vehicle (4 percent), credit card and other loans (2 percent) (Chart 2.10). Personal, motor-vehicle, mortgage, credit card and other loans, increased by 3.1 percent, 12.8 percent, 38.5 percent and 77.6 percent to P35.3 billion, P2.2 million, P14.7 billion, and P988.6 million, respectively, in 2023. The substantial increase in mortgage was on account of one bank's reclassifying of part of mortgage arranged under scheme loans, which had been misclassified as personal loans.

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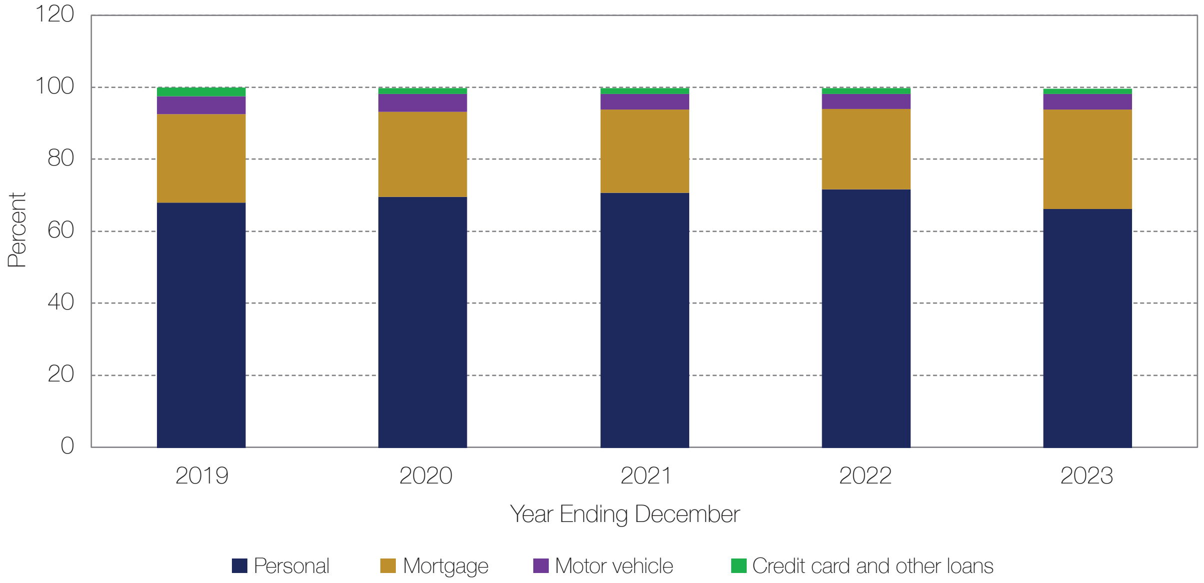
Chart 2.10: The Distribution of Household Loans and Advances: 2019-2023 (Percent)



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

2.26 Household credit tends to be concentrated in personal loans, with a much smaller proportion in mortgage because the application process for mortgage has much more requirements than for personal loans. In addition, the maximum amounts for personal loans, over which households have discretionary use, have increased for most banks over the years.

2.27 On the basis of the above, the composite credit risk for the banking industry was assessed to be moderate, while the inherent credit risk was likely to increase over the next 12 months because of potential loss of employment in an event of an economic downturn, given that household loans constituted the highest share, at 65 percent, of the banking sector loans. Further, the possible increase in international commodity prices, persistent supply and logistical constraints, and the reversal of global economic integration, any upward adjustment in administered prices, as well as the impact of the likely increase in domestic food prices due to the projected El Niño conditions in Southern Africa, may lead to higher inflation, which could erode disposable income and impair customers' capacity to service loans.

Market Risk

Regulatory Capital Requirements on Market Risk

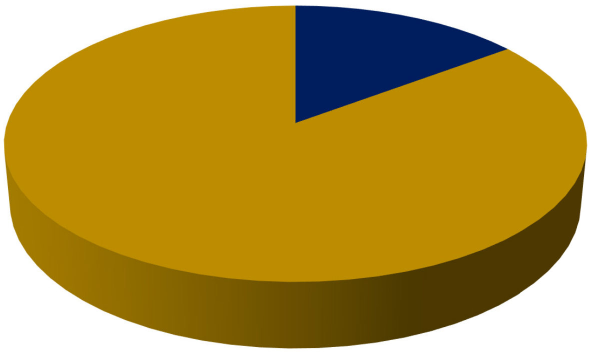
2.28 Market RWAs decreased by 8.1 percent from P737 million in 2022 to P677 million (one percent of total RWAs) in 2023 (Table 2.5). The fall in the market RWAs was attributable to a significant decline in the interest-rate risk for one bank on the back of stable interest rates (less volatile) in 2023 compared with the interest rates in 2022. Overall, the regulatory capital requirement for market risk declined from P110 million in 2022 to P101 million in 2023, with interest-rate risk accounting for P15 million, or 14.8 percent, and foreign-exchange exposure contributing P86 million, or 85.2 percent (Chart 2.11).

Table 2.5: Regulatory Capital Requirements on Market Risk

	2022		2023	
	P million	Percent	P million	Percent
Interest rate risk	26.6	24.2	15	14.8
Foreign exchange risk	83.4	75.8	86	85.2
Total Pillar 1 market risk capital requirements	110		101	
Market risk-weighted assets	737		677	

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

Chart 2.11: Composition of Market Risk Regulatory Capital: 31 December 2023 (Percent)



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

Foreign Currency Risk

2.29 All banks maintained the foreign-currency exposure to unimpaired capital ratios within the required 15 percent, 5 percent and 30 percent limits for major, minor and overall foreign-currency exposures, respectively, thus complying with the Foreign Currency Exposure Directive No. BoBA 1/99. The overall foreign-currency exposure to total unimpaired capital ratio for the banking sector increased from 6.5 percent in 2022 to 7.6 percent in 2023. For the banking industry, nostro balances (due from foreign banks) were P18.7 billion, or 14 percent of total banking assets. On the other hand, the vostro balances (due to foreign banks) amounted to P4.8 billion or 3.6 percent of the consolidated banking liabilities. The net nostro balances, at P13.9 billion, represented 10.4 percent of banking assets.

Interest Rate Risk

2.30 Except for the assets and liabilities maturing in 1–3 months and over 6–12 months, which had a negative gap of P2.1 million and P2.3 million, respectively, all other maturities had a positive gap between interest rate-sensitive assets and interest rate-sensitive liabilities for the banking sector, implying that a bank's revenue would increase in response to a rise in interest rates (Table 2.6). With a negative gap, a decrease in interest rates will result in repricing of liabilities (deposits) by banks at a lower rate, thus increasing profit for the banking sector, while an increase in interest rates will result in repricing of liabilities at a higher rate, with an opposite effect on earnings. Conversely, for interest rate-sensitive advances and other assets, a fall in interest rates will lower a bank's earnings, whereas an increase in interest rates will raise earnings and, indirectly, economic capital.

Table 2.6: Interest Rate Risk Exposure: December 2023 (P million)

Maturity	Total variable rate assets	Total variable rate liabilities	Variable gap
Up to 1 month	54 869	38 102	16 767
1–3 months	232	2 332	(2 101)
Over 3–6 months	2 023	1 747	276
Over 6–12 months	641	2 990	(2 348)
Over 12 months –3 years	2 391	12	2 378
Over 3–5 years	5 076	25	5 051
Over 5–10 years	5 306	757	4 549
More than 10 years	2 483	-	2 483
Total	**73 021**	**45 966**	**27 055**

Note: Parentheses denote negative figures.
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.31 Overall, market risk in the banking sector was considered low and is expected to be stable in the next 12 months.

Operational Risk

Regulatory Capital Requirements for Operational Risk

2.32 Operational RWAs increased by 14.1 percent from P7.7 billion in 2022 to P8.7 billion in 2023; consistent with the increase in operational RWAs, operational capital charge rose by 14.1 percent from P1.1 billion to P1.3 billion in the same period (Table 2.7).

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

	2022	2023
Operational risk capital charge: BIA	1 143	1 304
Operational risk-weighted assets	7 656	8 736

Source: Bank of Botswana.

Operational Risk Exposure

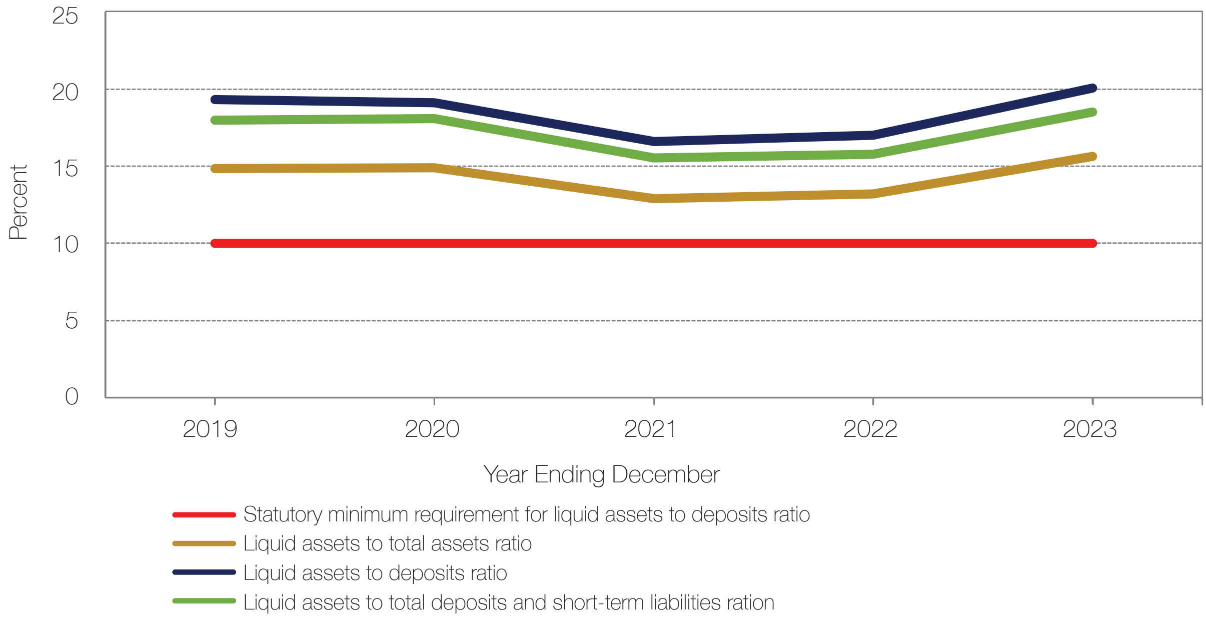
2.33 Internal controls at banks were reviewed in 2023 and lapses noted in operational-risk management of some banks. Deficiencies observed included under-resourcing of some functions; senior management positions that remained vacant for a long period; lack of reconciliation of cash in ATMs and in the vault; and lack of integration of some bank's systems into the core banking systems.

2.34 In view of the above, the composite operational risk of the banking sector was considered to have remained high and expected to trend upwards in the next 12 months, reflecting the operational-risk deficiencies identified at some banks.

Liquidity and Funding Risk

2.35 The banking industry statutory liquid assets grew by 34.8 percent from P15.4 billion in 2022 to P20.8 billion in 2023, reflected in the increased holdings by banks of treasury bills, Bank of Botswana Certificates (BoBCs) and deposits in the Standing Deposit Facility, owing to a rise in the banking-system liquidity. The liquid assets to deposit ratio (LAR) increased from 17 percent in 2022 to 20 percent in 2023 and remained above the 10 percent statutory minimum. Among individual banks, the ratio ranged between 17.6 percent and 23.9 percent.

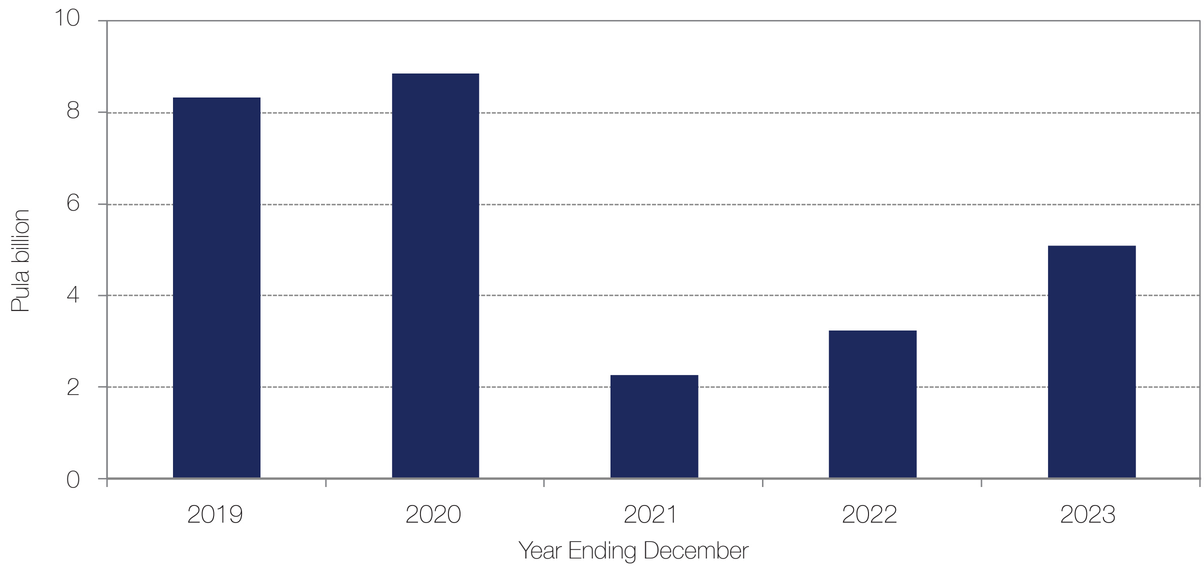
Chart 2.12: Commercial Banks: Liquidity Ratios: 2019-2023 (Percent)



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

2.36 Within liquid assets, BoBC holdings increased by 57.7 percent from P3.2 billion in 2022 to P5.1 billion in 2023 (Chart 2.13). Six banks increased their BoBC holdings, while three banks held no BoBCs in December 2023. Liquid assets for banks were mainly made up of treasury bills (29.9 percent), BoBCs (24.4 percent) and balances due from the Bank of Botswana (21.1 percent), which accounted for 75.3 percent of the total statutory liquid assets.

Chart 2.13: Commercial Banks: Market Value of Outstanding BoBCs Holdings: 2019-2023 (P billion)



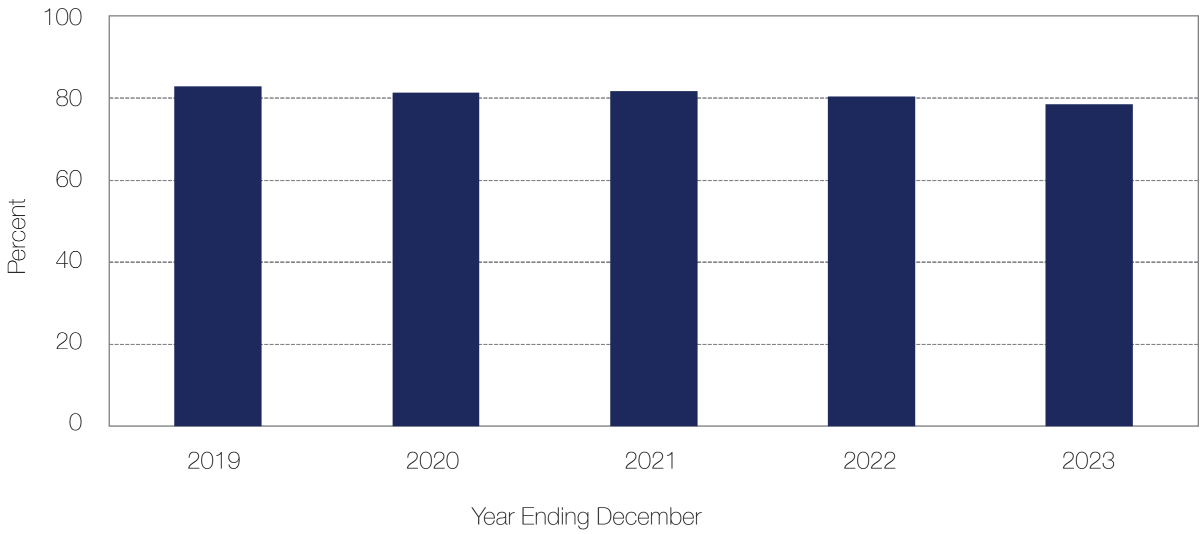
Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.37 The inherent liquidity risk for the banking sector was considered high, and the associated risk management initiatives adequate; thus, the residual liquidity risk was moderate.

Financial Intermediation

2.38 The banking sector financial intermediation ratio (loans and advances to deposits) was within the recommended range of 50–80 percent, after easing from 80.5 percent in 2022 to 78.6 percent in 2023 (Chart 2.14). Across banks, the ratio ranged between 67.3 percent and 98 percent. Consequently, a bank with a ratio of 67.3 percent could benefit from its deposit liabilities by prudently increasing lending. On the other hand, a bank with a ratio of 98 percent would face liquidity challenges in the event its loan portfolio was subject to high rates of default or impairment.

Chart 2.14: Commercial Banks: Loans and Advances to Deposits Ratio (Financial Intermediation): 2019-2023 (Percent)



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

Liabilities and Funding Structure

2.39 Asset creation by banks was financed by customer deposits, share capital, debt securities and other borrowings, and balances due to other banks, with customer deposits representing the main funding source in 2023 (Table 2.8). Customer deposits rose by 14.5 percent from P90.9 billion in 2022 to P104.1 billion in 2023 and constituted 78 percent of total liabilities. Share capital, which accounted for 10.5 percent of liabilities, increased by 11.8 percent from P12.6 billion to P14.1 billion, while balances due to other banks grew by 17.8 percent from P5.2 billion to P6.2 billion in the same period. Debt securities and other borrowings increased by 7.4 percent from P5.5 billion in 2022 to P5.9 billion in 2023. Consequently, banks could benefit from more diversified sources of funding, especially from capital markets for long-term funding.

2.40 Table 2.8 presents the sources of funding for the banking sector from 2019 to 2023.

Table 2.8: Main Sources of Funding: 2019-2023

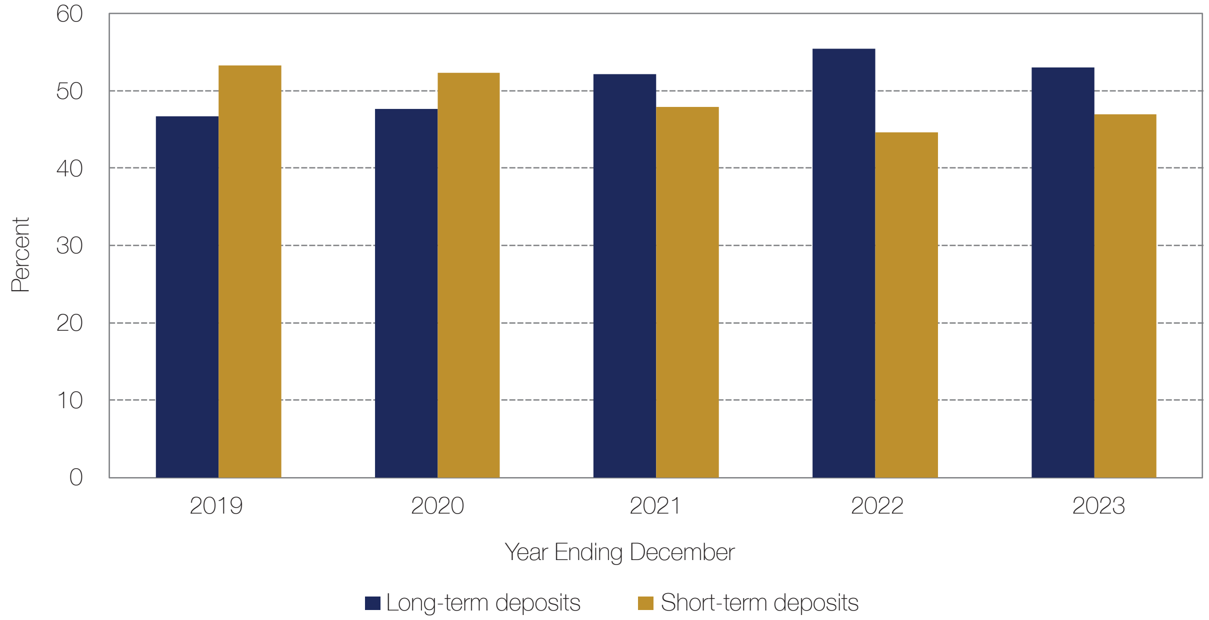
Sources of funding	2019	2020	2021	2022	2023
Deposits (P million)	75 709	80 540	84 364	90 927	104 127
Annual growth rate (percent)	9.3	6.4	4.7	7.8	14.5
Share of total funding (percent)	76.7	78.0	77.7	77.7	77.9
Share capital (P million)	11 080	11 299	10 756	12 587	14 074
Annual growth rate (percent)	6.6	3.6	(4.8)	17.0	11.8
Share of total funding (percent)	11.2	11.0	9.9	11.4	10.5
Debt securities and other borrowings (P million)	4 761	5 594	6 162	5 481	5 886
Annual growth rate (percent)	0.3	17.5	10.2	(11.1)	7.4
Share of total funding (percent)	4.9	5.4	5.7	4.7	4.4
Due to other banks (P million)	4 532	3 022	3 999	5 221	6 151
Annual growth rate (percent)	(4.3)	(33.3)	32.3	30.6	17.8
Share of total funding (percent)	4.6	2.9	3.7	4.5	4.6
Other liabilities (P million)	2 612	2 804	3 310	2 733	3 355
Annual growth rate (percent)	18.8	(0.2)	20	(17.5)	22.7
Share of total funding (percent)	2.6	2.7	3	3.5	2.5
Total Funding (P million)	**98 695**	**103 260**	**108 591**	**116 949**	**133 593**

Note: Parentheses denote negative figures.

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

2.41 Deposits by maturity for 2019–2023 are shown in Chart 2.15. Relative shares of deposits by maturity changed marginally between 2022 and 2023; that is, long-term deposits (time and savings) accounted for 53 percent and short-term deposits (call and current) 47 percent of total deposits in 2023 compared with 55 percent and 45 percent, respectively, in 2022.

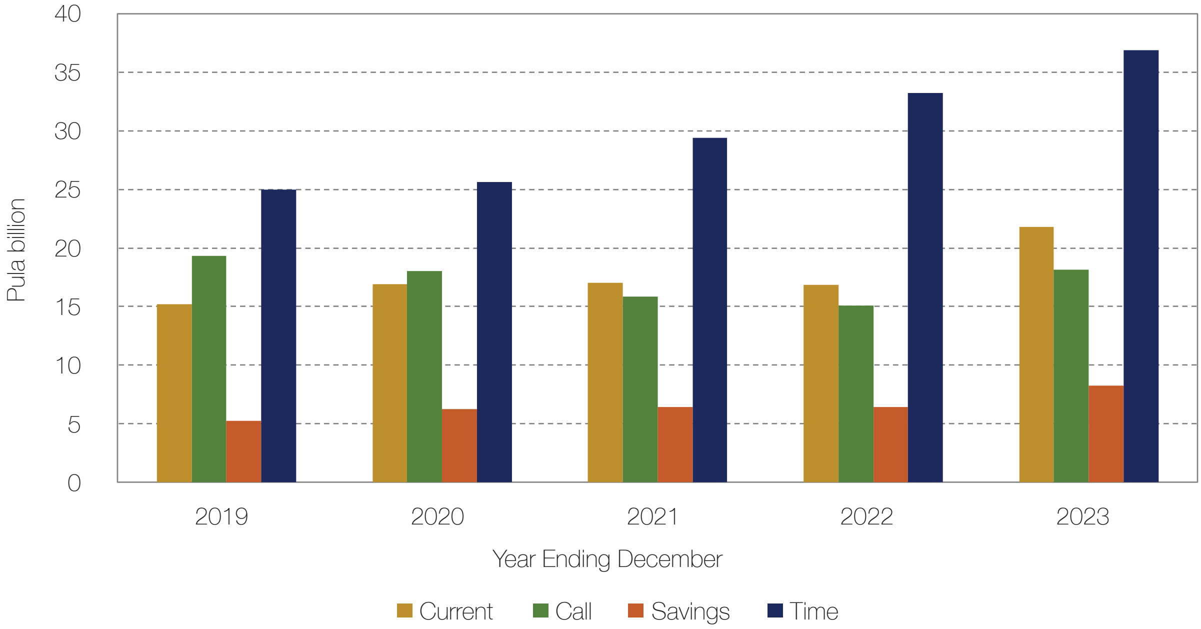
Chart 2.15: Commercial Banks: Deposits Type by Maturity: 2019-2023 (Percent)



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

2.42 An analysis of the pula-denominated deposits by type (Chart 2.16) shows that current, savings, call and time deposits grew by 29.3 percent, 28.6 percent, 20.2 percent and 10.8 percent, respectively, in 2023. At P36.9 billion, time deposits accounted for the largest proportion of total deposits (43.3 percent), followed by current deposits (25.6 percent), call deposits (21.3 percent) and savings deposits (9.7 percent). The change in the structure of deposits from predominantly current and call deposits to fixed-term, longer-dated deposits since 2021 is a positive development in the banking sector.

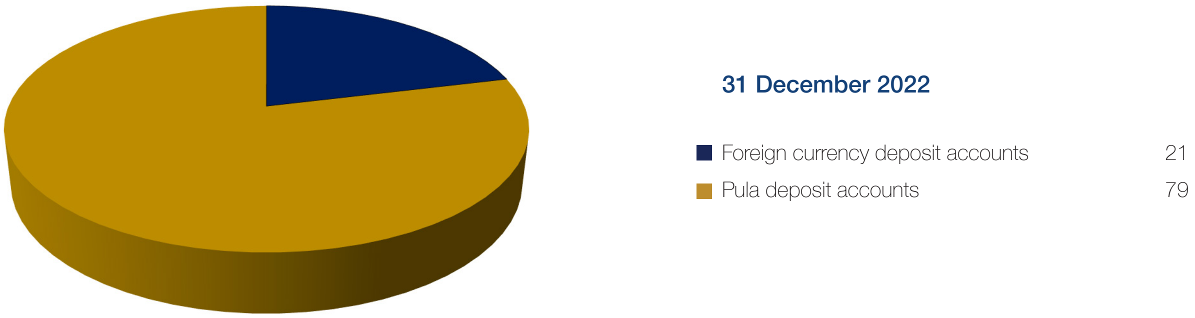
Chart 2.16: Commercial Banks: Share of Pula-denominated Deposits by Type: 2019-2023 (P billion)

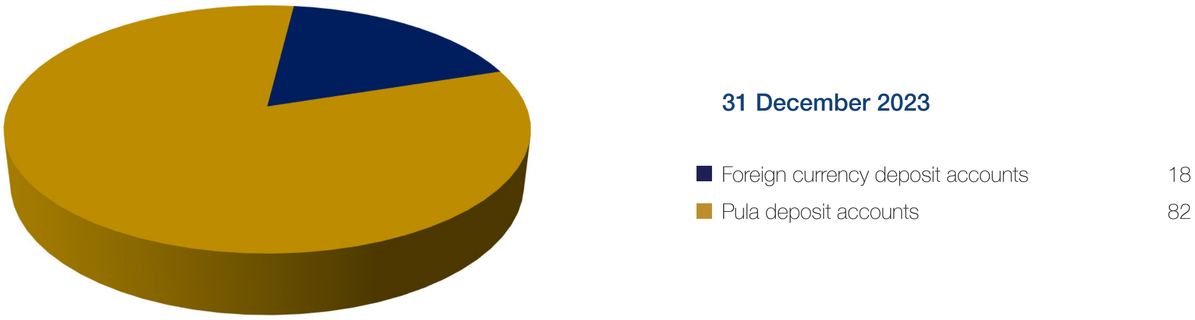


Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.43 Chart 2.17 shows that foreign currency-denominated deposits declined by 2.6 percent from P19.3 billion in 2022 to P18.8 billion in 2023. Consequently, the share of foreign currency-denominated deposits in total deposits fell from 21 percent in 2022 to 18 percent in 2023. It is noted that the bulk of foreign currency-denominated deposits are trade-related, designed to hedge against foreign exchange risks, especially for high-importing entities.

Chart 2.17: Commercial Banks: Share of Foreign-Currency and Pula-denominated Deposits to Total Deposits: 2022 and 2023 (Percent)

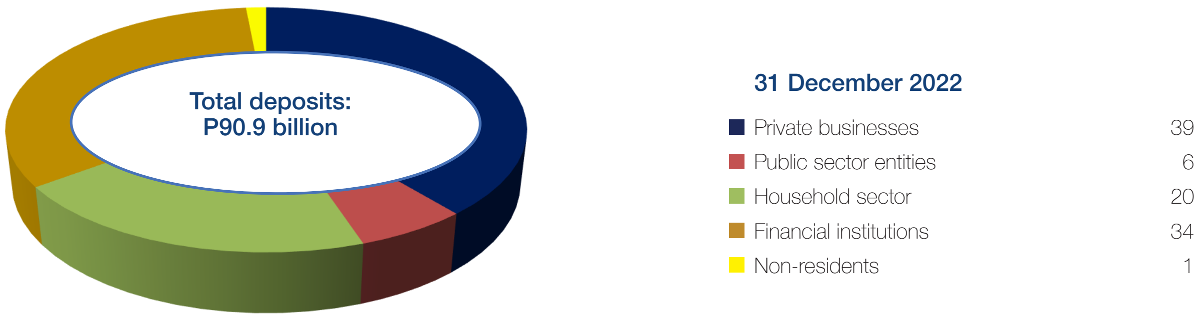


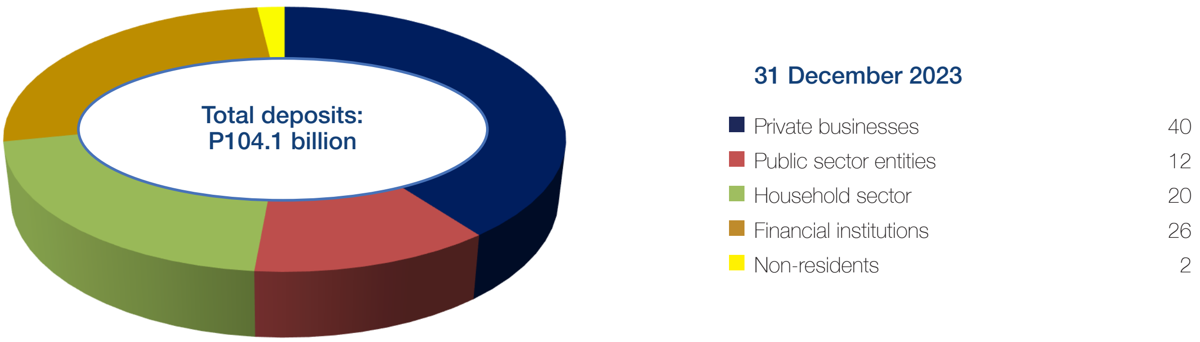


Source: Commercial Banks (Statutory Returns submitted to the Bank).

2.44 Chart 2.18 on sectoral deposits shows that the share of private businesses, public sector (government and parastatals) and non-residents deposits in total deposits rose from 39 percent, 6 percent and one percent in 2022 to 40 percent, 12 percent and 2 percent in 2023, respectively. The significant increase in the share of deposits for the public sector reflects a rise in those deposits at one bank, while at another bank the increase was mainly due to reclassification of deposits of public non-financial institutions to correct a classification error. The share of financial institutions deposits decreased from 34 percent to 26 percent in the same period. Meanwhile, the share of household deposits was constant at 20 percent between 2022 and 2023.

Chart 2.18: Commercial Banks: Sectoral Distribution of Deposits: 2022 and 2023 (Percent)





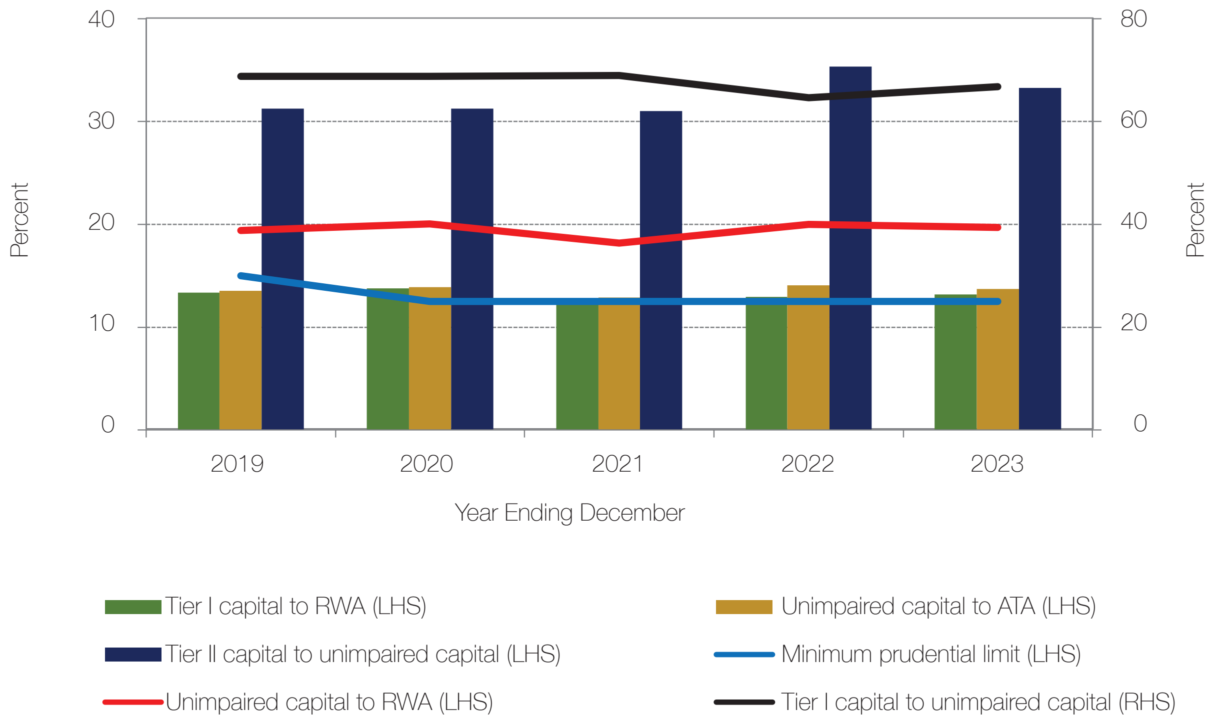
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Capital Adequacy (Solvency): Level, Quality and Trend

2.45 The banking sector remained adequately capitalised and complied with the minimum prudential thresholds for regulatory capital in 2023. Banks reported capital adequacy and common equity Tier 1 capital ratios higher than the prudential minimum of 12.5 percent and 4.5 percent, respectively. Total RWAs for banks increased by 9.9 percent from P79.2 billion in 2022 to P87 billion in 2023 compared with a growth of 5.5 percent in 2022. The banking industry capital adequacy ratio (CAR) decreased slightly from 19.9 percent in 2022 to 19.7 percent in 2023. Chart 2.19 shows CAR over a five-year period (2019–2023). The trend in the banking industry's levels of CAR indicate the industry's loss-absorbency capacity and ability to support business expansion. Unimpaired capital for the banking industry increased by 9 percent from P15.7 billion in 2022 to P17.1 billion in 2023. All banks except one reported growth in unimpaired capital.

2.46 Tier 1 capital constituted the largest share, at 66.7 percent, of unimpaired capital, thus providing the banking industry with a strong high-quality capital base. Tier 1 capital amounted to P11.4 billion, an increase of 11.6 percent from P10.2 billion in 2022. The bulk of Tier 1 capital was retained earnings, at 78.6 percent, followed by common, or ordinary, shares, at 16.3 percent. As a proportion of average total assets, unimpaired capital decreased slightly from 13.9 percent in 2022 to 13.7 percent in 2023. The ratio of common equity Tier 1 capital to risk-weighted assets slightly increased from 12.4 percent in 2022 to 12.7 percent in 2023, remaining above the 4.5 percent prudential minimum.

Chart 2.19: Commercial Banks: Capital Ratios: 2019-2023



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

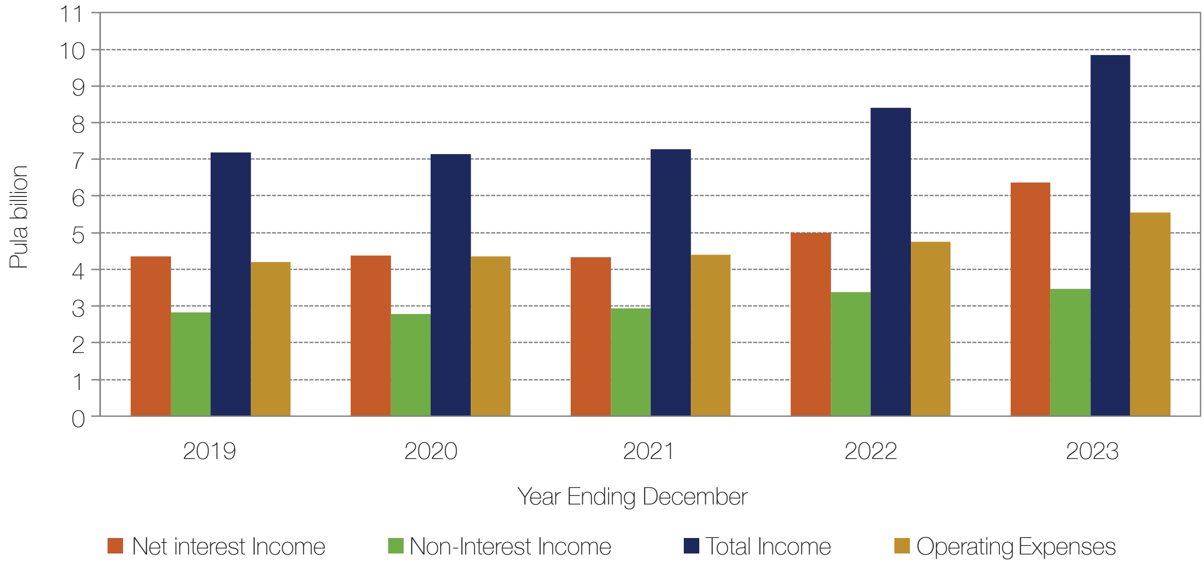
2.47 Tier 2 capital grew by 4.1 percent from P5.5 billion in 2022 to P5.7 billion in 2023 and comprised subordinated term debt (42.5 percent), unpublished current year profits (40.8 percent), general loan reserves (15.4 percent) and Tier 2 instruments subject to gradual phase-out treatment (1.3 percent). The ratio of Tier 2 capital to unimpaired capital eased from 34.9 percent in 2022 to 33.4 percent in 2023. On the other hand, all banks but one paid dividends in 2023.

Statement of comprehensive income and expenses

Income

2.48 Commercial bank's total income (net interest and non-interest income) increased by 17.4 percent from P8.4 billion in the 12 months to 31 December 2022 to P9.8 billion in the corresponding period in 2023 (Chart 2.20). The increase in total income was attributable to a 27.4 percent growth in net interest income from P5 billion to P6.4 billion, reflecting expansion of the loan book of commercial banks, which grew by 11.7 percent in 2023. As a result, the proportion of net interest income in total income increased from 59.6 percent in 2022 to 64.7 percent in 2023. On the other hand, non-interest income increased by 2.7 percent from P3.4 billion in the 12 months to December 2022 to P3.5 billion in the corresponding period in 2023. The ratio of non-interest income to total income fell from 40.4 percent in the 12 months ending December 2022 to 35.3 percent in the similar period of 2023.

Chart 2.20: Commercial Banks: Composition of Income and Expenses: 2019-2023 (P billion)



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

Expenses

2.49 The operating expense constituted 61 percent of total expenses for commercial banks, while the share of interest expense was 39 percent. Interest expense increased by 33.1 percent to P3.6 billion in the 12 months to December 2023 from P2.7 billion in the corresponding period in 2022, consistent with the 10.9 percent increase in interest-bearing deposits. Meanwhile, operating expenses increased by 16.8 percent from P4.7 billion in the 12 months to December 2022 to P5.5 billion in the corresponding period in 2023 (Chart 2.20). The bulk of the expenses was staff costs, at 47.8 percent, followed by administration and other expenditures, at 34.1 percent, other expenses (audit and consulting fees, and occupancy and depreciation), at 10.4 percent, and legal and management fees, at 7.6 percent.

Profitability: Level, Source and Trend

2.50 The net after-tax profit of the banking industry rose by 18.3 percent from P2.6 billion in the year to December 2022 to P3.1 billion in the corresponding period in 2023 (Chart 2.21). Net after-tax profit was positive for all banks but one. That notwithstanding, the increase in net after-tax profit was slower than the 45.1 percent growth in the year to December 2022. The slower increase possibly reflects the growth in the cost of funding evidenced by an increase of 33.1 percent in interest expense and the loss made by one bank during the year.

Chart 2.21: Commercial Banks: Growth Rates of Pre- and After-tax Profit: 2019-2023 (Percent)

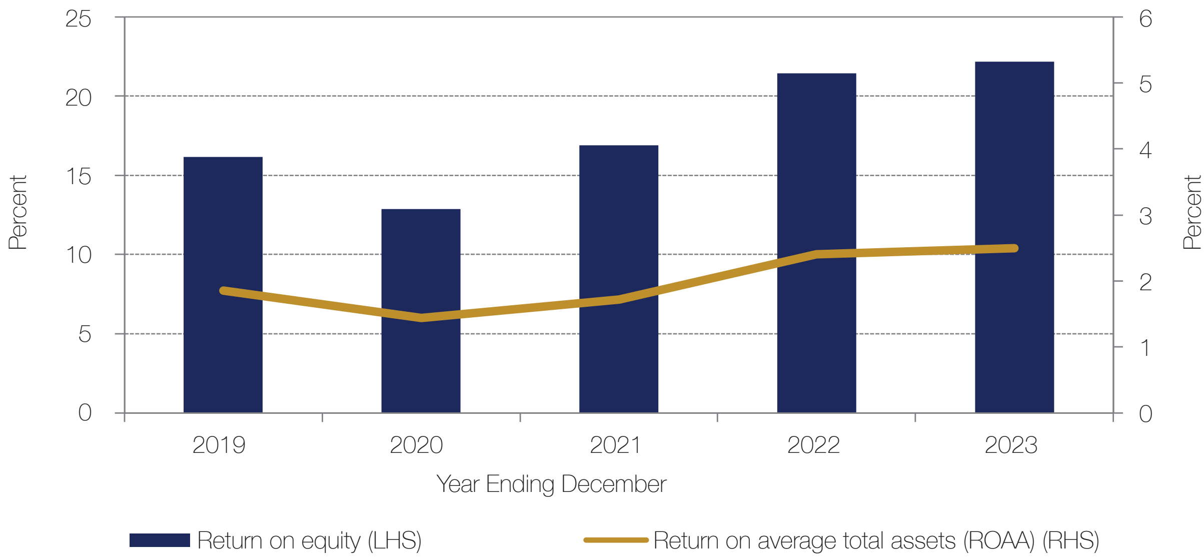
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Profitability and Operating Efficiency Indicators

Profitability Indicators

2.51 The banking industry profitability improved as indicated by an increase in both the return on equity (RoE) and return on average assets (RoAA) from 21 percent and 2.3 percent in the year to December 2022 to 22.2 percent and 2.5 percent, respectively, in the corresponding period in 2023 (Chart 2.22). For individual banks, RoE ranged from -8.5 percent to 32.6 percent, while RoAA ranged from -1.5 percent to 4.2 percent in the review period.

Chart 2.22: Commercial Banks: Profitability Indicators: 2019-2023 (Percent)



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

2.52 Table 2.9 provides financial performance indicators for the banking sector for the five-year period, 2019–2023.

Table 2.9: Financial Performance Ratios: 2019-2023 (Percent)

Financial Performance Ratios	2019	2020	2021	2022	2023
Income on investments and securities to total income	4.4	5.3	6.5	6.3	10.3
Non-interest income to total income	39.4	38.8	40.5	40.4	35.3
Net interest income to total income	60.6	61.2	59.5	59.6	64.7
Return on equity	16.2	12.9	16.9	21.0	22.2
Return on average assets	1.9	1.4	1.7	2.3	2.5
Net interest income to average total assets	4.6	2.7	4.1	4.4	5.1
Interest income to average earning assets	7.0	6.6	6.4	6.8	7.9
Non-interest income to average total assets	3.0	2.7	2.8	3.0	2.8
Interest expense to average total assets	2.0	1.8	1.8	2.4	2.8
Earnings retention	69.5	85.9	17.3*	80.6	79.7
Interest income on loans to average total assets	4.4	5.7	5.2	5.9	6.3
Non-interest expense to average total assets	4.4	4.3	4.1	4.2	4.4
Gross interest income to average total assets	6.6	6.1	5.9	6.8	7.9

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

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

Operating Efficiency Indicators

2.53 The trend of efficiency measures for commercial banks for 2019–2023 is shown in Table 2.10. The industry average cost-to-income ratio marginally declined from 56.6 percent in the 12 months to December 2022 to 56.3 percent in the year to December 2023. Two banks, however, had high cost-to-income ratios of 89.1 percent and 119.9 percent, above the recommended range of 50–60 percent.

Table 2.10: Commercial Banks: Other Efficiency Measures: 2019-2023

	2019	2020	2021	2022	2023
Percent					
Average cost of deposits	2.1	1.9	1.9	2.6	3.2
Return on loans and advances	6.9	9.0	8.2	9.4	10.2
Net interest margin	4.9	4.7	4.4	4.8	5.5
Interest rate spread	3.7	4.0	3.8	3.9	4.5
Cost-to-income	58.3	61.0	60.3	56.6	56.3
Net income to employee costs	92.8	74.4	89.8	122.8	122.2
P'000					
Net income per employee	376.4	315.8	412.5	593.3	667.2
Staff costs per employee	405.8	424.6	459.5	483.1	545.9
Assets per employee	21 085	22 423	24 646	26 304	28 564

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

2.54 The core earning capacity of commercial banks improved in 2023 as shown by the increase in return on loans and advances from 9.4 percent to 10.2 percent, while interest rate spread rose from 3.9 percent to 4.5 percent. The average cost-of-deposits ratio increased from 2.6 percent in 2022 to 3.2 percent in 2023 because of an increase of 10.9 percent in interest-bearing deposits in the same period. The net income-to-employee cost ratio decreased from 122.8 percent in the 12 months to 31 December 2022 to 122.2 percent in the similar period in 2023, given the faster growth in staff costs, of 23.4 percent, than the increase in net income of 18.3 percent. As a result of the increased number of staff and profit levels, net income per employee rose from P593 254 to P667 223 in the same period. Assets per employee increased from P26.3 million to P28.6 million, thus reflecting the effect of a greater increase in the balance sheet (14.2 percent) than the 5.2 percent growth in the employment levels in the banking sector.

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

2.55 Results of the Bank off-site surveillance[14] (OSS) system and the annual risk assessment indicate that, during 2023, the financial performance of commercial banks was sound. The strongest components were sensitivity to market risk (1.27), asset quality (1.79) and capital adequacy (1.79). The industry average for liquidity and earnings were rated 2.53 and 2.76, respectively. Table 2.11 shows the definition of colour codes, score ranges and risk rating for OSS. The 2023 overall banking sector OSS results are presented in Table 2.12.

14 A quarterly monitoring tool that rates performance of banks with respect to capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk (CAMELS); through the system banks are rated and ranked using an assessment of key financial soundness indicators. The ratings range from strong (1) to weak (4.5).

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

Rating		Strong		Adequate		Partially Adequate		Weak	
CAMELS	Category	Band 1		Band 2		Band 3		Band 4	
	Sub-category	B1-Upper	B1-Lower	B2-Upper	B2-Lower	B3-Upper	B3-Lower	B4-Upper	B4-Lower
	Score	1.0	1.5	2	2.5	3	3.5	4	4.55
Risk assessment summary	Risk rating	Low		Medium		Medium high		High	

Source: Bank of Botswana.

Table 2.12: OSS Results as at 31 December 2023

Bank	Capital adequacy	Asset quality	Earnings	Liquidity	Market sensitivity	Overall score
Banking Sector Average	1.79	1.79	2.75	2.53	1.27	2.03

Source: Bank of Botswana.

STATUTORY BANKS[15]

Statement of Financial Position

Assets

2.56 Total assets for one statutory bank marginally declined by 0.5 percent from P3.4 billion in 2022 to P3.3 billion in 2023, mainly as a result of a fall of 1.8 percent in net loans and advances from P2.41 billion to P2.37 billion in the same period.[16] Within the asset portfolio, placements with other banks and financial institutions fell by 61.9 percent from P732.3 million in 2022 to P279.1 million. On the other hand, other assets and cash and balances from the central bank increased by 503.7 percent and 66.6 percent, respectively, in the review period. The decline in placements with other banks and financial institutions was due to a decision by the bank to move funds from other banks and financial institutions to money market accounts with asset managers since asset managers paid a higher interest rate to the bank. Consequently, the portfolio substitution led to an increase in other assets.

Liabilities

2.57 Excluding shareholder funds, liabilities of the statutory bank fell by 1.1 percent from P3.12 billion in 2022 to P3.08 billion in 2023. The main source of funds for the bank was deposits, which constituted 72 percent of liabilities (Table 2.13). Deposits declined by 6.8 percent from P2.6 billion in 2022 to P2.4 billion in 2023. Moreover, debt securities and borrowings increased by 74.6 percent from P256.7 million in 2022 to P448.1 million in 2023 and accounted for 13.4 percent of liabilities; equity increased by 7.8 percent and contributed 7.6 percent to liabilities. The increase in debt securities and borrowings was attributable to a P150 million Tier 2 debt that was raised through the Botswana Stock Exchange Limited (BSEL) in December 2023.

Table 2.13: Main Sources of Funding for Statutory Banks: 2019-2023

Funding Category	2019	2020	2021	2022	2023
Deposits (P million)	**5 462**	**4 762**	**5 062**	**5 296**	**2 401**
Growth rate (percent)	28.7	(12.8)	6.3	4.6	(54.7)
Share of total funding (percent)	70.3	68.5	70.8	72.7	72.0
Debt Securities and Other Borrowings (P million)	**1 185**	**1 100**	**940**	**948**	**448**
Growth rate (percent)	(10.6)	(7.1)	(14.6)	0.8	(52.7)
Share of total funding (percent)	15.2	15.8	13.1	13.0	13.4
Share Capital (P million)	**718**	**709**	**720**	**704**	**252**
Growth rate (percent)	(7.3)	(1.2)	1.6	(2.3)	(64.1)
Share of total funding (percent)	9.2	10.2	10.1	9.7	7.6
Other Liabilities (P million)	**410**	**384**	**430**	**342**	**235**
Growth rate (percent)	104.9	(6.4)	12.1	(20.5)	(31.2)
Share of total funding (percent)	5.3	5.5	6.0	4.7	7.0
Total Funding (P million)	**7 774**	**6 955**	**7 153**	**7 290**	**3 337**

Note: Data for 2023 excludes one bank because it ceased operating as a statutory bank.

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

15 Banks established by specific statutes.

16 In 2023, the financial data for statutory banks excludes that of one bank, which converted to a commercial bank, thus reported as such. For that reason, there is a significant decline in figures for 2023 for statutory banks shown in Table 2.14.

Liquidity Risk

2.58 Liquid assets of the statutory bank increased by 19.5 percent from P653.9 million in 2022 to P781 million in 2023. The growth in liquid assets was attributable to a debt of P340 million that the bank raised, the funds of which were placed with asset managers. The ratio of liquid assets to customer deposits increased from 25.4 percent in 2022 to 32.5 percent in 2023 and remained above the statutory minimum of 10 percent.

Credit Risk

Regulatory Capital Requirements in Respect of Credit Risk

2.59 Credit RWAs of the statutory bank rose by 16.9 percent from P1.9 billion in 2022 to P2.2 billion in 2023, reflecting an adjustment to RWAs due to the transfer of some funds from fixed accounts to asset managers. In 2023, credit RWAs constituted 93.5 percent of RWAs, a slight increase from the 92.4 percent share reported in 2022.

Loans and Advances, Credit Risk and Asset Quality

2.60 The loan book of the statutory bank declined by 1.9 percent from P2.5 billion in 2022 to P2.46 billion in 2023, a second consecutive decrease after the 12.7 percent reduction in 2022. The loan book comprised loans to the household sector, with personal loans constituting the largest proportion, at 79.1 percent, followed by mortgage, and motor-vehicle loans, at 20.7 percent and 0.2 percent, respectively. Total NPLs for the bank declined by 25.9 percent from P121 million in 2022 to P90 million in 2023. The NPLs were generated by failure of the credit management system of the statutory bank to accordingly adjust instalments of loans to reflect the increase in the monetary policy rate in 2022. The failure therefrom resulted in accumulation of loan arrears, which translated to NPLs, thus raising NPLs for 2022. The anomaly was corrected in 2023, which resulted in improved asset quality of the bank as signified by the decrease in the ratio of NPLs to gross loans and advances from 4.8 percent in 2022 to 3.7 percent in 2023.

2.61 The statutory bank raised specific provisions amounting to P62.4 million in 2023, a 17 percent rise from the P53.3 million in the previous year, indicating preparedness to cover larger possible losses. The resultant ratio of specific provisions to NPLs increased from 43.9 percent in 2022 to 69.3 percent in 2023.

2.62 The inherent credit risk for the bank was considered moderate, while risk management systems and internal controls were satisfactory. The composite credit risk remained moderate.

Capital Adequacy (Solvency): Levels, Quality and Trends

2.63 Unimpaired capital increased by 58.6 percent from P292 million in 2022 to P463.2 million in 2023, while RWAs rose by 15.5 percent from P2.1 billion in 2022 to P2.4 billion in 2023. The increase in unimpaired capital was attributable to an injection of Tier 2 debt of P150 million raised through BSEL in December 2023. As a result, CAR for the bank increased to 19.6 percent in 2023 from 14.2 percent in 2022 and was above the 12.5 percent minimum prudential requirement for banks in Botswana. The ratio of Tier 1 capital to unimpaired capital was 46 percent in 2023, lower than the 66.9 percent in 2022.

Statement of Comprehensive Income

2.64 The statutory bank's net after-tax profit was P17.2 million for the 12 months to December 2023, a 35.6 percent increase from the P12.7 million profit reported in 2022. The increase was mainly due to growth of non-interest income from P32.7 million in 2022 to P44.6 million in 2023, reflecting the upward revision of some fees for savings accounts effective from 16 March 2023.

2.65 Operating efficiency for the statutory bank, as measured by RoAA, increased from 0.4 percent in 2022 to 0.5 percent in 2023, while RoE rose from 5.4 percent to 6.8 percent during the same period. The rise in RoE was attributable to the increase in profit reported in the review period. The average cost-to-income ratio slightly increased from 91.5 percent to 92.6 percent in the 12 months to December 2023, indicating an increase in the operating expenses of the statutory bank, particularly occupancy (net of rental income) and auditor's fees. Table 2.14 shows key performance indicators for the statutory banks during 2019 to 2023.

Table 2.14: Statutory Banks: Financial Performance Indicators: 2019-2023

Financial Performance Indicator	2019	2020	2021	2022	2023
P' million					
Net income	(34)	(28.7)	(11)	(11.9)	17.2
Interest income	535	517	545	558	349
Interest expense	316	278	291	326	187
Net interest income	218	239	254	232	162
Non-interest expense	269	268	313	301	191
Total assets	7 774	6 955	7 153	7 290	3 337
Average total assets	7 159	7 365	7 054	7 221	3 341
Average earning assets	6 716	6 939	6 653	6 799	2 891
Unimpaired capital	706	732	816	745	463
Risk-weighted assets	3 407	3 749	3 862	3 761	2 368
Percent					
Net income growth rate	(19 098)	(15.5)	(61.6)	(8.5)	35.6
Interest income to average total assets	7.5	7.0	7.7	7.7	10.4
Cost-to-income	100	94	104	104	92.6
Return on average assets	(0.5)	(0.4)	(0.2)	(0.2)	0.5
Return on equity	(4.7)	(4.1)	(1.5)	(1.7)	6.8
Return on advances	9.7	8.4	8.5	8.3	12.1
Average cost of deposits	4.5	3.8	4.3	5.0	6.4

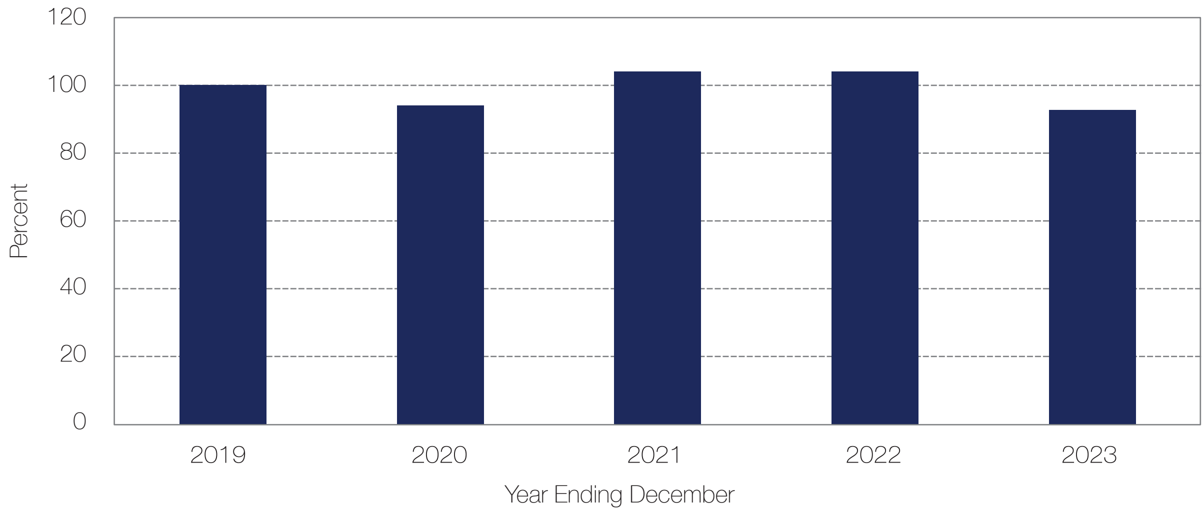
Notes: 1. Parentheses denote negative figures.

2. Data for 2023 excludes one bank as it ceased operating as a statutory bank.

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

2.66 Chart 2.23 presents the trend of the cost-to-income ratio for statutory banks over the five-year period, 2019-2023.

Chart 2.23: Statutory Banks: Cost to Income Ratio: 2019-2023 (Percent)



Notes: 1. Data for 2023 excludes one bank as it ceased operating as a statutory bank

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

Operational Risk

Regulatory Capital Requirements in Respect of Operational Risk

2.67 RWAs for operational risk of the statutory bank declined by 2.2 percent from P156.9 million in 2022 to P153.5 million in 2023 and contributed 6.5 percent to total RWAs.

2.68 The inherent operational risk of the bank was considered high, while risk management systems and controls were satisfactory. The residual operational risk remained high and is likely to increase in the next 12 months owing to inadequate internal processes and systems.

Financial Performance of the Second Statutory Bank: 2022 and 2023

2.69 Assets of the second statutory bank increased by 6.4 percent from P1.23 billion in 2022 to P1.3 billion in 2023. The increase in total assets reflects conversion of received shareholder funds (which increased by 42.8 percent) into placements with other banks and financial institutions, resulting in an increase of 180.2 percent during the review period. Equity, borrowings, and other liabilities accounted for 58.4 percent, 36.1 percent, and 5.5 percent, respectively, of funding for statutory bank 2 in 2023.

2.70 Gross loans and advances declined by 5.7 percent from P1.1 billion in 2022 to P1 billion in 2023, while NPLs increased by 13.4 percent from P229 million to P260 million in the same period. The increase in NPLs was largely attributable to lapses in internal controls of the NPL management process. Consequently, the ratio of NPLs to gross loans and advances increased from 21 percent in 2022 to 25.3 percent in 2023, while specific provisions, consistent with the increase in NPLs, grew by 143.7 percent from P69.1 million to P168.3 million in the review period.

2.71 Unimpaired capital increased by 69.9 percent from P397.2 million in 2022 to P674.6 million in 2023; the growth in unimpaired capital reflects an increase of 70.8 percent in ordinary shares in 2023, indicative of a P200 million capital injection by the shareholder. Consequently, the bank's CAR rose from 33.5 percent in 2022 to 60.9 percent in 2023.

2.72 Liquid assets of the statutory bank increased by 176.6 percent from P122 million in 2022 to P337 million in 2023, as the shareholder's equity injection contributed to acquisition of liquid assets placed at domestic banks. Consequently, the ratio of liquid assets to total assets increased from 9.9 percent to 25.8 percent in the same period.

2.73 Table 2.15 shows the financial performance of the statutory bank for the period 2019–2023. The bank incurred a net loss of P37.9 million in the year to December 2023, an increase from P23.7 million in the prior year. The increase in losses was a result of growth of 18.8 percent in operating expenses. Furthermore, the bank's loan book decreased, which decreased interest income for the year.

Table 2.15: The Second Statutory Bank Financial Performance: Level, Trends and Growth Rates: 2019-2023

Financial Performance Indicator	2019	2020	2021	2022	2023
Total assets (P million)	1 051	1 232	1 221	1 228	1 307
Growth rate (percent)	12	17.2	(0.9)	0.6	6.4
Gross loans and advances (P million)	866	774	992	1 092	1 029
Growth rate (percent)	(17.1)	(10.6)	28.2	10.1	(5.7)
Liquid assets (P million)	275	515	236	122	337
Growth rate (percent)	132.8	87.6	(54.3)	(48.2)	176.6
Liquid assets to total assets (percent)	26.2	41.9	19.3	9.9	25.8
Non-performing loans (P million)	366	231	210	229	260
Growth rate (percent)	(10.8)	(36.9)	9.2	9.1	13.4
NPLs to gross loans and advances (percent)	42.3	29.8	21.2	21.0	25.3
Borrowings from banks, credit institutions and international lending agencies (P million)	447	620	565	553	472
Growth rate (percent)	(19)	38.4	(8.9)	(2.2)	(14.6)
Unimpaired capital (P million)	472	479	497	397	675
Growth rate (percent)	177.7	1.3	3.7	(20)	69.9
Net after-tax income (P million)	(5.9)	(32.9)	(44.4)	(23.7)	(37.9)
Growth rate (percent)	(94.8)	(460.4)	(34.9)	(46)	(59.8)

Note: Parentheses denote negative figures.

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

OVERVIEW OF PILLAR 3 DISCLOSURE REQUIREMENTS

2.74 During 2023, all banks published information on the capital position, risk profile and risk management systems in accordance with the Pillar 3 Circular Disclosure Requirements. Overall, banks were found to be compliant with the requirements of the Capital Directive and Pillar 3 circular issued by the Bank, with minor shortcomings noted at a few banks. The Bank continues to guide banks to fully comply with the disclosure and all other regulatory requirements.

BOX 2: THE ROLE OF SUPERVISORY COLLEGES IN PROMOTING EFFECTIVE SUPERVISION OF BANKS

Introduction

Globally, countries have multinational banks with subsidiaries in different jurisdictions, and these are known as cross-border banks. Although the existence of cross-border banks has made financial services universal in scope, the interconnectedness increases the overall risk profiles as the channels of contagion risk are increased. In this regard, the regulation and supervision of these banks require collective and collaborative efforts between different jurisdictions to maintain financial stability and a sound banking system. To ensure adequate supervision of a banking group, supervisory colleges operate under the aegis of principle 13 of the Basel Core Principles of Effective Banking Supervision (core principles) to enhance oversight of multinational banks.

The 2014 Basel Committee on Banking Supervision (BCBS) define supervisory colleges "as effectively, working groups of supervisors of the parent company and key branches or subsidiaries of an international banking group, which have been part of the global supervisory framework for many years, and it uses the term "supervision" largely as the collection of ongoing connections between these supervisors, including correspondence in the form of teleconferences, videoconferences, letters, e-mails, or communication through secure websites." Principle 13 of the Core Principles in line with the above statement, outlines that home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the banking group and group entities, and effective handling of crisis situations. Supervisors require local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

Establishment of Supervisory Colleges

While joint arrangements among supervisors of banking groups have existed for decades, many of these arrangements were formalised as supervisory colleges only in the years leading to the 2008 Global Financial Crisis (GFC) owing to the spillover effects of the crisis. Since the 2008 GFC, bank supervisors have worked to address the discrepancy between the primary national regulation and supervision of cross-border operations of banks. The financial crisis reinforced the importance of supervisory colleges as one of several tools to reduce risk within the international financial system

Importance of Supervisory Colleges

Supervisory colleges play a pivotal role in the supervision of cross-border banks by enhancing understanding of banks risk profile and vulnerabilities, and providing a framework for addressing the key aspects that are relevant from a supervisory perspective (European Central Bank, 2018). Supervisory colleges facilitate information sharing among supervisors, which is essential for strengthening the supervision of cross-border banks (European Central Bank, 2018). Supervisory colleges also enhance cooperation among supervisors, help to agree on a shared agenda for addressing risks and vulnerabilities, and provide a platform for communicating key supervisory developments among supervisors.

Challenges of Supervisory Colleges

Some of the noted challenges of supervisory colleges are as follows: supervisory colleges involve multiple regulatory authorities from different countries, which have legal limitations on international sharing of sensitive data, and can make effective coordination and risk assessment more difficult; it is not easy to coordinate risk evaluation across multiple jurisdictions, given different methods of risk identification, data unavailability, and risk perception; while the goal of supervisory colleges is to improve crisis readiness, lack of explicit protocols among various crisis forums can impede timely and coordinated response to financial crisis; supervisors often encounter resource constraints, affecting their ability to engage in effective supervision and address emerging risks; and different supervisory approaches, priorities, and expectations between home and host supervisors continue to be a challenge and needs to be harmonised.

Improving Effectiveness of Supervisory Colleges

According to the BCBS of 2014, supervisory colleges can be improved by enhancing information-sharing among supervisors, helping development of a common understanding of risk in financial groups, promoting a shared agenda for addressing risks and vulnerabilities, and providing a platform for communicating key supervisory information among supervisors.

Furthermore, to strengthen effectiveness of supervisory colleges, practices include pre-college planning, formal college meetings, post-college follow-up, and interaction with non-college supervisors. These efforts aim to enhance cross-border cooperation, risk assessment, and crisis management in the global banking system.

Application of Supervisory Colleges

According to European Central Bank (2018), the degree of engagement between supervisors varies on the specific banking groups and supervisors involved, and a balanced approach is used. Information that college members may exchange include supervisory risk assessments, main findings of supervisory reviews, significant supervisory actions taken, analysis of the impact of the operating environment in key markets/countries on the banking group and the results of stress tests, crisis preparedness plans, capital and liquidity position/plans, strategic plans for the whole banking group and its subsidiaries, and information on exogenous factors that may be useful for college members, such as regulatory developments and macroprudential information.

Botswana is a host to eight commercial banks supervised by the Bank, all of which are subsidiaries of foreign banking groups: South Africa (Absa, Stanbic and FNBB), Malawi (FCB), Nigeria (Access Bank), Namibia (Bank Gaborone), India (Baroda) and United Kingdom (Stanchart). From 2017 to 2023, the Bank attended 24 supervisory college meetings for all the eight foreign banks. The purpose of the supervisory college meetings was to provide an opportunity for regulators of banking groups to comprehend the risk profile of the banking groups and supervisory challenges in the different regions and provide an update on growth and financial performance and sought to explain the regional strategy of the respective banking groups.

Supervisory colleges indirectly bolster the Botswana economy as their effectiveness contributes to Botswana's financial stability, encourage investor confidence, and facilitate sustainable growth. Some supervisory college benefits to Botswana are as follows: banks operating in Botswana are exposed to certain risks, which cross-border supervision help to identify and manage; bank supervisors can avert possible catastrophes and safeguard the economy by keeping an eye on supervised banks' operations, capital sufficiency and risk exposure; prompt actions can stop spread of adverse consequences and keep the financial system stable; working with foreign regulators has the potential to encourage Botswana's financial institutions to follow global standards and regulations; possible alignment of regulations results in transparency and reduces regulatory arbitrage; cross-border supervision encourages banking groups to expand their services across borders that can lead to greater financial inclusion, thus benefitting individuals, businesses and the whole economy. Engaging at supervisory colleges and with international bodies provides access to best practices, knowledge sharing and technical expertise. The Bank's supervisory capacity is strengthened, while its ability to address emerging challenges is enhanced by the engagement in supervisory colleges. Effective cross-border supervision inspires confidence among both domestic and foreign investors. Investors are more inclined to participate in Botswana's financial markets, which promotes capital inflows and economic growth.

Conclusion

Supervisory colleges play a pivotal role in the stability of financial system and economies, especially developing countries. Collaborative efforts among regulators should be encouraged, nurtured and maintained to foster the continual beneficial nature of supervisory colleges. The insights and knowledge gained from such platforms significantly enhance supervisory approaches used by regulators for oversight compliance with all statutory and prudential requirements as well as the evolving nature of the banking landscape (for example, green banking and digital currency). In summary, supervisory colleges offer Botswana an avenue for collaboration, risk assessment, financial crisis management and regulatory compliance, contributing to the overall stability and resilience of its financial sector.

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NON-BANK FINANCIAL INSTITUTIONS

Bureaux de Change Activities

Market Entry and Exit

2.75 During 2023, the Bank processed ten licence applications for bureaux de change, seven of which were received in 2022, and three in 2023. Of the ten applicants, seven were issued with a licence, six of which began operation. The Bank rejected one application on account of adverse security-vetting results of the shareholder who was also a director, whereas one applicant had its application lapse because of failure of the entity to meet the requirement of inviting the Bank for a pre-operation inspection within six months. The Bank was awaiting security-vetting results of the other entity. Furthermore, three bureaux de change voluntarily surrendered their licences owing to lack of business. Therefore, in December 2023, the number of licensed bureaux de change increased from 48 to 52, out of which one had not begun operations.

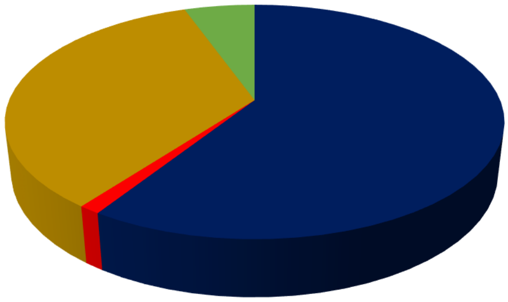
Off-site Surveillance of Bureaux de Change

2.76 An off-site review of the statutory returns showed that bureaux de change continued to contribute to economic activity through facilitating foreign-exchange transactions and creating employment. Bureaux de change activities increased as reflected in purchase and sale transactions during the year. The value of sales at bureaux de change increased by 30.1 percent to P742 million in 2023 from P571 million in 2022, while that of purchases rose by 26.3 percent from P555 million in 2022 to P700 million in 2023. The increase in sale and purchase of foreign currency was attributed to an increase in both demand (possibly indicative of an increase in the number of tourists) and access points because of new bureaux de change (and a rise in the number of branches for existing ones).

2.77 The United States dollar (USD) and South African rand (ZAR) led the bureaux de change foreign-exchange transactions during 2023, the same trend observed in 2022.

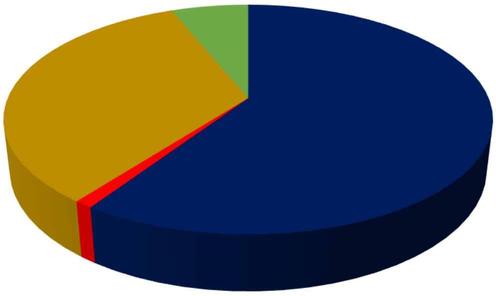
2.78 Charts 2.24 and 2.25 compare the shares of sale and purchase of various currencies by bureaux de change in 2022 and 2023, while Chart 2.26 shows the bureaux de change sale and purchase shares of foreign currency in 2019 to 2023.

Chart 2.24: Bureaux de Change: Shares of Foreign Currency Sales in 2022 and 2023 (Percent)



31 December 2022

USD	59
GBP	1
ZAR	34
EURO	6

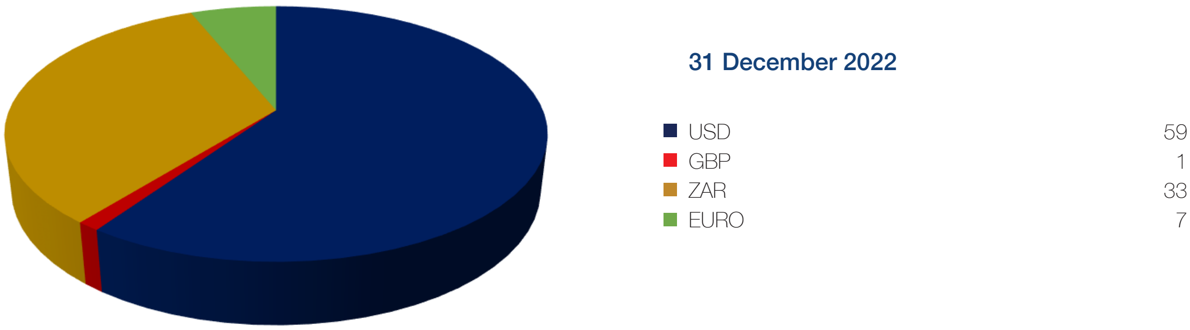


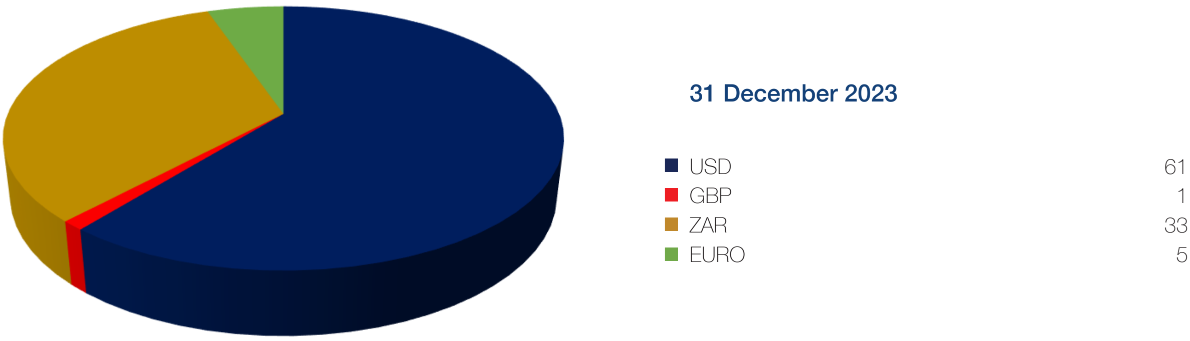
31 December 2023

USD	59
GBP	1
ZAR	33
EURO	6

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

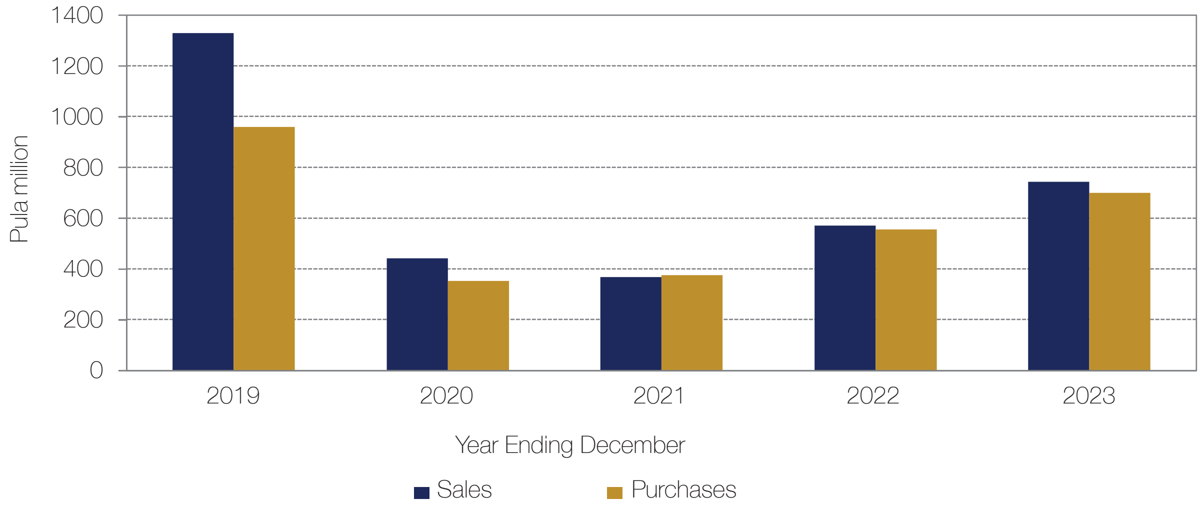
Chart 2.25: Bureaux de Change: Shares of Foreign Currency Purchases in 2022 and 2023 (Percent)





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

Chart 2.26: Bureaux de Change: Sale and Purchase of Foreign Currency: 2019-2023 (Value)



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

CHAPTER 3

THE NATIONAL PAYMENTS SYSTEM

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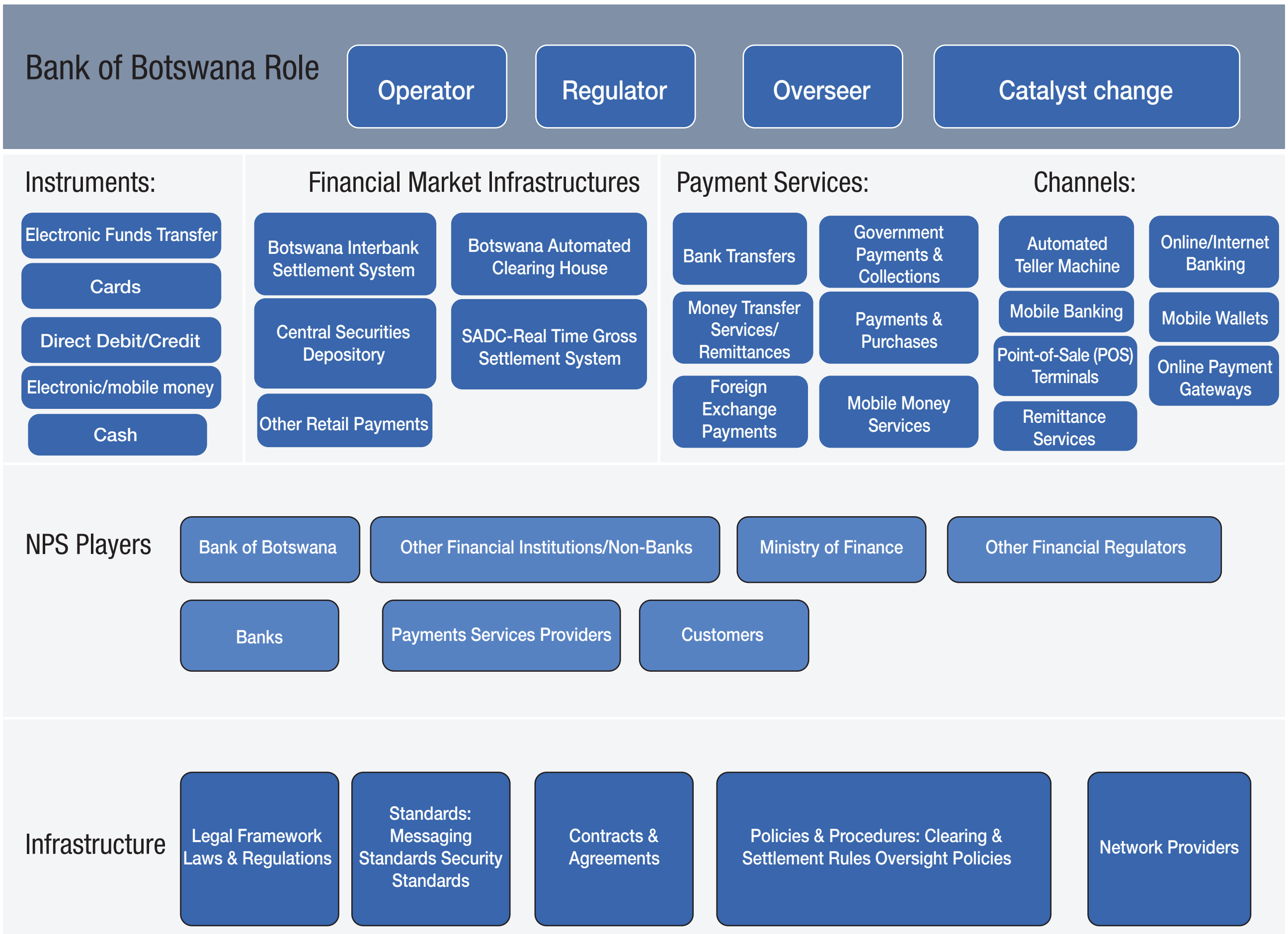
THE NATIONAL PAYMENTS SYSTEM

OVERVIEW OF THE NATIONAL PAYMENTS SYSTEM

3.1 The National Payments System (NPS) is the conduit through which buyers and sellers of financial products and services make transactions. The NPS encompasses payment-related activities, processes, mechanisms, infrastructure and users in a country. The Bank for International Settlements (BIS) defines a payment system as a set of instruments, banking procedures and typical interbank funds transfer systems that ensure the circulation of money. In addition to price and financial stability, Section 4B(g) of the Bank of Botswana (Amendment) Act, 2022 requires the Bank to maintain an efficient payments mechanism in support of a safe and sound financial system in Botswana. The NPS for Botswana continues to evolve, as evidenced by the emergence of new players, technologies, and payments initiatives. The Bank continues to foster and monitor these developments in pursuance of the mandate to ensure efficient and effective functioning of NPS. A well-functioning NPS helps achievement of broader societal objectives, such as improving access to financial services. Chart 3.1 illustrates the payments system architecture in Botswana.

Chart 3.1: Payments System Architecture



Participants in the NPS

3.2 Participants in the Botswana NPS comprise the Bank, relevant government ministries, commercial banks, regulators, system operators, non-bank payment service providers and end-users. A National Payments Task Force[17] (NPTF) was established in 1998 to manage the NPS modernisation programme in Botswana and facilitates collaboration and cooperation between various stakeholders in the financial sector and entire economy.

Role of the Bank of Botswana in the NPS

Licensing Authority

3.3 The National Clearance and Settlement Systems (NCSS) Act provides an explicit legal mandate for the Bank to promote and maintain efficient payments and settlement systems. The Electronic Payment Services (EPS) Regulations, 2019 establish a regulatory framework for the provision and use of electronic payments services in Botswana and the promotion of an enabling environment for innovation in financial-service delivery channels.

Bank as Overseer and Participant

3.4 Oversight of payment systems entails identifying, managing, containing and reducing payment risks within the NPS. Through oversight, the Bank ensures that payment systems do not generate a high level of risks to participants and users of financial services; continue to operate without major disruptions; offer efficient, reliable, and safe payment services to customers; and have the necessary legal framework. In addition, the Bank participates in the payments system as a user to execute its own transactions; facilitator of settlement by providing settlement accounts at the Bank to enable commercial banks exchange payments obligations; owner and operator of the Botswana Interbank Settlement System (BISS), used to facilitate real time transactions; and provider of liquidity to the system to facilitate efficient operation of the settlement system.

Guiding Standards

3.5 The role of the Bank as an overseer of NPS in Botswana is guided by internationally recognised payment systems standards, such as principles for financial market infrastructures (PFMIs).[18] PFMIs, issued by the International Organisation of Securities Commissions (IOSCO) and the Committee on Payments and Market Infrastructures (CPMI), are part of a set of key standards that the international community considers essential to strengthening and preserving financial stability. IOSCO and CPMI have issued PFMIs as the primary international standards for financial market infrastructures, which include payment systems, central securities depositories, securities settlement systems, central counterparts and trading repositories. The Bank's oversight function is further guided by the BIS-CPMI five responsibilities for market regulators and central banks and any other oversight requirements set by the Bank. The Bank, empowered by the Bank of Botswana (Amendment) Act, 2022, Section 4C(1), may also issue relevant guidelines in line with market requirements.

Catalyst for NPS development

3.6 The Bank continues to play a catalytic role to promote development in the payments landscape through policy guidance. The Bank also provides a platform for open discussion aimed at improving the NPS with all stakeholders.

17 NPTF comprises commercial banks, statutory banks, Ministry of Finance through the Office of the Accountant General, stakeholder regulators, Botswana Stock Exchange, Botswana Unified Revenue Service, Business Botswana, Botswana Fibre Networks Ltd and mobile money providers.

18 https://www.bis.org/cpmi/info_pfmi.htm

National Payments System Framework and Strategy 2020–2024

3.7 The Bank has taken major steps to improve efficiency and safety of the NPS through a modernisation programme and strategic approach to development of the NPS. The first major step in modernising the Botswana NPS was launching of the 2002–2005 NPS Framework and Strategy, which established the foundation for the current payments system infrastructure. In 2020, the Bank launched a revised NPS Vision and Strategy 2020–2024 to guide NPS modernisation projects, resource mobilisation, infrastructure development, linkages and role descriptions required to achieve the NPS vision of a safe, efficient, innovative, and inclusive NPS over the strategy period. The strategy identifies pillars generally intended to achieve the broader objectives of the national payments system, access, safety and efficiency.

Risks in Payment Systems

3.8 The Bank is responsible for applying and coordinating risk management standards within the Botswana NPS realm. Risk is the probability of loss, or any other negative occurrence caused by external or internal vulnerabilities that may cause a disruption or loss of value that could be avoided through pre-emptive action. The following are risks that are common in payments systems: legal, operational, credit, liquidity, reputational, settlement, confidentiality, money laundering, financing of terrorism and systemic disruption risks. The Bank and other NPS players focus on the mitigation of the risks to prevent systemic disturbances and failure of the NPS.

Systems Operating in Botswana

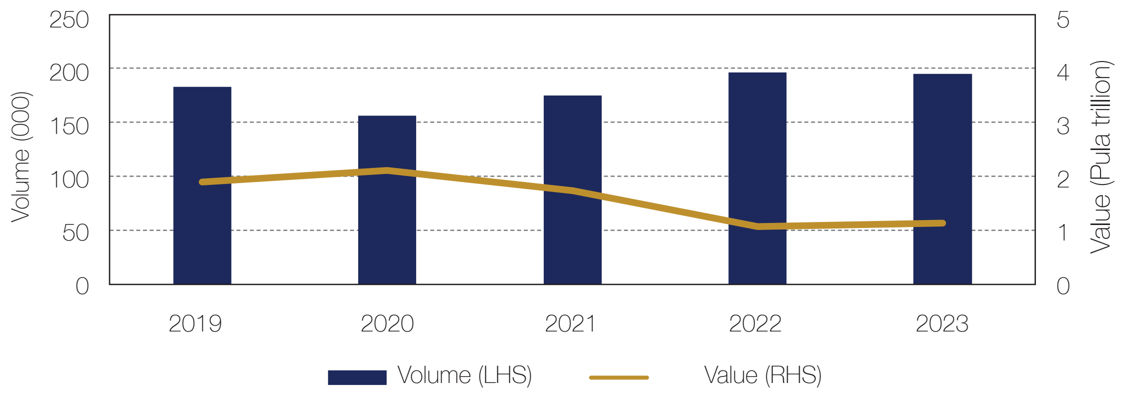
3.9 Payment systems in Botswana are classified into two categories: large-value (wholesale) payment systems, such as the BISS and low-value (retail) payment systems, such as the Botswana Automated Clearing House (BACH).

Botswana Interbank Settlement System

3.10 BISS, commonly known as a real-time gross settlement (RTGS) system, is an electronic interbank payment system that allows funds to be transferred between participating parties on an irrevocable and real-time basis. BISS is managed and operated by the Bank. The payments transfers are tested for funds availability and settled continuously and in real time across the Bank's settlement accounts, provided that the bank initiating a payment has sufficient funds to cover its obligations. The RTGS system minimises settlement and systemic risks associated with deferred net settlement. BISS is classified as a systemically important payment system (SIPS) because of the value of transactions it processes and its impact on the economy. To encourage utilisation of the system, there are no limits imposed on transactions processed through the system, thus the system settles all transactions, regardless of the amount. BISS supports settlement of securities transactions on the BSEL through the newly established link between the central security depository (CSD) system, which enables settlement of securities transactions using central bank money.

3.11 The volume of transactions settled in BISS decreased by 0.8 percent from 196.3 thousand in 2022 to 194.7 thousand in 2023, while there was an increase of 5.6 percent in value from P1.07 trillion to P1.13 trillion (Chart 3.2) in the same period.

Chart 3.2: Botswana Interbank Settlement System (BISS) Transactions 2019-2023



Source: Bank of Botswana.

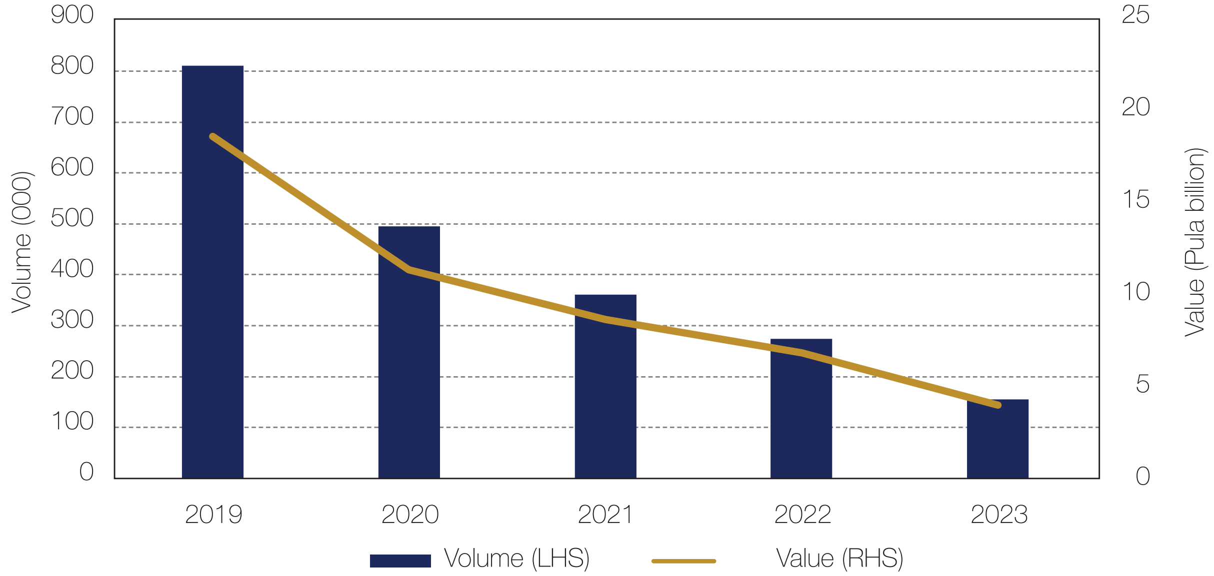
Botswana Automated Clearing House

3.12 BACH is owned and operated by the Bankers' Association of Botswana and handles clearance of retail transactions, electronic funds transfers, card, and other payment orders through a secure communications network. All commercial banks in Botswana are participants in the BACH. The Bank participates in the clearing system, given its statutory mandate as a banker to government. BACH is interfaced with BISS for execution of net settlement instructions emanating from clearing sessions. BACH obligations are settled on a prefunded basis.[19]

3.13 Consistent with past trends, the volume and value of cheque transactions continued to decline in 2023. Cheques processed decreased by 43.3 percent from 274 000 in 2022 to 155 000 in 2023, while the cheque-value transactions decreased by 41.7 percent from P6.9 billion in 2022 to P4 billion in 2023 (Chart 3.3). The trend reflects the continued adoption and increase in the use of more efficient and convenient alternative electronic payments channels, such as internet banking, mobile money, PoS devices at retail outlets, which also involve the use of debit and credit cards, and EFTs. The cheque as a payment instrument was discontinued on 31 December 2023 in recognition of availability of more cost-efficient, safe, secure, and convenient electronic payment instruments in the country.

19 Prefunding is a requirement that funds should be available in accounts to extinguish settlement obligations.

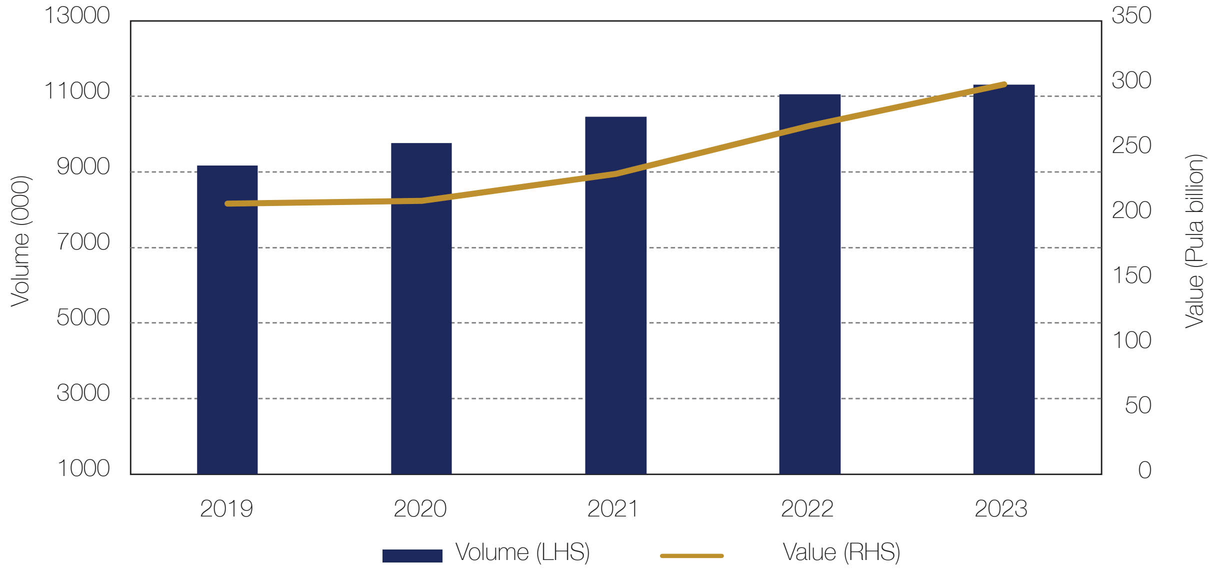
Chart 3.3: Botswana Automated Clearing House, Cheque Processing: 2019-2023



Source: Bank of Botswana.

3.14 EFT transactions processed through the BACH system increased by 2.3 percent in volume, from 11.1 million in 2022 to 11.3 million in 2023 and by 11.8 percent in value, from P269.1 billion in 2022 to P300.9 billion in 2023 (Chart 3.3).

Chart 3.4: Botswana Automated Clearing House, Electronic Funds Transfers: 2019-2023



Source: Bank of Botswana.

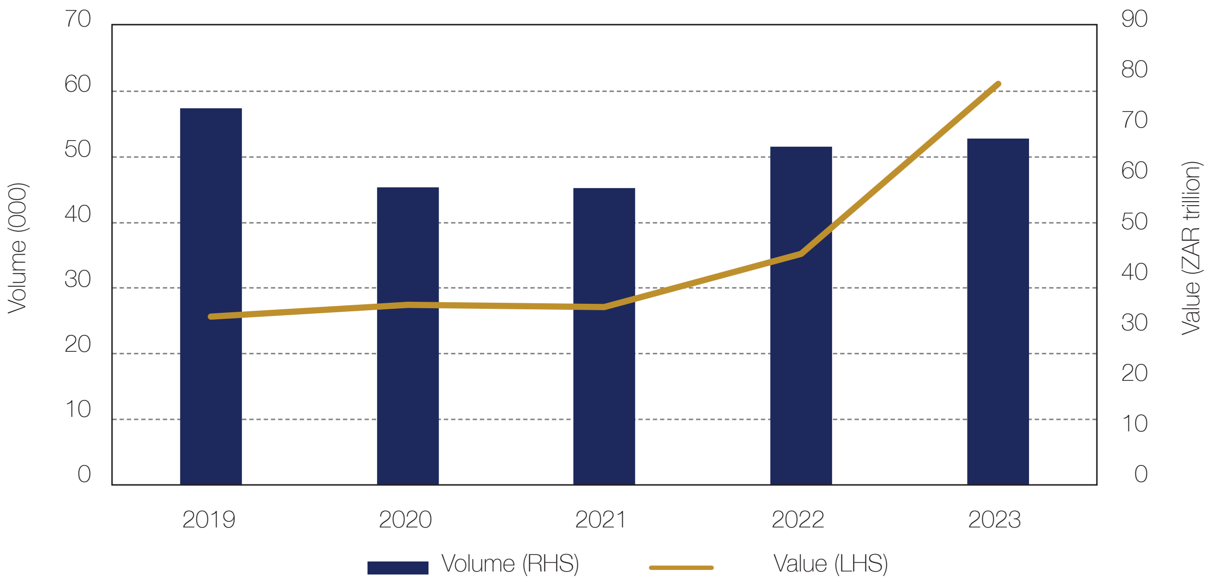
Central Securities Depository

3.15 CSD is a facility used for clearing and settling securities transactions made on the BSEL. Clearing and settlement of securities occur in securities-deposit accounts held with the Central Securities Depository Company of Botswana (Pty) Limited (CSBD). Participants in CSD include stockbroking firms and custodian banks. CSD is linked with BISS to achieve settlement in central bank money.

Southern African Development Community-Real Time Gross Settlement

3.16 The Southern African Development Community-Real Time Gross Settlement (SADC-RTGS) system is a regional electronic payment system developed by SADC member states to settle cross-border transactions without having to rely on intermediary banks from outside the region, thus faster settlement. The mandate of the SADC-RTGS is to support SADC regional integration and development agenda and, more specially, to enhance regional financial integration. This mandate is drawn from Article 3(b) of Annexure 6 of the SADC Finance and Investment Protocol, which advocates for cooperation and coordination between central banks and the private sector to define and implement a cross-border payment strategy for the SADC region. SADC-RTGS enables participating commercial banks and central banks to settle cross-border payment obligations within SADC with certainty, speed, low risk, and at relatively low cost. At present, the system settles cross-border payments in ZAR. Plans are under way, however, to enable multiple-currency settlement.

Chart 3.5: Transactions settled by Botswana Participants on the SADC-RTGS (2019–2023)



Source: Bank of Botswana.

3.17 All SADC countries but Comoros have participants in SADC-RTGS. As at the end of December 2023, there were 91 regional banks participating in the SADC-RTGS, comprising eight central banks and 83 commercial banks. Four Botswana commercial banks participate in SADC-RTGS. Chart 3.5 shows that in 2023, the four local banks settled payment transactions through the SADC-RTGS. In aggregate, the value of transactions settled through the SADC-RTGS grew by 74 percent to ZAR79 billion in 2023, while the volume of transactions increased by 2 percent.

Retail Payment Instruments

3.18 Retail payment instruments, including payments cards and mobile money transfers, facilitate e-commerce and commercial activities within an economy. Recent developments in retail payment systems, as well as technological developments, have provided customers with a wide array of choices, allowing them to demand greater levels of efficiency from payment-service providers, and safety in their transactions.

(a) Payment Cards

3.19 Payment cards are used for withdrawing cash at ATMs, for payment at a PoS terminal or for online payment. All commercial banks and mobile-money providers issue payment cards. A payment card has a built-in electronic data medium that enables a user to make a payment at a PoS terminal by charging the payment card to the funds in the transactional account, under the condition that the user knows the unique personal identification number or verifies identity through a signature as the legitimate holder of the payment card.

(b) Mobile Money

3.20 Mobile money is a technology that allows customers to perform various financial transactions using their mobile phones. The technology enables individuals to receive, store, send and receive money electronically using a mobile device. Mobile money issuers and money-transfer operators are licensed as electronic payment-service providers (EPSPs) under EPS Regulations, 2019. EPSPs include those provided by the mobile network operators (MNOs) (Orange Botswana, Mascom Wireless, Botswana Telecommunication Corporation Limited) and BotswanaPost, supported by a network of authorised agents that enables individuals to conduct financial transactions using their mobile phones.

3.21 Mobile money in Botswana has emerged as a transformative force in the country's financial landscape, offering convenient and accessible financial services to a wide range of individuals, including those in remote areas with limited access to traditional banking infrastructure. It has significantly grown from the time of inception in 2011. Key features of mobile money typically include mobile wallets, money transfers, bill payments and merchant payments. Moreover, commercial banks have partnered with mobile network operators to enable customers to link mobile money wallets to their bank accounts.

(c) Electronic Fund Transfers (EFTs)

3.22 EFTs in Botswana play a crucial role in the nation's financial ecosystem, enabling efficient and secure interbank transfers. Regulated by the Bank, EFTs encompass various services, such as direct debits and credit transfers. The BACH and BISS facilitate these transactions, ensuring bulk and real-time processing, respectively. The introduction of EFTs was spurred by the need for convenience, security, and cost-effectiveness (thus benefitting businesses and individuals) and government initiatives aimed at promoting financial inclusion.

(d) Cash

3.23 There is an ongoing debate regarding the use of cash and its future relevance in the light of rapid technological developments in non-cash and other electronic forms of payment. Some suggest that cash is losing relevance and will soon disappear, while others are of the view that cash will continue to exist and be used. Cash is mostly used for small payments because it provides immediate payment settlement, and it is available as a means of payment to everyone, regardless of status. With cash, one can purchase goods and services easily because it is widely accepted as a medium of exchange. In that regard, currency in circulation increased by 7.3 percent from P4.1 billion in December 2022 to P4.4 billion in December 2023 owing to an increase in demand for cash during the year.

Licensing of Electronic Payment Services (EPS) Providers

3.24 The Bank licensed two EPS providers in 2023; one application was rejected on account of failure to meet governance requirement as set forth in regulation 5(2)(d)(iv) of the EPS Regulations. As at 31 December 2023, twenty-five EPS providers and money or value-transfer services providers were licensed through the EPS Regulations, with two EPS providers licensed in 2023. Eighteen of the licensed entities provide electronic payment services, while seven provide money or value-transfer services. There are three local mobile money operators, which provide international money-transfer service in addition to the existing remittance services.

Oversight Inspection

3.25 The Bank conducted an on-site oversight inspection of a financial market infrastructure company in 2023 applying the PFMIs assessment methodology. Generally, the operational environment of the company was assessed to be safe, reliable, and efficient and in compliance with the requirements of the NCSS Act and applicable PFMIs. In addition, the Bank conducted an on-site oversight inspection of four EPS providers in 2023. All entities, except one were found to have generally complied with applicable requirements of the EPS Regulations. Contraventions by one entity related to use of agents not approved by the Bank, contrary to Regulation 31 of the EPS Regulations. Consequently, a fine of P5 000.00 for non-compliance with regulation 36 of the EPS Regulations was levied against and paid by the entity.

3.26 The NPS is continually enhanced, and consumers continue to enjoy the benefits of improved payments and other financial services. Innovation is driven by financial technologies applied to existing market infrastructures and networks. The Bank continues to play a catalytic operator and oversight role to foster establishment of an efficient, a safe and convenient retail-payment environment.

CHAPTER 4

LICENSING AND CONSUMER PROTECTION

MARKET ENTRY ENQUIRIES AND LICENSING OF BANKS

Enquiries on Bank Licensing

4.1 During the year, the Bank received eight banking licence enquiries, none of which progressed to an application status.

ILLEGAL DEPOSIT TAKING

Ecoplexus Solar Equipment Proprietary Limited

4.2 The Bank investigated the operations of Ecoplexus Solar Equipment (Pty) Limited (Ecoplexus) to determine if the business activities involved illegal deposit-taking after reports to the Bank that the company was operating a pyramid scheme. Five companies related to Ecoplexus were identified; the Bank gave the companies a cease-and-desist order. Moreover, several other accounts, which had been used to facilitate illegal deposit-taking activities relating to Ecoplexus were identified by one bank and reported to the Financial Intelligence Agency (FIA). In addition, all the accounts involved in the Ecoplexus scheme were investigated by the Botswana Police Service, and the court ordered the Office of the Receiver (receiver) to take over management of the funds, which had been confiscated in terms of the Proceeds and Instruments of Crime Act, 2014. Consequently, the bank transferred an amount of P32 480 517.03 to the receiver.

4.3 The Bank imposed an administrative sanction of P1.5 million on the bank for failure to report suspicious transactions related to Exoplexus to FIA within the prescribed period; the bank paid the monetary penalty.

Dafritech Proprietary Limited

4.4 In 2021, Dafritech Proprietary Limited (Dafritech) was ordered to cease soliciting funds from the public with immediate effect and to stop operating as an agent of Dafribank Digital Limited without the authority of the Bank. The Bank ordered the bank at which Dafritech held an account to freeze the funds. Consequently, in 2023, in accordance with Section 5(7) of the Banking Act, the Bank made an application to the High Court for direction in disposition of the Dafritech funds held with the bank.

4.5 On 26 June 2023, the High Court ordered the bank and the director of Dafritech to provide the Bank with information on people who had deposited money into the Dafritech bank account as well as the amounts. Dafritech and its director did not provide a list of depositors as directed by the High Court, but the Bank received funds and the list of depositors only from the bank.

4.6 The Bank issued a public notice in December 2023 requesting members of the public who deposited funds into the Dafritech account held at the bank to approach the Bank with proof of deposit and identification to facilitate preparation of the final list of depositors to allow for the distribution of funds collected from the bank. A second public notice was issued in April 2024 inviting all depositors to claim their funds; the depositors began claiming their funds from April 2024.

COMMERCIAL BANK INTEREST RATES AND CHARGES

Interest Rates and Policy

4.7 The Bank reduced the Monetary Policy Rate (MoPR) by 25 basis points from 2.65 percent to 2.40 percent in December 2023. Banks accordingly reduced their prime lending rates by the same margin. Given increased competition for deposits, some banks increased interest rates on some deposit products, benefitting depositors, while ensuring stable and reliable sources of funding for banks.

4.8 Banks continued to comply with the Regulatory Guidelines RG. No. 01/11/2022 on deposit and lending rates by publishing the indicative minimum and maximum deposit and lending interest rates in at least two newspapers widely circulating in Botswana and several bank websites. Table 4.1 shows indicative ranges of deposit interest rates payable on the various deposit products offered by commercial banks as at 31 December 2023. During the year, interest rates ranged from 0.00 to 5.5 percent. The differential between the lowest and highest interest rates paid was noted with respect to some products, with longer-dated deposits attracting higher interest rates.

Table 4.1: Commercial Banks: Deposit Rates as at 31 December 2023

Deposit Product	Deposit Rates (annual percent)	
	Lowest	Highest
Current account	0.00	3.00
Savings*	0.00	5.25
Call	0.00	3.00
91 days	1.00	3.25
6 months	1.40	4.10
12 months	2.01	5.00
24 months	2.07	5.50
Monetary Policy Rate	2.40	

*Savings include both ordinary and special savings accounts.

Source: Various Newspapers.

4.9 Table 4.2 shows a range of indicative lending rates charged by various banks on their loan products as at 31 December 2023. During the year, the advertised lending rates ranged from 0.00 to 36.5 percent. The differential between the lowest and highest interest rates charged was observed in relation to some products; unsecured loans attracted the highest interest rates, while secured loans were charged lower rates.

Table 4.2: Commercial Banks: Lending Rates as at 31 December 2023

Lending Product	Lending Rates (annual percent)	
	Lowest	Highest
Mortgage rate	6.51	21.51
Overdraft rate (revolving credit lines)	6.51	36.51
Credit card rate	16.51	36.00
Lease loans	6.51	21.51
Personal loans (excluding overdrafts, and credit cards)	0.00	31.51
Other long-term loan rates	6.51	20.01
Monetary Policy Rate	2.40	
Prime lending rate	6.51	

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

Commercial Bank Charges

4.10 In accordance with the provisions of the Disclosure of Bank Charges Notice No. 41 of 2001, banks gave customers notice of no less than 21 banking days before implementing the approved tariffs by publishing the tariff guides in the local newspapers and on bank websites. Table 4.3 presents average charges for selected banking services in 2023. The structure is based on four broad categories of frequently applied charges: access facilitation, investment and intermediation, trade facilitation, and payment and clearing. The data shows that the cost of financial services was generally higher in 2023 than in 2022.

Table 4.3: Selected Commercial Banks Average Charges: 2022 and 2023 (Pula)

Category of Charged Services (Pula)	2022	2023	Growth Rate (percent)
Access Facilitation			
(i) Cash withdrawal (own bank)	3.16*	3.81	5.60
(ii) Lost ATM card replacement	71.39	74.31	4.09
(iii) Point of sale	1.49*	1.53	2.93
Internet banking			
(i) Monthly fees	148.01*	122.19	(17.45)
(ii) Transfers (third party within a bank)	3.22*	2.73	(15.20)
(iii) Transfers (outside bank) **		3.34	100
Mobile banking			
(i) Utility bill payments	2.95	3.16	7.25
(ii) Payment to third-party accounts	3.54*	3.46	(2.25)
(iii) Buy pre-paid airtime	0.57*	0.58	1.82
(vi) Cash send/e-wallet/instant money	10.10	10.21	1.07
Investment/Intermediation			
(i) Personal loan arrangement fee (minimum)	584.47*	574.30	(1.74)
(ii) Vehicle/asset finance arrangement fee (minimum)	710.15	751.19	5.78
(iii) Mortgage arrangement fee (minimum)	688.66	999.84	45.19
Trade Facilitation			
(i) Purchase of foreign notes (minimum)	29.81	24.08	(19.24)
(ii) International SWIFT transfer (maximum)	356.21*	374.75	5.24
(iii) Advising commission on letters of credit (minimum)	243.78*	254.81	4.53
(iv) Real time gross settlement (maximum)	290.68*	306.07	5.30
(v) Transfer to accounts at foreign banks (maximum)	260.45*	281.78	8.19
Payment and Clearing			
(i) Standard cheque book (20–50 pages)	59.81	55.43	(7.32)
(ii) Unpaid cheque due to lack of funds	271.93	269.09	(1.04)

Note: 1. Parentheses denote negative figures.
*Fees revised from last year
**New items in the comparative analysis

Source: Commercial Banks.

CONSUMER COMPLAINTS MANAGEMENT

4.11 The Bank received 12 new customer complaints in 2023 involving seven banks, while one complaint was brought forward from the previous year. Overall, in 2023, thirteen complaints were processed. Twelve complaints were resolved, while one was under consideration at the end of 2023. The complaints related to various sources of customer dissatisfaction are as illustrated in Table 4.4.

Table 4.4: Commercial Banks' Consumer Complaints in 2023

Type of complaint	Received	Resolved	Total outstanding as at 31 December 2023
Unsatisfactory service	2	1	1
Unfair handling of loans	4	4	0
Unauthorised transactions	4	4	0
Disputed mortgage/credit card insurance covers	2	2	0
Brought forward	1	1	0
Total	**13**	**12**	**1**

Source: Bank of Botswana.

ABANDONED FUNDS

4.12 In accordance with Section 39 of the Banking Act, the Bank continued to administer abandoned funds received from commercial banks. As indicated in Table 4.5, the net balance of abandoned funds increased by 16.7 percent from P23 217 932 in 2022 to P27 088 850 in 2023.

Table 4.5: Total Abandoned Funds from Commercial Banks in 2022 and 2023

	2022 Pula	2023 Pula
Balance brought forward	17 702 794	23 217 932
Funds received	9 377 254	5 812 562
Claims paid	(52 360)	(152 146)
Transfer to Guardian Fund	(3 809 757)	(1 789 498)
Net Balance at year-end	**23 217 932**	**27 088 850**

Note: Parentheses denote pula amount paid out.

Source: Bank of Botswana and Commercial Banks.

CORPORATE GOVERNANCE

4.13 During 2023, consistent with the requirements of Section 29 of the Banking Act, the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana, banks continued to appoint board members and senior management officials, subject to satisfaction of the fitness and propriety criteria to be appointed to a senior management role in a licensed bank. The Bank received 62 applications and notifications, 14 requests for approval of appointment of board members and 48 notifications of appointment of senior management officials by banks for processing. The Bank did not object to 59 of the 62 proposed appointments as the candidates met the minimum requirements stipulated in the guidelines. Of the 59 appointments of senior management officials, two were of managing directors. Further, two applications for the appointment of senior management officials were objected to because the persons were deemed to be not fit and proper to serve as senior management officials, while one application for the appointment of non-executive director was rescinded owing to unfavourable security-vetting results. Most of the approved appointments were of Botswana nationals, who accounted for 80.7 percent of the board and senior management officials, compared with 68.3 percent in 2022.

Table 4.6: Number of Board and Senior Management Approvals in 2022 and 2023

	2022	2023
Number of board members	**13**	**13**
Locals	7	10
Foreigners	6	3
Number of senior management	**28**	**46**
Locals	21	37
Foreigners	7	9
Total number of approvals	**41**	**59**

Source: Bank of Botswana.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM AND COMBATING PROLIFERATION FINANCING

National Risk Assessment: 2022/2023

4.14 Botswana carried out the first national risk assessment (NRA) in 2017, with the assistance of the World Bank, using the World Bank methodology. The second NRA was conducted in 2022–2023 for the period January 2017 to December 2022. The National Coordinating Committee on Financial Intelligence approved the NRA report in December 2023.

4.15 The 2023 NRA report highlighted that drug trafficking, obtaining money by pretence, theft of motor vehicles, poaching and tax crimes were the predicate offences identified as proceeds-generating crimes that pose a higher risk of money laundering. Robbery of cash-in-transit vehicles and unlawful keeping of live animals under confinement were identified as emerging trends of high-value crimes.

4.16 The banking sector's vulnerability to the risk of money laundering and terrorism financing was rated medium, signifying that the sector could be moderately abused for money laundering and terrorism financing. The medium rating was on account of large volumes and high-value transactions that go through the banking sector, high level of cash activity, increased digital-payment platforms and high frequency of international transactions.

BOX 3: IN THE EYE OF THE STORM: PONZI SCHEMES AND PYRAMID SCHEMES

Introduction

As the financial sector develops, fraudsters devise artifices to help them fraudulently profit from luring members of the public to participate in pseudo investments, such as ponzi and pyramid schemes. Research has demonstrated that the inclination towards a "get-rich-quick" mindset influences participation in ponzi and pyramid schemes (Button, et al., 2014). Those who invest in these schemes focus on potentially high rewards and overlook the high risk of financial losses. Participation of public figures also entices potential investors to place funds in the schemes.

Ponzi and Pyramid Schemes

Ponzi is an eponymous word from Charles Ponzi, who in 1920, made false promises of doubling investor money within 90 days by purchasing international postal coupons. Initially, the investments appeared lucrative when he fulfilled his commitment to pay early investors their expected returns. The entire scheme, however, collapsed when he could not compensate subsequent investors. Most of the funds he solicited from investors were disbursed as dividends to the first cohort of investors, and the operation crumbled when he failed to raise additional capital to remunerate subsequent investors.

The terms ponzi and pyramid schemes are frequently used interchangeably (Deason, 2012). Both are types of investment fraud and share common characteristics; the similarity lies in the fact that an investor's return or profit is generated from the funds placed by newly recruited persons, rather than from any conventional investment practices. In a ponzi scheme, an investor simply needs to provide funds to the scheme promoter and then await profit-sharing without any active involvement. In contrast, a pyramid scheme requires participants to actively recruit more people into a scheme to be able to generate a return (Basu, 2014); return payment is made out of subscriptions by new participants, and investors are rewarded with commission for recruiting members. The schemes are also known as multi-level marketing, franchise fraud, or chain-referral schemes and are an unsustainable way of generating wealth.

Early investors judge the schemes to be legitimate and profitable, which motivates them to inject more funds and woo others to participate. When the flow of fresh capital and investors stops, however, these kinds of schemes implode. Typically, investors realise that most of their money has been lost, with the scheme's promoter failing to account for the initial investment funds.

Usually, these schemes target community leaders, religious groups, ethnic groups, and retired professionals. Group leaders may be the first to be targeted, receive a substantial return on their investment and spread the word about the investment and its financial returns to others before the scheme founders (Cox, 2014). Investors often put their funds in investment schemes to emulate peers and those they deem to be successful in life. The dissemination of information pertaining to these schemes using positive framing also generates enthusiasm among potential investors to participate in the schemes.

Ponzi and Pyramid Schemes Red Flags

Some common red flags of ponzi and pyramid schemes are as follows:

(a) High returns with little or no risk: There is risk associated with every investment, and the larger the return, the higher the risk.
(b) Consistent returns: The investment consistently yields positive returns, regardless of the state of the market.
(c) Unregistered investments: Ponzi schemes typically involve investment products that are not registered with any regulator, and do not have real products.
(d) Unlicensed sellers: Most ponzi schemes involve unlicensed individuals or unregistered companies.
(e) Secretive, complex strategies: The investments are not fully comprehensively, and complete information cannot be found.
(f) Account discrepancies: Account statement errors may be a sign that funds are not being invested as promised.
(g) Difficulty receiving payments: Ponzi scheme promoters sometimes try to prevent participants from cashing out by offering even higher returns for continued membership.

The general public should remain vigilant and avoid scams by keeping an eye out for the warning signs of schemes with the foregoing characteristics. Potential investors should find out more information about any investment offers before making a financial commitment.

Ponzi and Pyramid Schemes in Botswana

Ponzi and pyramid schemes have been a concern in Botswana as has been the case in many other countries. In Botswana, the public has fallen victim to ponzi and pyramid schemes, for instance, Ecoplexus Solar Equipment (Pty) Ltd, Dafritech (Pty) Ltd, Bee billionaires Motshelo, Ref Wayne and Pipcoin.

The government of Botswana has taken a strong stance against ponzi and pyramid schemes by proscribing them through, for example, Section 3(1) of the Banking Act (Cap. 46:04) (Banking Act) and Section 9(1) of the Consumer Protection Act, 2018 (CPA). Section 3(1) of the Banking Act restricts transacting banking business and/or advertising for or soliciting deposits of money to licensed banks. It is also a criminal offence, punishable by law, for any person to promote the illegal activities in Botswana, as that constitutes advertising for or soliciting deposits of money. Section 9(1) of the CPA states that a person shall not directly or indirectly promote, or knowingly join, enter, or participate, or cause any other person to promote, or join, enter or participate in pyramid and related schemes. The Bank of Botswana has repeatedly encouraged members of the public to report to the appropriate authorities to protect themselves and others in cases where they suspect investment opportunities to be ponzi or pyramid schemes.

Conclusion

Ponzi and pyramid schemes exist and will continue as such despite their proscription in many jurisdictions. The schemes are typically peddled and touted by promoters as lucrative investment opportunities, whereas they are a ruse for swindling unsuspecting members of the public.

It is important for the public to be sceptical about unsolicited investment opportunities that promise unrealistically high returns, especially without highlighting risks. In the regulatory compliance realm, the Bank of Botswana has dealt with various individuals who lost substantial amounts of money to ponzi and pyramid schemes. Overall, it is crucial that the public is continually sensitised to existence of illegal investment schemes, with an emphasis on educating the public on specific red flags, with more effort on outreach programmes focussing on vulnerable and target groups.

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CHAPTER 5
OTHER SUPERVISORY ACTIVITIES

CHAPTER 5:
OTHER SUPERVISORY ACTIVITIES

PARTICIPATION IN INTERNATIONAL AND DOMESTIC REGULATORY AND SUPERVISORY ACTIVITIES

Supervisory Colleges

5.1 Supervisory college meetings are consistent with core principle 13 of the Basel Core Principles for Effective Banking Supervision (core principles); the principle involves establishing of bank-specific supervisory college[20] meetings by home supervisors for banking groups with host supervisors. The objectives of a supervisory college are to assist supervisors in understanding the risk profile of the banking group, exchange information and encourage cooperation with a view to enhancing supervision, especially cross-border supervision. In 2023, the Bank participated in four supervisory colleges in respect of four banks.

5.2 The matters discussed at the supervisory college meetings included strategies of the respective banking groups to reposition the banks after the COVID-19 era, supervisory concerns, including the possible negative impact of the grey-listing of South Africa by the Financial Action Task Force (FATF).

5.3 The meetings also discussed enhancement of compliance with anti-money laundering and combating the financing of terrorism regulations, risk profiles of the respective banking groups, and update on the operations of the respective banking groups.

Cross-border Supervision

5.4 Consistent with principle 13 of the core principles, which provides for home-host relationships, the Bank conducted a cross-border joint supervisory on-site examination of two commercial banks. In that regard, the Bank hosted the Prudential Authority of the SARB for a joint supervisory on-site examination of one bank and its external auditor. The purpose of the meeting was to discuss, among others, the regulatory framework, significance of the bank in the domestic banking sector, and overall risk assessment of the bank. It was pointed out that, although the control environment was assessed to be effective, there was a need to address deficiencies identified during the on-site examination.

5.5 In another joint engagement, the Bank, in collaboration with the Reserve Bank of Malawi, conducted an on-site examination of First Capital Shared Services Limited, a subsidiary of FMB Capital Holdings. The examination was conducted in Ebene, Mauritius. The purpose of the on-site examination was to assess First Capital Shared Services Limited's capacity to provide support to licensed subsidiary banks, with the main areas of focus being operations, information and communications technology and AML/CFT/CFP.

Other Supervisory Matters

5.6 At the conclusion of the Financial Sector Assessment Programme (FSAP) of Botswana conducted between 2022 and early 2023 by the International Monetary Fund and World Bank, an FSAP report on the country's financial sector was drafted and published in 2023. A summary of the report indicates that the financial sector remains stable, sound, and resilient, although noting some deficiencies relating to the legal framework, which have been addressed by the re-enacted Banking Act, 2023 and the Bank of Botswana (Amendment) Act, 2022. Further, the assessment indicated that the economic recovery was strong despite inflation remaining above the Bank's medium-term objective range of 3–6 percent and the lingering adverse effect of the COVID-19 pandemic on the economy. Moreover, notable progress was observed in strengthening the financial supervisory and regulatory frameworks since the 2007 FSAP.

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

5.7 The Bank issued Guidelines on Cybersecurity and Resilience to all banks for implementation in May 2023. The guidelines provide guidance for banks on how to enhance the cyber-security resilience, facilitate a common approach for addressing cyber-risks within the banking system, help achieve minimum and acceptable level of cyber-resilience, improve the management of systemic cyber-risk within the banking system, comply with principle 7 of the core principles for operational resilience and expand guidelines for operational risk management as stated in the 2018 Guidelines on Risk Management by including cyber-risk management.

CHAPTER 6

SUMMARY OF THE ON-SITE EXAMINATION OF BANKS AND PRUDENTIAL MEETINGS

CHAPTER 6:
SUMMARY OF THE ON-SITE EXAMINATION OF BANKS AND PRUDENTIAL MEETINGS

PRUDENTIAL SUPERVISION ON-SITE EXAMINATION

Examination of Commercial Banks

6.1 The Bank conducted full-scope on-site examination of two commercial banks and a special on-site examination of one commercial bank in 2023. The full-scope on-site examination assessed the banks' capital adequacy, asset quality, management, and effectiveness of board of directors (board) oversight, earnings and profitability, liquidity, and sensitivity to market risk (CAMELS), while the special on-site focussed on the commercial bank's operations.

6.2 For the first bank, it was found that the related-party representation on the board was in contravention of the one-third maximum prescribed by Clause 3.5 of the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana.

6.3 Furthermore, the bank's loan book was concentrated in public-sector scheme loans, thus exposing the bank to credit concentration risk. The other supervisory concern was the asset and liability mismatch, which exposed the bank to liquidity risk.

6.4 Also of concern was lack of integration of the information technology system used for credit administration with the core banking system, which exposed the bank to the risk of errors emanating from manual intervention.

6.5 With respect to the second bank, the examination revealed that the bank did not conduct any board performance evaluation in 2020, 2021 and 2022, thus breaching the requirements of the Board Charter, which requires the bank to conduct board performance evaluation annually. The bank's non-executive directors were appointed in the same period, with 42.8 percent of the independent non-executive directors having joined the board in 2020. As a result, there was no difference in the tenure of the three board members, thus compromising continuity.

6.6 The bank contravened Section 17(8) of the Banking Act by availing four staff members unsecured credit facilities higher than annual emoluments. The bank was, however, given a warning for the contravention on account of the insignificance of the excess amounts.

6.7 The special on-site examination of the third bank found that board members and senior management officials were relatively new, which could have negative implications for attainment of the set strategic objective. To address the deficiency, the bank was directed to carry out continual training for the board of directors and senior management. The board oversight was executed through three board committees: Audit; Human Resources, Remuneration and Nominations; and Risk and Compliance committees. Of concern, however, was that the number of related-party directors on the Audit Committee contravened Clause 4.19 of the guidelines, which requires that all members of an audit committee be independent non-executive directors.

6.8 With respect to implementation of the strategy and projects across the bank, it was observed that the office was run by two officers, thus reflecting too under-resourcing for the office to effectively implement and monitor the relatively new and aggressive strategic plan and ongoing commercialisation projects.

6.9 Further, the staff turnover was high, at 23 percent, which negatively affected essential functions, such as internal audit and finance. The bank's high staff turnover had the potential to negatively affect the bank's productivity and achievement of the bank's strategic objectives.

6.10 As regards information technology, there was a lack of integration of the bank's core banking system with some supporting systems. The lack of integration of systems could heighten the risk of human error, resulting in inefficiencies, data inconsistencies and inaccurate information reporting.

6.11 Overall, the bank generally satisfactorily performed its business operations and in accordance with the licensing requirements; in addition, risk identification and management measures were considered satisfactory.

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Consumer Compliance On-site Examination

6.12 In 2023, consumer compliance on-site examination was conducted at two commercial banks, wherein it was noted that the banks had comprehensive policies and procedures and complied with most consumer compliance standards except for the contraventions shown in Table 6.1.

Table 6.1: Contravention of Consumer Compliance Standards in 2023

Institution	Contravention	Description
Bank 1	Administration of dormant/ abandoned funds: Section 39(1) of the Banking Act	The bank failed to notify customers whose accounts were dormant before remitting abandoned funds to the Bank.
	Disclosure of Bank Charges Notice GN. No. 41 of 2001	The bank displayed outdated tariff guide in the banking hall. There was inaccurate computation of the annual percentage rates (APRs). In most instances, the rates were lower than what they should be according to the tariff guide. The bank introduced certain products/services and associated fees to the market without seeking prior approval of the Bank.
	Prescription of Notice Period and Early Settlement Penalties for Term Loans and Similar Credit Facilities: Government Notice No. 111 of 2011	There were several settled loan accounts that continued to be debited instalments post loan settlement by customers. Although it had no approved fees for early settled personal loans, the bank imposed a penalty fee on customers who settled the facilities early.
Bank 2	Administration of Dormant/ Abandoned Funds: Section 39(1) of the Banking Act	The bank's dormant account policy did not comprehensively define abandoned funds, and how abandoned funds are processed, as required under Section 39(1) of the Banking Act. Further, the bank could not provide any copies of the dispatched letters as proof that affected account holders were notified that the funds had been remitted to the Bank.
	Disclosure of Bank Charges Notice GN. No. 41 of 2001	Some customers were charged fees higher than the approved fees. The bank failed to disclose customer loan instalments in the facility letters. The bank did not accurately compute the APRs as in most instances the APR was lower than in the tariff guide.

Source: Bank of Botswana.

AML/CFT/CPF On-site Examination

6.13 In 2023, the Bank conducted AML/CFT/CPF follow-up and thematic on-site examination of two commercial banks. The objective of the follow-up examination for both banks was to assess whether the shortcomings identified during the previous AML/CFT/CPF on-site examinations had been adequately addressed as reported in the quarterly progress updates submitted to the Bank. The scope of the thematic examination comprised assessment of adequacy of processes and procedures of the following: risk assessment of money laundering and terrorist financing; identification and verification of information of ultimate beneficial owners (UBOs) information for legal entities and trusts; identification of prominent influential persons (PIPs) and high-risk customers; application of enhanced due diligence measures; and monitoring, analysing, investigating and reporting suspicious transactions.

6.14 For the first bank, the on-site examination revealed that the bank's processes and procedures for monitoring, analysing, investigating, and reporting suspicious transactions were satisfactory, and the bank had rectified most of the deficiencies identified during the 2020 on-site examination. The bank's processes for identification and verification of UBOs information for legal entities and trusts and the identification of high-risk customers were, however, considered weak. In addition, the processes, and procedures for ensuring adequacy of the information submitted to the Bank through the AML/CFT/CPF data-gathering template was considered weak.

6.15 Processes and procedures for conducting risk assessment of money laundering and terrorist financing (ML/TF), identifying high-risk customers and PIPs, identification of UBOs and suspicious transactions monitoring, investigation and reporting, for the second bank were considered satisfactory. The bank was, however, unable to report large-cash transactions for businesses conducted through the automated deposit teller machines (ADTMs) because the system was not configured to cater for deposits made through the ADTMs into business accounts by non-customers of the bank. Therefore, large-cash transactions made by non-customers of the bank using the ADTMs could not be reported to FIA.

6.16 The bank was directed to rectify all supervisory concerns identified and to submit progress updates to the Bank until all deficiencies had been addressed.

6.17 The Bank further conducted AML/CFT/CPF on-site examination of five non-bank financial institutions (NBFIs) supervised by the Bank.

6.18 For the first NBFI, the level of effectiveness of AML/CFT/CPF compliance was found to be adequate. There were, however, some deficiencies noted relating to failure to conduct branch compliance with AML/CFT/CPF processes and procedures, and establish clear processes and procedures for identifying PIPs, and application of enhanced due-diligence measures for high-risk customers and PIPs. The NBFI was directed to remedy all supervisory concerns and submit progress reports to the Bank.

6.19 With respect to the second NBFI, staff did not demonstrate sufficient understanding of AML/CFT/CPF, which was evident in the weak AML/CFT/CPF controls. The supervisory concerns identified during the examination were mainly related to inadequate AML/CFT/CPF policies, processes, and procedures of the NBFI, which resulted in contravention of several sections of the Financial Intelligence Act, 2022 (FI Act). The NBFI was directed to rectify all supervisory concerns outlined in the examination report and submit quarterly progress reports to the Bank. In addition, a monetary fine of P60 000 was imposed on and paid by the NBFI.

6.20 The third NBFI failed to conduct risk assessment of the entity to ML/TF risk. Moreover, staff of the entity did not demonstrate sufficient knowledge of ML/TF risks and AML/CFT/CPF obligations, thereby resulting in contravention of several sections of the FI Act. Overall, the entity's AML/CFT/CPF systems were rated weak.

6.21 The NBFI contravened various sections of the FI Act, which attracted penalties. The entity was instructed to rectify all identified deficiencies, failure of which the Bank would impose a monetary penalty of P30 000 on the NBFI. The NBFI was further directed to submit quarterly progress reports to the Bank until all supervisory concerns had been rectified.

6.22 The fourth NBFI's AML/CFT/CPF processes, procedures and controls were found to be satisfactory. The examination, however, found that, although the NBFI had conducted a risk assessment of money laundering and terrorist financing, the results of the assessment had not been documented and shared with the board and senior management of the entity. Further, the examination assessed the entity's customer due-diligence procedures for customer risk-scoring, identification of high-risk customers, and application of enhanced due diligence for high-risk customers to be weak. The NBFI was directed to address all supervisory concerns raised in the examination report and to submit quarterly progress reports to the Bank until all supervisory concerns had been rectified.

6.23 The fifth NBFI's AML/CFT/CPF policies, governance, compliance function, identification of PIPs, training, and identification of customers on the United Nations Security Council Resolutions targeted financial sanctions list were rated satisfactory. Processes and procedures for conducting ML/TF/PF risk, identification of high-risk customers and application of EDD, ongoing customer due diligence and customer risk-rating were nevertheless assessed to be weak. The NBFI was directed to address all supervisory concerns identified and submit quarterly progress reports to the Bank until all supervisory concerns had been rectified.

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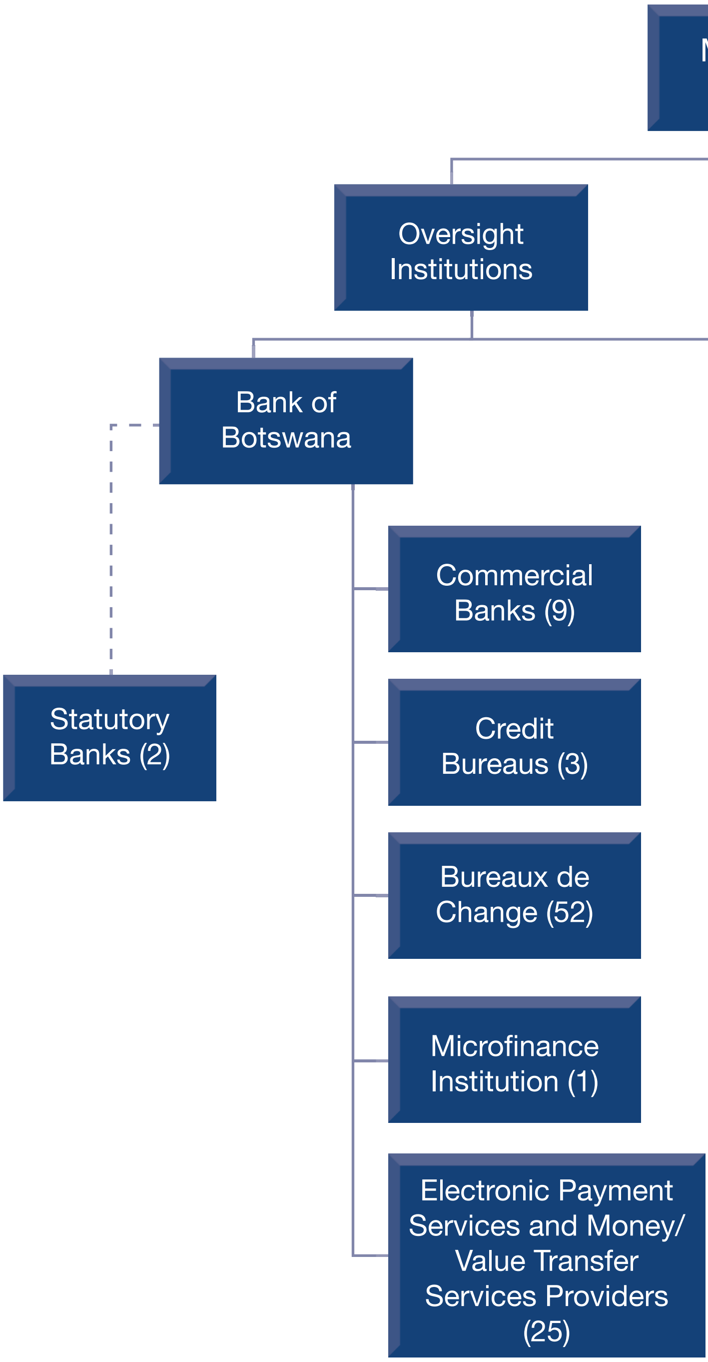
APPENDICES

APPENDICES

APPENDIX 1

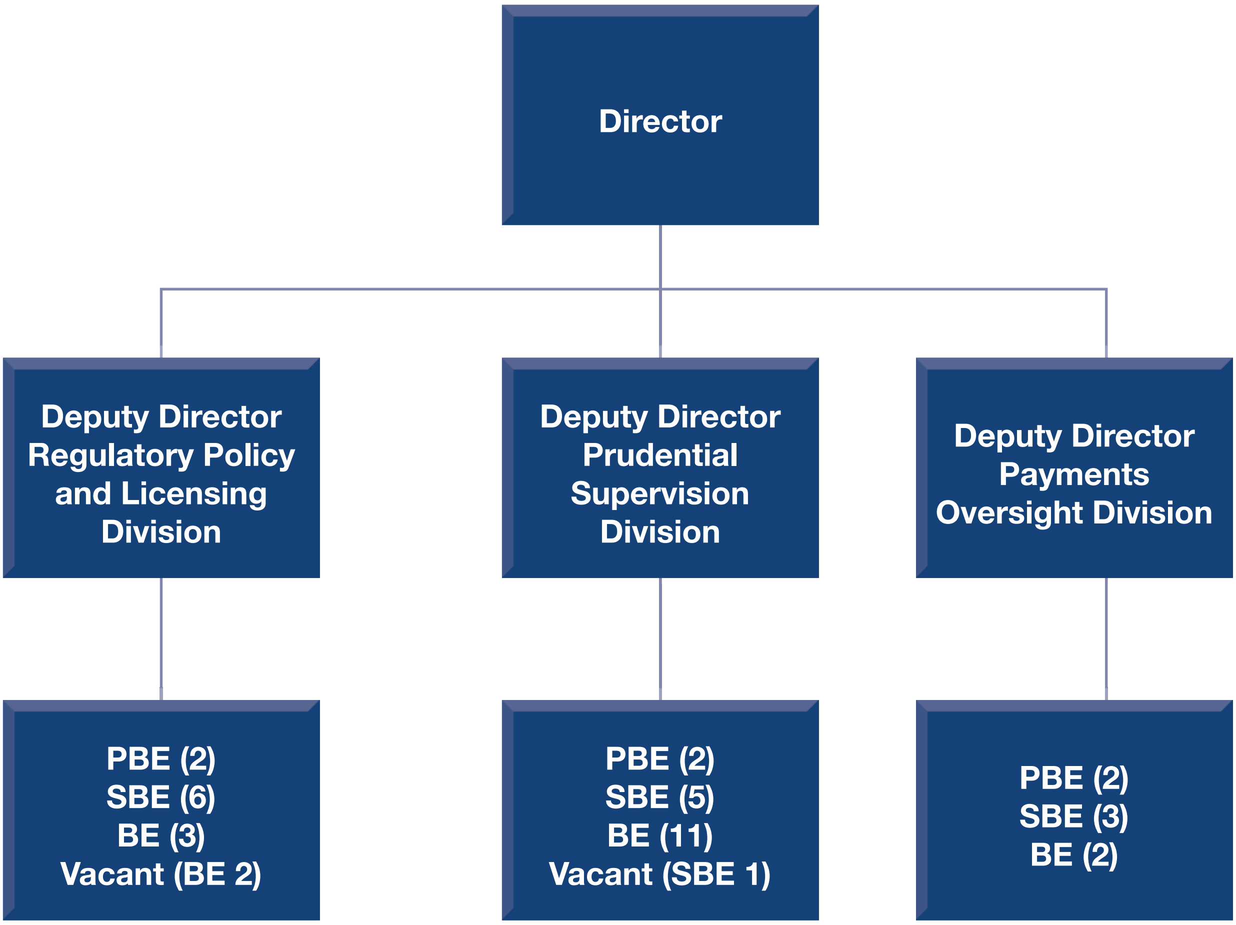
DIAGRAM 1.1: THE REGULATORY ARCHITECTURE OF THE DOMESTIC FINANCIAL SYSTEM



Source: Bank of Botswana.

APPENDIX 1

DIAGRAM 1.2: PRUDENTIAL AUTHORITY AND PAYMENTS OVERSIGHT DEPARTMENT AS AT 31 DECEMBER 2023

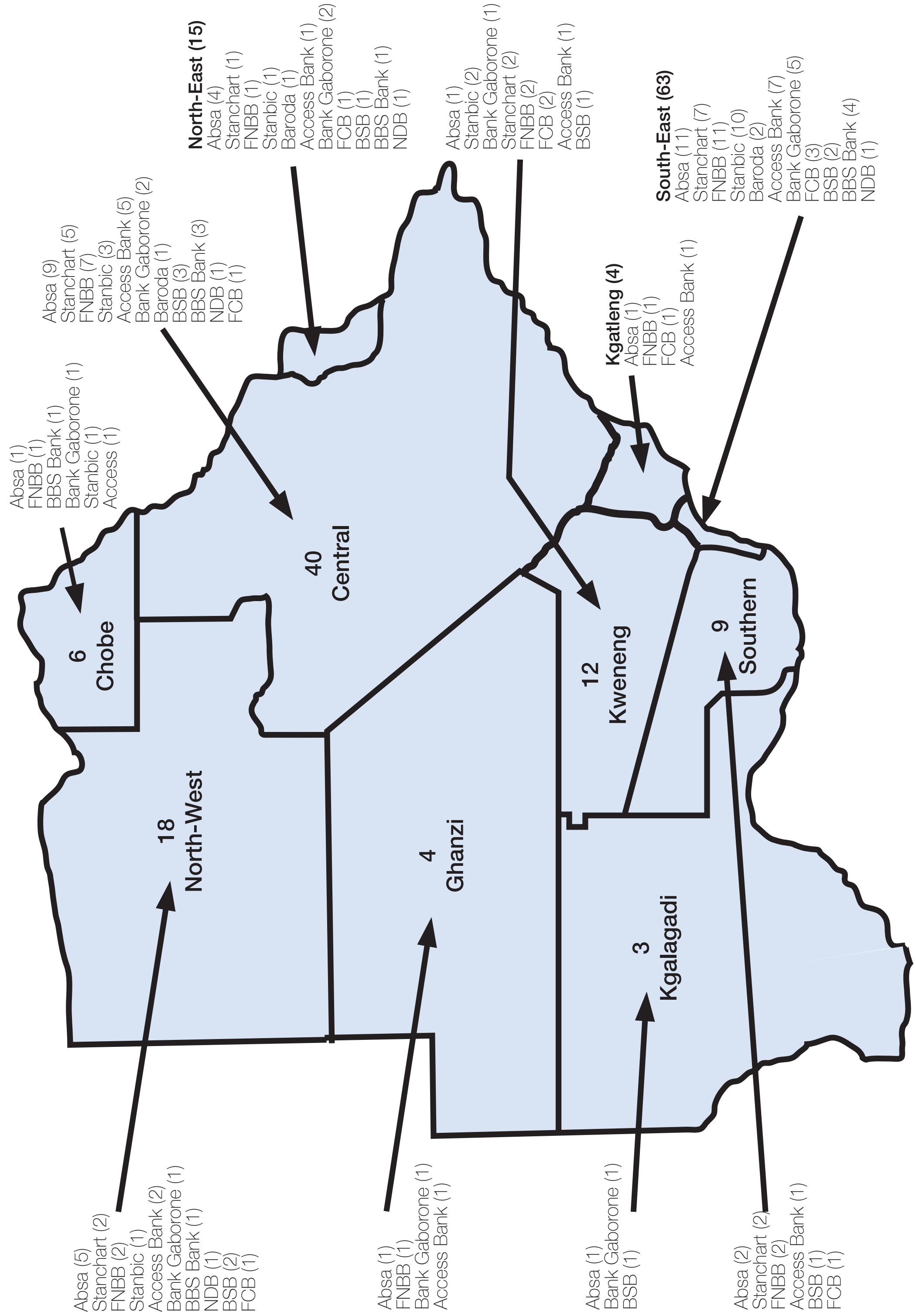


Key:
PBE: Principal Bank Examiner/Manager
SBE: Senior Bank Examiner/Assistant Manager
BE: Bank Examiner/Supervisor

Source: Bank of Botswana.

APPENDIX 2

DIAGRAM 1: BANK-BRANCH DISTRIBUTION NETWORK BY DISTRICT AS AT 31 DECEMBER 2023[21]



21 For ease of comparison, the bank-branch distribution network used the old district layout before redistribution of districts in November 2023.

APPENDIX 3

APPROACHES TO REGULATION AND SUPERVISION OF BANKS IN BOTSWANA

1. INTRODUCTION

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

2. LEGAL FRAMEWORK

2.1 In general, it is considered that to be effective, a regulatory framework must have sufficient authority established by law, a high degree of independence or operational autonomy and adequate human and financial resources. In Botswana, the primary legislation covering the supervision and regulation of licensed banking institutions is the Banking Act. Important elements of the Banking Act are explicit provisions for licensing and authorisation processes, which give the Bank powers to regulate market entry to the banking sector; issue minimum prudential supervisory standards and policies with respect to capital adequacy, liquidity, restrictions on large exposures, loans to insiders and quality of management of banks; rules governing accounting, auditing and disclosure of bank information; and guidelines for the management and/or restructuring of banks in distress.

2.2 The banking law also covers governance, market discipline within the banking system, and prudential supervision of the banking system. It is recognised that, primarily, the responsibility for banking soundness lies with owners (shareholders) and managers of banks, who have a commercial incentive to operate banks prudently. Market discipline, which is underpinned by minimum disclosure requirements, provides an incentive for good internal governance, and imposes sanctions for failures, particularly for institutions listed on the BSEL. Prudential supervision is essential to provide external incentives for management and owners of banks to rectify inadequacies in governance and to impose the appropriate level of control where market behaviour could lead to imprudent conduct, which could have adverse systemic repercussions. Thus, the continuing safety, soundness and stability of the banking system and the extent to which it is effective in facilitating financial intermediation between savers and borrowers, as well as operating the payments system, reflects efficiency in all the three areas.

3. AUTHORITY FOR LICENSING BANKS

3.1 A central feature of banking supervision is a clear and transparent criterion for licensing of banks. Banking is a regulated industry because banks take deposits from the public and play a crucial role in the country's payments system. Thus, there are regulatory barriers to entry that importantly influence the structure of the banking sector relative to the number, size, and ownership of banks in the country. These market entry requirements must be carefully balanced with the public policy objective of a competitive and efficient banking system.

3.2 The mandate for licensing banks is exclusively conferred on the Bank by Section 3 of the Banking Act. This section covers licensing of commercial banks, merchant/investment banks, credit institutions and discount houses.

4. LICENSING POLICY AND PROCEDURES FOR ESTABLISHING A BANK

4.1 The licensing requirements and procedures for establishing a bank in Botswana are set out in Sections 6(1) and 8 of the Banking Act and detailed in Banking Regulations 3, 4 and 5.

4.2 To be licensed as a bank in Botswana, an applicant must satisfy the following requirements:

(a) The company must be locally incorporated in Botswana (branch banking is not permitted).

(b) The proposed banking establishment must have the prescribed initial minimum capital (P5 million) and the owners must demonstrate willingness and ability to provide additional financial support when required. In case of applicants that are majority owned by holding companies or a part of a financial conglomerate, the parent entity should demonstrate capacity to be a source of financial strength to the applicant.

(c) The applicant must have adequate managerial capacity, which includes the appointment of fit and proper persons, as well as sound risk-management and governance structures.

(d) In the case of foreign banks, the parent bank must be subject to adequate home supervision, and documentary evidence of consent by the parent supervisor to operate in Botswana must be provided.

(e) The proposed ownership and organisational structure must be acceptable to the Bank, and the structure must be such that it does not inhibit effective supervision, or, where necessary and appropriate, consolidated supervision.

(f) The promoter must submit a business plan and five-year financial projections showing the establishment of a branch network, products to be provided, and demonstrate the ability to contribute to effective competition, and effectively provide products and services to meet legitimate financial needs of the public in a prudent and safe manner.

5. CORE PRUDENTIAL REQUIREMENTS

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

Capital Adequacy Requirements

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

Liquid Assets Requirements

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

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

Asset Quality

Asset Concentrations (Large Exposures)

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

Insider Lending

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

Non-performing Loans and Provisions

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

6. MAIN SUPERVISORY APPROACHES

On-site Examinations

6.1 The Bank conducts regular on-site examination of banks pursuant to Section 24(1) of the Banking Act. The Bank may also conduct an examination of a bank if so petitioned by one fifth of the total number of depositors as provided for under Section 24(3) of the Banking Act.

6.2 A full-scope prudential on-site examination is one that is sufficient in scope to assess an institution's capital adequacy (C), asset quality (A), management and effectiveness of board oversight (M), earnings and profitability (E), liquidity (L) and sensitivity to market risk (S) components (referred to as CAMELS) and the risk-management systems and conclude the institution's safety and soundness. A limited-scope examination is an on-site examination that does not cover all components of the CAMELS, but rather focuses on a specific product, area, or risk, for example, consumer loans, treasury, or operational risk. An ad hoc on-site examination is usually a limited-scope examination designed to test a specific area of supervisory concern, for instance, compliance with laws and regulations, liquidity, capital adequacy, among others. A full-scope business-conduct supervision examination focuses on the entire business conduct of an institution and how it relates to customers (consumer protection).

6.3 The objective of an on-site examination is to assess the overall condition and financial soundness of a bank, compliance with applicable laws and regulations, the quality and effectiveness of governance structures, including the internal control environment, as well as to check the accuracy of statutory reports submitted to the Bank.

6.4 During an on-site examination, examiners have direct access to the books and records of the financial institution being examined. This enables examiners to make a fair and realistic assessment of the condition of the institution in various risk areas.

6.5 The evaluation of the financial soundness of the institution is achieved by assessing CAMELS, and the risk-assessment systems (RAS) rating. CAMELS and RAS ratings are awarded on a scale of 1 to 5. A rating of 1 indicates strong performance and strong risk-management practices, while a rating of 5 represents weak performance and inadequate risk-management practices. Consistent with the RBS method applied by the Bank, CAMELS ratings are used as a guide to determine, inter alia, the frequency of the on-site examination and intensity of supervisory programmes for each bank. A CAMELS rating of 1 (sound/strong bank) requires a bank to be examined within 24 months; a CAMELS rating of 2 within 18 months; a CAMELS rating of 3 within 12 months; and CAMELS ratings of 4 and 5 represent poor risk management and/or unsound banking operation, thus requiring a bank to be examined within six (6) months.

6.6 In order to ascertain the soundness and prudence of a bank's practices and procedures, an assessment is made of its inherent risks, and the adequacy of its risk-management systems and controls. The practices and procedures adopted would reveal the extent to which the financial institution is employing adequate measures to protect depositor funds, shareholder interests, efficient deployment of resources and ensure the effective measurement and control of risks that are inherent in any banking operation.

6.7 The internal control systems are also assessed to determine their effectiveness and the role of the internal audit function. Effective running of operations depends on the adequacy of records maintained and the adoption and implementation of issues that may adversely affect the performance of a bank for which the internal audit committee is responsible.

6.8 To enhance the traditional supervisory process, the Bank adopted the Risk Based Supervision (RBS) framework in 2014. This framework places strong emphasis on understanding and assessing the adequacy of each financial institution's risk management systems. It also stresses the process of risk identification, measurement, monitoring, control and reporting on an ongoing basis. As a result, the use of RBS assists supervisors to identify banks in which risks are greatest, identify within a bank those areas or activities in which risks are high and apply supervisory resources to assessing and measuring those risks. Therefore, it enables the supervisor to prioritise efforts and focus on significant risks by channelling available resources to banks where the risk profile warrants greater attention. The major output of RBS is a bank's supervisory plan that outlines the planned supervisory activities for a bank over a given period of time. The supervisory plan is established every year with results obtained from the Bank's Off-site Surveillance (OSS) System, CAMELS and RAS assigned to a bank during the previous on-site examinations.

Bilateral and Trilateral Meetings

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

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

Off-site Monitoring and Surveillance

6.11 Off-site surveillance involves off-site monitoring of the supervised institution regarding its performance and condition, together with an assessment of progress made regarding implementation of various directives and/or recommendations from the supervisor. All banks are required to submit statutory returns as prescribed under Section 20 of the Banking Act. The foreign exchange statutory return, which shows the bank's net foreign exchange position, is submitted every week to the Bank. The monthly and quarterly statutory returns must be submitted by the 10th day of the month following the reporting month. Instructions on how to complete the returns are contained in the statutory returns availed to each bank upon being granted a licence.

6.12 The Prudential Authority and Payments Oversight Department continually analyses financial data from banks to determine their financial condition, soundness, and viability. Specific objectives of the analysis are to determine the levels, trends and sources of banks' profits; compare each bank's performance for the period with that of prior periods, and against that of other banks; note changes in the banks' capital accounts and the causes thereof (monthly, quarterly and annual performance review); and determine whether the banks have complied with the Banking Act, Banking Regulations, directives, circulars and guidelines pertaining to prudential requirements.

6.13 The outcome of the off-site analysis is used for preparing early warning reports, which also serve as an input to the on-site examination work, including planning, scope of on-site examination work and resourcing of the on-site examination teams. Furthermore, this regular off-site monitoring, surveillance and analysis serves an important function of risk profiling of banks, continuous engagement with bank management and, as may be necessary, any targeted supervisory interventions.

6.14 In 2015, the Bank adopted the use of an OSS quarterly monitoring tool in order to enhance the off-site monitoring process. The OSS is a hybrid of the off-site rating system and the Financial Ratio and Peer Group Analysis monitoring tools that are used by regulators worldwide. The OSS rates and ranks banks based on an assessment of 32 financial soundness indicators or ratios. It is the adaptation of the traditional CAMELS ratings system that weighs the components relative to their current industry importance to financial soundness. The OSS scoring places banks within four broad categories of strong, adequate, partially adequate, and weak, with a rating scale of 1 to 4.5, where 1 is strong and 4.5 is weak. This rating method was developed based on the Botswana banking sector data and, therefore, factored in the country-and-sector-specific variables affecting local banking business. It is expected that this system will bring some benefits in terms of tracking financial soundness and, accordingly, trigger appropriate supervisory reactions to systemic and idiosyncratic conditions that may warrant intervention.

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7. ACCOUNTING, AUDITING AND DISCLOSURE STANDARDS

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

APPENDIX 4

SUPERVISED FINANCIAL INSTITUTIONS AS AT 31 DECEMBER 2023

(a) COMMERCIAL AND STATUTORY BANKS

Institution	Total Assets (P' million)	Postal Address	Business Locations	Auditors
Commercial Banks				
Absa Bank Botswana Limited	24 638	P O Box 478, Gaborone	36	KPMG
Access Bank Botswana Limited	9 883	Private Bag 00303, Gaborone	20	PricewaterhouseCoopers
Bank Gaborone Limited	8 337	Private Bag 00325, Gaborone	14	PricewaterhouseCoopers
Bank of Baroda (Botswana) Limited	3 750	P O Box 216 ADD, Gaborone	4	Grant Thornton
BBS Bank Limited	5 118	P O Box 40029, Gaborone	10	Ernst & Young
First Capital Bank Limited	6 426	P O Box 5548, Gaborone	10	Ernst & Young
First National Bank of Botswana Limited	32 450	P O Box 1552, Gaborone	28	Ernst & Young
Stanbic Bank Botswana Limited	24 852	Private Bag 00168, Gaborone	18	Deloitte
Standard Chartered Bank Botswana Limited	18 171	P O Box 496 Gaborone	19	Ernst & Young
Statutory Banks				
Botswana Savings Bank	3 337	P O Box 1150, Gaborone	11	Deloitte
National Development Bank	1 307	P O Box 225, Gaborone	4	Ernst & Young

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

APPENDIX 4 (CONTINUED)...

(b) BUREAUX DE CHANGE AS AT 31 DECEMBER 2023

Name	Postal Address	Business Location
4Corners Bureau de Change	P O Box 848, Ghanzi	1
Andy and Esi Bureau de Change	P O Box 504125, Gaborone	1
Arpanet Bureau de Change	P O Box 2241 ABG, Gaborone	1
Ban Mo Bureau de Change	P O Box 99, Sherwood	1
Beni Fame Bureau de Change	P O Box 2143, AAD Gaborone	5
BSmart Bureau de Change	P O Box 422, Kasane	3
City Exchange Bureau de Change	P O Box 50282, Gaborone	1
Cruise Africa Bureau de Change	P O Box 10238, Lobatse	1
CSS Bureau de Change	P O Box 45168, Gaborone	3
Exim Bureau de Change	P O Box 1020, Gaborone	1
Fanz Bureau de Change	P O Box 617, Lobatse	1
Fundex Bureau de Change	P O Box 401547, Gaborone	3
Galaxy Bureau de Change	P O Box 501055, Gaborone	4
Garona Bureau de Change	P O Box 408, Gaborone	4
Gorogang Bureau de Change	P O Box 46785, Gaborone	1
Iteksh Bureau de Change	P O Box AE 25 AEH, Gaborone	1
Joshua Bureau de Change	P O Box 4, Bobonong	1
Kabona Bureau de Change	P O Box 465 ADD, Tlokweng	1
Kaycy Bureau de Change	P O Box 1693, Lobatse	2
Kuvuki Bureau de Change	Private Bag F472, Francistown	1
Kwanokeng Bureau de Change	P O Box 10, Sherwood	2
Lady Bureau de Change	P O Box 1418, Lobatse	4
Limpopo Bureau de Change	P O Box 8, Sherwood	1
Live Connection Bureau de Change	P O Box 144, Lobatse	2
Macheng Bureau de Change	P O Box 60474, Gaborone	1
Madikwe Bureau de Change	P O Box 268, Sikwane	1
Maharahash Bureau de Change	P O Box 154, Gaborone	1
Mochudi Bureau de Change	P O Box 202147, Gaborone	2
Monetrix Bureau de Change	P O Box 2290 AAD, Poso House, Gaborone	1
Monyglob Bureau de Change	P O Box AD 749 ADD, Postnet, Kgale, Gaborone	17
Mukuru Bureau de Change	P O Box AD 148 ADD, Gaborone	5
Naik Bureau de Change	P O Box AD 749, Gaborone	3
Open Door Bureau de Change	P O Box 839, Maun	8
Ozair Bureau de Change	P O Box 4862, Gaborone	3
Pennies and Cents Bureau de Change	P O Box 60490, Gaborone	1
Prime Ex Bureau de Change	P O Box 686, Moshupa	1
Proxy Bureau de Change	P O Box 404108, Gaborone	2

APPENDIX 4 (CONTINUED)...

Name	Postal Address	Business Location
Renaissance Bureau de Change	P O Box 45524, Gaborone	1
River Ride Bureau de Change	P O Box 301106, Francistown	1
Sherwood Ranch Bureau de Change	P O Box 1, Sherwood	1
Sefremit Bureau de Change	P O Box 0080, Gaborone	11
Sunny Bureau de Change	P O Box 370, Maun	2
Thari Bureau de Change	P O Box 40074, Gaborone	2
The Silver Bureau de Change	P O Box 1894, Ramotswa	1
Toluca Bureau de Change	P O Box 402026, Gaborone	1
Trans Fronter Bureau de Change	P O Box 183, Pitsane	3
Travellers' Choice Bureau de Change	P O Box 26725, Gaborone	1
Tshilong Bureau de Change	P O Box 40418, Gaborone	3
Unity Bureau de Change	P O Box 1586, Francistown	1
UW Bureau de Change	P O 30394, Serowe	1
WalletCare Bureau de Change	P O Box 679 ABG, Serowe	1
TOTAL	**52**	**123**

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

(c) MICROFINANCE INSTITUTION

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

Source: Women's Finance House.

APPENDIX 5

DEFINITIONS OF BANKING SUPERVISION TERMINOLOGY AS USED IN THE REPORT

DEFINITIONS OF BANKING SUPERVISION TERMS

Asset Concentration

Measures aggregate exposure to one borrower, an affiliated group of borrowers, or borrowers with a common controlling interest, common management, cross-guarantees or financial interdependency that cannot be substituted in the short term. This exposure is usually expressed as a percentage of the bank's unimpaired capital and its various thresholds are subjected to prudential regulatory requirements. According to Section 17 of the Banking Act, an exposure in excess of 10 percent of a bank's unimpaired capital is deemed an asset concentration requiring prior approval of the board of directors of the lending financial institution. Exposures in excess of 30 percent of the bank's unimpaired capital require the Bank's approval.

Asset Quality

A relative measure of the performance of a bank's loan portfolio based on the appraisal of the asset using the degree of risk and the likelihood of recovery, adherence to the terms of contracts and orderly liquidation of the account. A good-quality asset means the loan, advance or investment is producing cash flows as was expected and/or agreed upon. A non-performing asset or loan is a loan where payment of interest and principal is past due by 90 days or more.

Loan Classifications

"Pass" Assets
A credit is in the "pass/standard category if there are no material or significant performance problems (the credit is current and the borrower is complying and is expected to continue to comply with all terms of the contract); or there are no technical and/or legal documentation deficiencies.

"Special Mention" Assets
A credit should be in the "special mention" or watch category if it is currently protected, but potentially weak. That is, assets with potential weaknesses that may, if not checked or corrected, weaken the asset as a whole or potentially jeopardise a borrower's repayment capacity in the future. This would, for example, include credit given through inadequate loan agreement or covenants, a lack of control over collateral, or incomplete or inadequate documentation, as well as adverse trends which are not yet serious enough for a classification of substandard.

"Sub-standard" Assets
A credit should be classified as "substandard" if it has one or more well-defined weaknesses that make the full collection of principal and interest questionable. This would include, for example, (i) deterioration of the borrower's financial condition, including net worth and/or repayment capacity; (ii) the pledged collateral (if any) is undocumented, insufficient, or deteriorating; (iii) the borrower's financial information is absent or unsatisfactory; (iv) other adverse factors exist, which cause concern regarding the ability of the borrower to repay the credit in accordance with the existing repayment terms, such as delinquency of 90 days, significant deviation from original source of repayment or carryover debt; and/or (v) an actual breach of the contract has occurred.

"Doubtful" Assets
A credit shall be classified as "doubtful" when weaknesses exist that make collection or repayment in full, highly questionable and improbable based upon current circumstances, conditions and the estimated recoverable amount of the pledged collateral (if any). Such credits generally display high levels of delinquency, and the possibility of loss is very high. However, because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the credit, classification of the credit as "loss" is deferred until its more exact status is determined. Pending factors may include a merger/acquisition and capital injection.

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

Core Capital

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

Total Risk-weighted Assets

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

Unimpaired Capital

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

PRUDENTIAL RATIOS

Return on Equity

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

Return on Average Total Assets

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

Dividend Pay-out

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

Risk-based Capital

On January 1, 2016, the Bank implemented the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II). This new framework augments the risk sensitivity of the Basel Committee Capital Accord (Basel I). In terms of the Basel II framework, in addition to credit risk, a separate and explicit computation of the regulatory capital for market risk and operational risk is introduced. Therefore, the minimum amount of regulatory capital (the ratio of unimpaired capital to risk-weighted assets) is derived from the summation of capital charges for credit risk, operational risk and market risk. The move to this method of capital adequacy measurement has alerted banks to the types of assets they hold and the associated risk profiles. The intention is to strengthen the resilience of banks. In the process, some existing capital instruments held by banks and fixed revaluation reserves were disqualified from being part of Tier II capital. Also excluded are any elements that are likely to impair a bank's capital, such as investment in unconsolidated subsidiaries and associated companies, and connected lending of a capital nature. The use of risk-weighted assets is intended to take into account the risk inherent in the different types of assets. If two banks with the same size of assets and capital base are to be compared, their unadjusted capital ratio will be the same. However, if the inherent risk of the statement of financial position is taken into consideration, the bank with less risky assets will enjoy a higher capital adequacy ratio and is better able, therefore, to expand its business by lending to more borrowers, if opportunities arise. A good capital base implies that adequate funds are available to absorb risks inherent in the types of assets held by a bank, its foreign exchange dealing operations and all other risks associated with the business.

Interest Rate Spread (Percent)

This covers only those assets and liabilities that have an interest rate attached to them. Thus, it excludes the effect of non-interest-bearing demand deposits, capital and non-remunerated reserve requirements on net interest earned and thus on bank profits. This is helpful in that it isolates the effect of interest rates on bank profits and thereby enables a better understanding of the sources of bank profitability and, consequently, of the vulnerability of bank earnings.

Net Interest Margin (Percent)

This is net interest income as a percentage of average total earning assets. The ratio identifies the core earnings capability of a bank.

Other Operating Income to Total Assets (Percent)

The ratio shows the dependence on "non-traditional" income such as foreign exchange fees and commissions. Growth in this ratio can indicate diversification into fee-based financial services or a reaching for speculative profits to make up for deficiencies in the bank's core interest differential income.

Net Operating (or Intermediation) Margin (Percent)

The intermediation margin can be defined as the differential between the cost of funds and the yield on earning assets plus related fee income. The differential quantifies the cost incurred by the banking system for intermediating between the providers and the users of funds.

Net Income per Staff Member

The ratio measures the average income generated by each staff member. It should be noted that this ratio will be significantly different for a wholesale (investment) bank with relatively few, but highly paid staff compared to a retail bank with a large branch network and many less highly paid clerical staff.

Net Income to Staff Expense

Measures the return on investment in staffing costs. This ratio is probably a better measure than net income per staff member since it enables institutions of a different type to be compared to some degree. It considers the effect of staffing decisions, regardless of whether these are low cost, low expertise clerical staff, or high cost, high qualified professionals.

Cost-to-Income

The ratio measures the non-interest expenses as a percentage of net interest income plus non-interest income (total operating income). It shows how well the non-interest expenses are managed by the institution relative to the level of total operating income.

Average Cost of Deposits

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

APPENDIX 5 (CONTINUED)

CAPITAL ELEMENTS

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

Source: Bank of Botswana.

APPENDIX 5 (CONTINUED)

Regulatory Adjustments Applied in the Calculation of Capital

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

BB. Threshold deductions:	Recognition capped at 10 percent of the bank's common equity (after the application of all regulatory adjustments set out under paragraph 4.10 of the Basel II Directive)
46	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made - instead of full deduction, only deduct the excess over the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
47	**Total regulatory adjustments applied to the calculation of additional Tier 1 capital lines (45+46).**
C. REGULATORY ADJUSTMENTS APPLIED IN THE CALCULATION OF TIER 2 CAPITAL	
CA. Full deductions	
48	Direct investments in own Tier 2 capital, net of any short positions, if the short positions involve no counterparty risk
49	Indirect investments in own Tier 2 capital (e.g., through holdings of index securities in which the bank itself is a constituent), net of any short positions
50	Any own Tier 2 capital which the group could be contractually obliged to purchase
51	Reciprocal cross holdings and the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation
52	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities).
53	**Full deductions applied to the calculation of Tier 2 Capital Lines (48+49+50+51+52)**
CB. Threshold deductions:	**Recognition capped at 10 percent of the bank's common equity (after the application of all regulatory adjustments set out under paragraph 4.15 of the Basel II Directive)**
54	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made – instead of full deduction, only deduct the excess above the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
55	**Total regulatory adjustments applied to the calculation of Tier 2 Capital Lines (53+54)**

Notes:
1. The amount of the three items (33, 34, 35) not deducted (threshold amounts) in the calculation of CET1 is treated as other assets and risk-weighted at 250 percent.
2. Line 36: The amount above the 10 percent threshold shall be deducted from CET1, and the amount at or below threshold shall be risk-weighted as appropriate as per the Monthly Schedule M- SRWA 12a (CRM.1): Credit Risk Mitigation (Simple Approach) or Monthly Schedule M- SRWA 12b (CRM.2): Credit Risk Mitigation (Comprehensive Approach).

Source: Bank of Botswana.

APPENDIX 6

RISK-WEIGHTS APPLIED ON VARIOUS ASSET EXPOSURES FOR PURPOSES OF CAPITAL ADEQUACY MEASUREMENT

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

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

Notes: ** Treatment of past due loans (non-performing loans net of specific provisions)
1. Owner-occupied or rented by the borrower to a third party, but used for residential purposes.
2. Excludes cash items in the process of collection.

Source: Bank of Botswana.

APPENDIX 6 (CONTINUED)

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

Source: Bank of Botswana.

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

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

Source: Bank of Botswana.

APPENDIX 7

AGGREGATE FINANCIAL STATEMENTS OF LICENSED BANKS: 2019-2023

Table 1: Aggregate Statement of Financial Position of Licensed Commercial Banks: 2019-2023 as at 31 December (P million)

Total Assets in Local Currency	2019	2020	2021	2022	2023
1. Cash and balances with the central bank	6 501	5 699	5 336	3 604	8 622
1.1 Currency	1 850	2 193	1 932	1 977	2 246
a) Foreign currency	173	173	197	187	259
b) Local currency	1 677	2 020	1 735	1 790	1 987
1.2 Balances with central bank	4 651	3 506	3 404	1 627	6 375
1.3 Other	-	-	-	-	-
2. Investment and trading securities	14 203	15 820	13 653	15 931	20 188
3. Placements with other banks and credit institutions	14 855	15 426	19 337	23 222	20 933
4. Gross loans and advances to other customers	62 770	65 554	68 920	73 202	81 795
4.1 Impairments – specific	1 775	1 713	1 654	1 437	1 509
4.2 Interest in suspense	558	318	216	214	277
4.3 Impairments portfolio	237	739	943	832	1 074
5. Loans and advances to other customers (net of specific provisions)	60 200	62 785	66 107	70 718	78 935
6. Fixed assets net of depreciation	1 348	1 449	1 323	1 320	1 437
7. Other assets (net)	1 588	2 081	2 835	2 155	3 478
Total Assets	**98 695**	**103 260**	**108 591**	**116 949**	**133 593**
Total Liabilities in Local Currency					
1. Amounts owed to government institutions	-	45	-	-	-
a) Central bank accounts	-	45	-	-	-
b) Direct government credits (CB or Ministry of Finance)	-	-	-	-	-
2. Due to other banks and credit institutions	4 532	3 022	3 999	5 222	6 150
3. Debt securities and other borrowing	4 761	5 594	6 162	5 481	5 886
4. Due to other customers/depositors	75 709	80 540	84 364	90 927	104 127
5. Shareholder funds	11 081	11 299	10 756	12 587	14 074
6. Other liabilities	2 612	2 759	3 310	2 733	3 355
a) Taxes payable	201	212	35	66	120
b) Dividends payable	-	-	254	-	-
c) Accrued expenses	292	907	1 008	674	1 220
d) Other	2 120	1 640	2 013	1 993	2 015
Total Liabilities	**98 695**	**103 260**	**108 591**	**116 949**	**133 593**

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

APPENDIX 7 (CONTINUED)

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

	2019	2020	2021	2022	2023
1. Total interest income from loans and advances	6 251	6 149	6 207	7 665	9 915
2. Interest expense	1 894	1 774	1 880	2 669	3 552
3. Net interest income [1 – 2]	4 357	4 375	4 327	4 996	6 364
4. Total non-interest income	2 835	2 773	2 946	3 387	3 479
5. Gross operating income/(loss) [3+4]	7 192	7 148	7 273	8 383	9 843
6. Total impairments	743	830	495	108	281
a) Impairment of loans and advances – specific	700	611	632	138	218
b) Impairment of loans and advances – portfolio	42	224	(142)	(24)	50
c) Impairment on other financial assets	1	(4)	5	(7)	13
7. Operating income/(loss) net of bad and doubtful debts	6 449	6 318	6 778	8 275	9 562
8.Total non-interest expense	4 193	4 361	4 388	4 747	5 542
a) Salaries and employee benefits	1 899	1 955	2 025	2 148	2 651
b) Auditing and consulting expenses	47	19	20	45	112
c) Rents paid	169	133	110	147	135
d) Depreciation and amortisation	231	281	299	302	331
e) Other	1 847	1 973	1 935	2 104	2 314
9. Other provisions and write-offs	-	-	-	-	-
a) Investments	-	-	-	-	-
b) Other balance sheet items	-	-	-	-	-
c) Off-balance sheet items	-	-	-	-	-
10. Net operating income/(loss) [7-8-9]	2 256	1 957	2 390	3 528	4 019
11. Extraordinary gains/(losses)	-	-	-	-	-
a) Gains/losses on revaluation of assets (net)	-	-	-	-	-
b) Translation gains/losses (net)	-	-	-	-	-
c) Other gains/losses	-	-	-	-	-
12. Net before-tax income/(loss) [10+11]	2 256	1 957	2 390	3 528	4 019
13. Income tax	494	503	573	891	899
14. Net after-tax income/(loss) [12-13]	1 762	1 454	1 817	2 638	3 121

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

APPENDIX 7 (CONTINUED)

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

Total Assets in Local Currency	2019	2020	2021	2022	2023
1. Cash and balances with the central bank	234	38	56	28	36
a) Currency	222	29	45	18	31
aa) Foreign currency	-	-	-	-	-
ab) Local currency	222	29	45	18	31
b) Balances with central bank	12	9	12	10	5
c) Other	-	-	-	-	-
2. Investment and trading securities	-	-	-	-	-
3. Placements with other banks and credit institutions	2 424	935	771	1 218	279
4. Gross loans and advances to customers	5 054	5 866	6 104	5 810	2 458
5. Impairments	185	215	153	152	94
6. Net loans and advances to customers	4 869	5 650	5 951	5 658	2 364
8. Fixed assets net of depreciation	141	196	256	218	72
9. Other assets (net)	106	136	119	168	586
Total Assets	**7 774**	**6 955**	**7 153**	**7 290**	**3 337**
Liabilities in Local Currency				-	
1. Amounts owed to government institutions	-	-	-	-	-
a) Central bank accounts	-	-	-	-	-
b) Direct government credits (CB** or Ministry of Finance)	-	-	-	-	-
c) Other	-	-	-	-	-
2. Debt securities and other borrowing	1 185	1 100	940	948	448
3. Due to customers/depositors	5 462	4 762	5 062	5 296	2 401
4. Shareholders funds	718	709	720	704	252
5. Other liabilities	409	384	430	342	235
a) Taxes payable	1	1	1	1	-
b) Dividends payable	-	-	-	-	-
c) Accrued expenses	-	-	-	-	-
d) Other	408	383	429	341	235
Total Liabilities	**7 774**	**6 955**	**7 153**	**7 290**	**3 337**

** CB denotes central bank.
* Data for 2023 excludes one bank as it ceased operating as a statutory bank.

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

APPENDIX 7 (CONTINUED)

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

	2019	2020	2021	2022	2023
1. Total interest income from loans and advances	535	517	545	558	349
2. Interest expense	317	278	291	326	187
3. Net interest income [1-2]	218	239	254	232	162
4. Total non-interest income	51	46	48	57	45
5. Gross operating income/(loss) [3+4]	**269**	**285**	**301**	**289**	**206**
6. Total Impairments	34	46	(6)	(4)	(2)
a) Impairment of loans and advances – specific	23	85	(6)	(4)	(2)
b) Impairment of loans and advances – portfolio	1	2	-	-	-
c) Releases and recoveries of bad debts previously written off	-	2	-	-	-
d) Share of associate company profits	2	-	-	-	-
e) IFRS adjustments	4	(33)	-	-	-
f) Reversal of interest in suspense	4	(10)	-	-	-
7. Operating income/(loss) net of specific loss provisions	**235**	**239**	**307**	**293**	**208**
8.Total non-interest expense	269	268	313	301	191
a) Salaries and employee benefits	130	127	145	152	95
b) Administrative expenses	-	-	-	-	-
c) Auditing and consulting expenses	1	-	-	3	2
d) Rents paid	13	4	3	3	6
e) Depreciation and amortisation	23	27	32	31	19
f) Other	102	110	134	112	69
9. Other provisions and write-offs	-	-	-	-	-
a) Investments	-	-	-	-	-
b) Other balance sheet items	-	-	-	-	-
c) Off-balance sheet items	-	-	-	-	-
10. Net operating income/(loss) [7-8-9]	**(34)**	**(29)**	**(6)**	**(8)**	**17**
11. Extraordinary gains/(losses)	-	-	-	-	-
a) Gains/losses on revaluation of assets (net)	-	-	-	-	-
b) Translation gains/losses (net)	-	-	-	-	-
c) Other gains/losses	-	-	-	-	-
12. Net income/(loss) [10+11]	**(34)**	**(29)**	**(6)**	**(8)**	**17**

*Data for 2023 excludes one bank as it ceased operating as a statutory bank.

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

APPENDIX 7 (CONTINUED)

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

		2019	2020	2021	2022	2023
	COMMON EQUITY TIER 1 (CET1) CAPITAL					
1	Common shares	1 265	1 265	1 140	1 374	1 861
2	Share premium resulting from the issue of common shares	271	275	275	41	41
3	**Retained earnings:**	**6 762**	**7 629**	**7 473**	**8 125**	**8 978**
	Retained earnings brought forward from the previous financial year	7 041	7 831	7 887	8 693	9 850
	Add: interim profits (audited by external auditor)	(13)	(9)	-	(24)	80
	Less: IFRS 16 take on impact	190	-	160	-	14
	Less: dividend declared	75	-	254	544	928
	Less: dividend paid in the current financial year	-	-	-	-	10
4	**Accumulated other comprehensive income and other disclosed reserves**	**304**	**319**	**335**	**487**	**343**
	a) Statutory credit risk reserve	146	163	174	327	189
	b) Capital buffer	-	-	-	-	-
	c) Statutory reserves	2	2	8	8	8
	d Other (specify)	156	154	153	152	146
5	**Common shares issued by consolidated subsidiaries of the bank and held by third parties (minority interest)**	-	-	-	-	-
6	**Regulatory adjustments applied in the calculation of CET1 Capital**	**-**	**324**	**141**	**119**	**151**
	a. IFRS 9 provisions transitional adjustments	21	52	20	20	-
	b. Transitional adjustment amount added back to CET1	233	126	-	-	-
7	**CET1 Capital (Lines (1+2+3+4+5-6))**	**8 435**	**9 238**	**9 008**	**9 834**	**11 019**
	ADDITIONAL TIER 1 CAPITAL					
8	Instruments issued by the bank that meet the criteria for inclusion in additional Tier 1 capital as per paragraph 4.9 of the Basel II Directive	400	400	400	400	400
9	Stock surplus (share premium) resulting from the issue of additional Tier 1 capital instruments meeting all relevant criteria for inclusion	-	-	-	-	-
10	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in additional Tier 1 capital and are not included in CET 1 subject to terms and conditions in paragraph 3.5 of the Basel II Guidelines	-	-	-	-	-
11	Regulatory adjustments applied in the calculation of Additional Tier 1 capital	-	-	-	-	-
12	**Additional Tier 1 Capital (Lines (8+9+10-11))**	**400**	**400**	**400**	**400**	**400**
13	**Total Tier 1 Capital (Lines (7+12))**	**8 835**	**9 638**	**9 408**	**10 234**	**11 419**

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

	TIER 2 CAPITAL					
14	Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	2 218	2 460	2 324	2 585	2 431
15	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-
16	Unpublished current year profits	1 094	1 178	1 086	2 034	2 331
17	Tier 2 capital instruments (subject to gradual phase-out treatment)	10	-	-	20	72
18	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-	-	-	-	-
19	General provisions/general loan-loss reserves eligible for inclusion as Tier 2 capital, limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach	691	741	825	855	883
20	Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21	**Total Tier 2 Capital (Lines (14+15+16+17+18+19-20))**	**4 013**	**4 378**	**4 235**	**5 494**	**5 718**
22	**Total Unimpaired Capital (Lines (13+21))**	**12 848**	**14 016**	**13 643**	**15 729**	**17 136**

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

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

		2019	2020	2021	2022	2023
1	Common shares	1 265	1 265	1 140	1 374	1 861
2	Share premium	271	275	275	41	41
3	Retained earnings	6 762	7 629	7 473	8 125	8 978
4	Total tier 1 capital	8 835	9 638	9 408	10 234	11 419
5	Subordinated term debt	2 218	2 460	2 324	2 585	2 431
6	Current year's unpublished profits	1 094	1 178	1 086	2 034	2 331
7	Total tier 2 capital	4 014	4 378	4 235	5 494	5 718
8	Total unimpaired capital (sum of Lines 4 and 7)	12 848	14 016	13 643	15 729	17 136

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

APPENDIX 7 (CONTINUED)

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

		2019	2020	2021	2022	2023
COMMON EQUITY TIER 1 CAPITAL						
1	Common shares	507	507	507	507	20
2	Share premium resulting from the issue of common shares	-	-	-	-	-
3	**Retained earnings:**	**70**	**45**	**45**	**45**	**157**
	Retained earnings brought forward from the previous financial year	143	45	45	45	157
	Add: interim profits (audited by external auditor)	-	-	-	-	-
	Less: unpublished current year's losses	(73)	-	-	-	-
	Less: dividend declared	-	-	-	-	-
	Less: transfers during the year	-	-	-	-	-
	Less: dividend paid in the current financial year	-	-	-	-	-
4	**Accumulated other comprehensive income and other disclosed reserves**	**137**	**172**	**173**	**182**	**70**
	a) Statutory credit risk reserve	(22)	-	-	-	-
	b) Capital buffer	-	-	-	-	-
	c) Statutory reserves	159	172	173	182	70
	d) Other (specify)	-	-	-	-	-
5	Common shares issued by consolidated subsidiaries of the bank and held by third parties (minority interest)	-	-	-	-	-
6	Regulatory adjustments applied in the calculation of CET1 capital	19	14	17	62	-
7	**CET1 Capital (Lines (1+2+3+4+5-6))**	**695**	**722**	**721**	**672**	**213**
ADDITIONAL TIER 1 CAPITAL						
8	Instruments issued by the bank that meet the criteria for inclusion in additional Tier 1 capital as per paragraph 4.9 of the Basel II Directive	-	-	-	-	-
9	Stock surplus (share premium) resulting from the issue of additional Tier 1 capital instruments meeting all relevant criteria for inclusion	-	-	-	-	-
10	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in additional Tier 1 capital and are not included in CET 1 capital subject to terms and conditions in paragraph 3.5 of Basel II Guidelines	-	-	-	-	-
11	Regulatory adjustments applied in the calculation of additional Tier 1 capital	-	-	-	-	-
12	**Additional Tier 1 Capital (Lines (8+9+10-11))**	**-**	**-**	**-**	**-**	**-**
13	**Total Tier 1 Capital (Lines (7+12))**	**695**	**722**	**721**	**672**	**213**

TIER 2 CAPITAL						
14	Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	-	-	77	79	216
15	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-
16	Unpublished current year's profits	3	(15)	(5)	(30)	6
17	Tier 2 capital instruments (subject to gradual phase-out treatment)	-	-	-	-	-
18	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-	-	-	-	-
19	General provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital, limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach	8	25	23	24	28
20	Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21	**Total Tier 2 Capital (Lines (14+15+16+17+28+19-20))**	**11**	**10**	**95**	**73**	**250**
22	**Total Unimpaired Capital (Lines (13+21))**	**706**	**732**	**816**	**745**	**463**

Notes: 1. Figures excludes one statutory bank.
2. Data for 2023 excludes one bank, as it ceased operating as a statutory bank.

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

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

		2019	2020	2021	2022	2023
1	Common shares	507	507	507	507	20
2	Retained earnings	70	45	45	45	157
3	Total tier 1 capital	695	722	721	672	213
4	Current year's unpublished profits	3	(15)	(5)	(30)	6
5	Total tier 2 capital	11	10	95	73	250
6	Total unimpaired capital (sum of lines 3 and 5 less impairments)	706	732	816	745	463

Notes: 1. Figures exclude one statutory bank.
2. Data for 2023 excludes one bank, as it ceased operating as a statutory bank.

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

APPENDIX 8

CHARTS FOR PRUDENTIAL AND FINANCIAL SOUNDNESS INDICATORS

Chart 8.1: Average Cost of Deposits

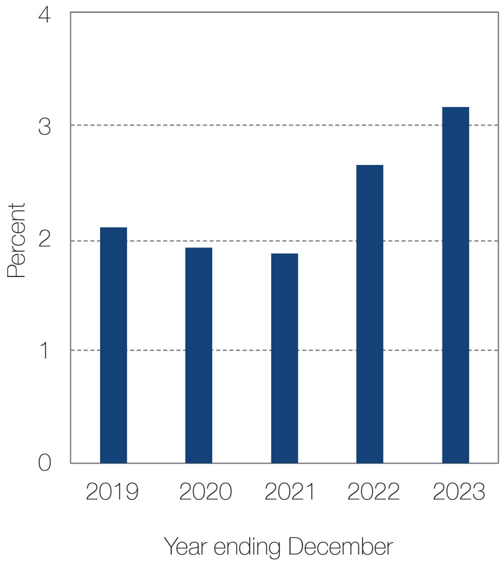


Chart 8.2: Return on Loans and Advances

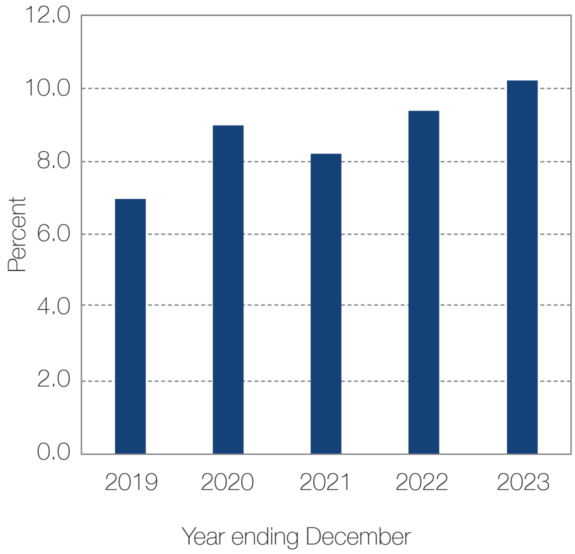


Chart 8.3: Ratios of Residential Real Estate Loans to Gross Loans and Advances

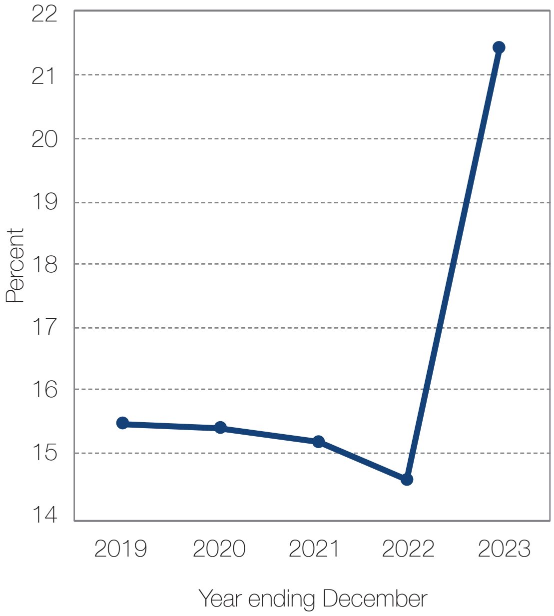
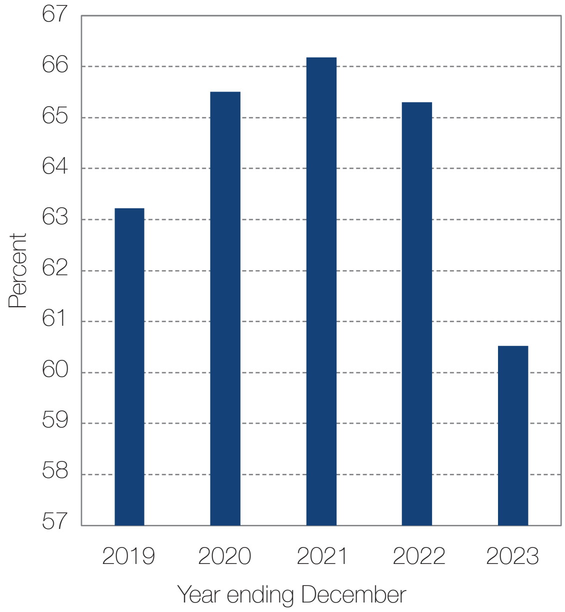


Chart 8.4: Household Loans to Gross Loans



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

CHARTS OF PRUDENTIAL AND FINANCIAL SOUNDNESS INDICATORS

Chart 8.5: Non-performing Loans Growth Rate

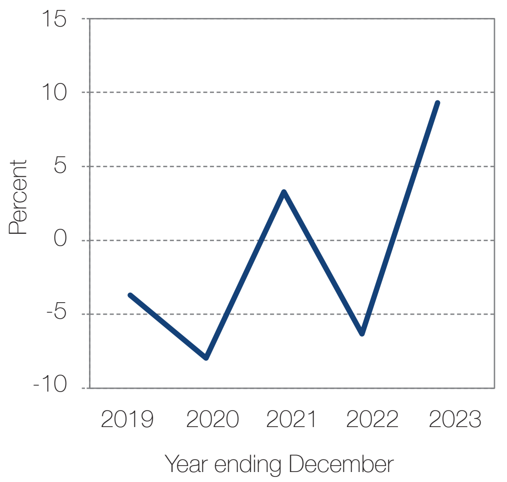


Chart 8.6: Share of Value of Total Deposits by Type (including FCAs)

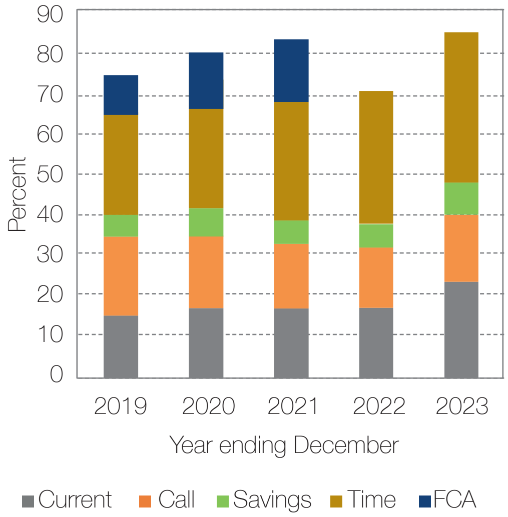


Chart 8.7: Foreign Currency Accounts

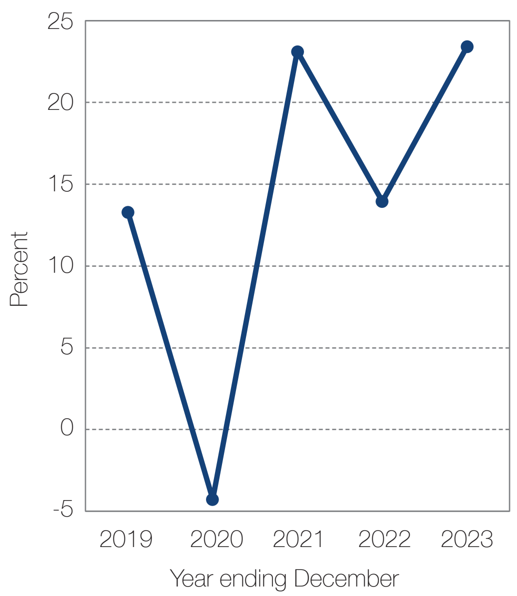
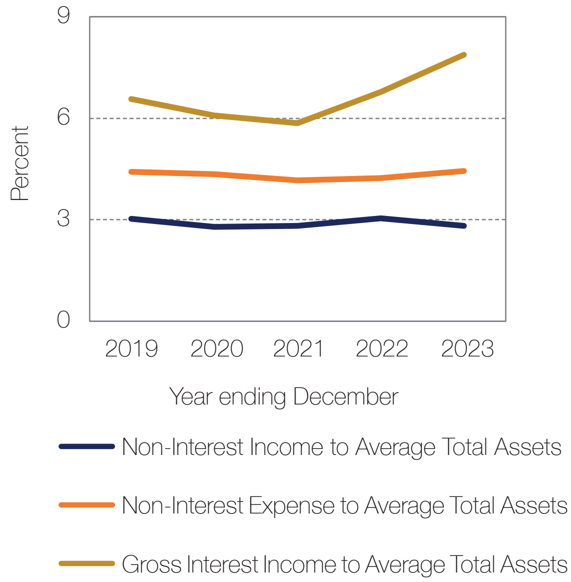


Chart 8.8: Efficiency Ratios



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

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